

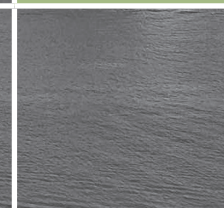
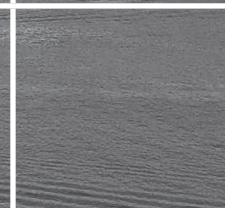
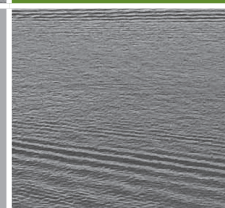
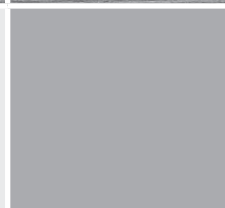
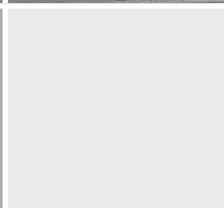
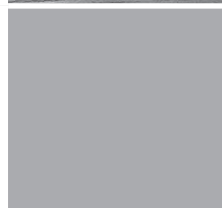
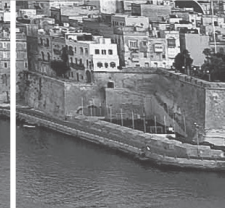
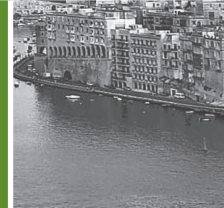
# Report by the Auditor General

Public Accounts

2018



Payments  
and tax





This report has been prepared under sub-section 108 (5) of the Constitution of Malta and sub-para. 5(ii) and para. 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997 for presentation to the House of Representatives.

Charles Deguara  
Auditor General

National Audit Office  
December 2019

**OUR VISION**

To provide a multidisciplinary professional service to parliament, to government and the taxpayer and to be an agent of change conducive to achieving excellence in the public sector.

**OUR MISSION**

To help promote accountability, propriety and best practices in government operations.

**ACTIVITIES**

The Auditor General is head of the National Audit Office, Malta. He and the National Audit Office are totally independent of Government. He examines the accounts of all Government Ministries and Departments and may also examine other public sector bodies. He also has statutory authority to report to the House of Representatives on the economy, efficiency and effectiveness with which Departments and other bodies have used the resources voted annually to them in the Estimates.

For further information about the National Audit Office, Malta please contact:

**Address:** National Audit Office  
Notre Dame Ravelin  
Floriana FRN 1601  
Malta

**Telephone:** (+356) 2205 5555  
**E-mail:** nao.malta@gov.mt  
**Website:** www.nao.gov.mt

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# Annual Audit Report

## Public Accounts 2018

# Table of Contents

<b>List of Abbreviations</b>	<b>4</b>
<b>Guide to using this Report</b>	<b>7</b>
<b>Executive Summary</b>	<b>9</b>
<b>Financial Audit Opinion</b>	<b>13</b>
Opinion on the Financial Audit to the House of Representatives	14
<b>Financial Report</b>	<b>17</b>
Analysis of the Financial Report 2018	18
<b>Compliance Audit Opinion</b>	<b>51</b>
Opinion on the Compliance Audits to the House of Representatives	52
<b>House of Representatives</b>	<b>55</b>
House of Representatives	56
<b>Office of the Prime Minister</b>	<b>61</b>
Individual Investor Programme	62
<b>Ministry for Health</b>	<b>65</b>
Refunds from the European Union Health Scheme	66
Pharmacy of Your Choice Scheme	71
Long Term Medical Beds	79
Primary Health Care Directorate	82
<b>Ministry for the Economy, Investment and Small Businesses</b>	<b>87</b>
Malta Investment Management Company Limited	88
<b>Ministry for Education and Employment</b>	<b>93</b>
Learning Support Assistants in Private Schools	94
Malta College of Arts, Science and Technology	98
Malta Libraries	103
Department of Education	107
<b>Ministry for Energy and Water Management</b>	<b>111</b>
Engineering Resources Limited	112
Ministry for Energy and Water Management	114

<b>Ministry for European Affairs and Equality</b>	<b>117</b>
Occupational Health and Safety Authority	118
<b>Ministry for Finance</b>	<b>123</b>
Direct Orders and Negotiated Procedures without prior Publication	124
<b>Ministry for Tourism</b>	<b>131</b>
Malta Tourism Authority	132
Project Malta Limited	139
<b>Ministry for Home Affairs and National Security</b>	<b>143</b>
Malta Police General Fund	144
Office of the Refugee Commissioner	147
<b>Ministry for Justice, Culture and Local Government</b>	<b>151</b>
Courts of Justice	152
Asset Recovery Bureau	160
Manoel Theatre	163
Valetta European Capital of Culture 2018 Foundation	170
<b>Ministry for the Environment, Sustainable Development and Climate Change</b>	<b>175</b>
Environment and Resources Authority	176
<b>Ministry for Foreign Affairs and Trade Promotion</b>	<b>179</b>
Maltese High Commission in Canberra	180
<b>Ministry for Transport, Infrastructure and Capital Projects</b>	<b>189</b>
Ministry for Transport, Infrastructure and Capital Projects	190
<b>Ministry for Gozo</b>	<b>193</b>
Ministry for Gozo	194
<b>Ministry for the Family, Children’s Rights and Social Solidarity</b>	<b>201</b>
Age Pension	202
Public Social Partnerships	208
<b>Other Reports</b>	<b>215</b>
Arrears of Revenue 2018	216
Malta Enterprise	236

# List of Abbreviations

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AAR	Annual Audit Report
AP	Age Pension
ARB	Asset Recovery Bureau
ARR	Arrears of Revenue Return
CA	Contracting Authority
CBM	Central Bank of Malta
CEO	Chief Executive Officer
CET	Customs and Excise Tax
CF	Consolidated Fund
CFMS	Corporate Financial Management System
CoJ	Courts of Justice
CPSU	Central Procurement and Supplies Unit
CSW	Child Support Worker
DAACC	Department for Active Ageing and Community Care
DAS	Departmental Accounting System
DC	Department of Contracts
DMD	Debt Management Directorate
DO	Direct Order
DSS	Department of Social Security
ERA	Environment and Resources Authority
ERD	Education Resources Directorate
ERL	Engineering Resources Limited
EU	European Union
FAR	Fixed Asset Register
FR	Financial Report
FSWS	Foundation for Social Welfare Services
GDP	Gross Domestic Product
GGH	Gozo General Hospital
GHRC	Grand Harbour Regeneration Corporation
HC	Health Centre
HCFD	Health Care Funding Directorate
HO	Head Office
HOR	House of Representatives
IESC	International Energy Service Centre Limited
IIP	Individual Investor Programme
IMA	Identity Malta Agency
IPSAS	International Public Sector Accounting Standards
IRD	Inland Revenue Department
IRF	International Radio Festival
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology

KGRH	Karin Grech Rehabilitation Hospital
LECAM	Legal Case Management
LEP	Locally Engaged Personnel
LN	Legal Notice
LSA	Learning Support Assistant
LTC	Long Term Care
MBO	Malta Based Officer
MCAST	Malta College of Arts, Science and Technology
MCH	Mount Carmel Hospital
MDH	Mater Dei Hospital
ME	Malta Enterprise
MEDE	Ministry for Education and Employment
MEW	Ministry for Energy and Water Management
MFA	Ministry for Foreign Affairs
MFCS	Ministry for the Family, Children’s Rights and Social Solidarity
MFH	Ministry for Health
MFIN	Ministry for Finance
MFTP	Ministry for Foreign Affairs and Trade Promotion
MG2i	MCAST Gateway to Industry Ltd
MGI	Malta Government Investments Ltd
MGOZ	Ministry for Gozo
MGS	Malta Government Stocks
MHAS	Ministry for Home Affairs and National Security
MIIPA	Malta Individual Investor Programme Agency
MIMCOL	Malta Investment Management Company Limited
MITA	Malta Information Technology Agency
MJCL	Ministry for Justice, Culture and Local Government
ML	Malta Libraries
MPF	Malta Police Force
MPGF	Malta Police General Fund
MS	Member State
MT	Manoel Theatre
MTA	Malta Tourism Authority
MTIP	Ministry for Transport, Infrastructure and Capital Projects
NAO	National Audit Office
NBV	Net Book Value
NGO	Non-Governmental Organisation
NSO	National Statistics Office
OCVO	Office of the Commissioner for Voluntary Organisations
OECD	Organisation for Economic Co-operation and Development
OHSA	Occupational Health and Safety Authority
ORC	Office of the Refugee Commissioner
PHC	Primary Health Care
PML	Projects Malta Limited
POYC	Pharmacy of Your Choice
PPR	Public Procurement Regulations
PSP	Public Social Partnership
PV	Payment Voucher

## List of Abbreviations

SABS	Social Assistance and Benefits System
SAMOC	Sir Anthony Mamo Oncology Centre
SCSA	Social Care Standards Authority
SLA	Service Level Agreement
SOP	Standard Operating Procedure
SPBH	Sir Paul Boffa Hospital
TM	Transport Malta
VAT	Value Added Tax
VCA	Valletta Cultural Agency
VO	Voluntary Organisation
WAM	Weighted Average Maturity

# Guide to using this Report

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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 and public entities or across Government-wide activities in accordance with the National Audit Office Annual Audit Programme. 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 2018, each containing either the ministry itself, or one or more departments or entities which were the subject of our review. Most Reports under the ministerial portfolios have the following structure:

## **Background**

Includes a brief description of the relevant activities, roles and operations of the respective ministry, department or entity under review. Where applicable, it may also include new legislation governing the entity in question.

## **Audit Scope and Methodology**

Gives an indication of the areas that the audit covered and how deep the assignment was performed. It also defines the steps taken to reach the audit objectives.

## **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, department's or entity's internal control and internal checking mechanisms. These controls are expected to be in place so as to serve as an effective safeguard of public assets and resources.

## **Compliance Issues**

Summarise instances whereby the relative ministry, department or entity lacked compliance with effective legislation, standing regulations and 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, departments and entities, to encourage them to address any weaknesses that came to our attention, as well as to consolidate and improve upon the management and proper discharge of public funds. In general, our recommendations are aimed at improving the internal control systems, addressing areas where there is lack of compliance with pertinent rules and regulations, and promoting good practice in the best interest of the taxpayer.

## **Management Comments**

Seek to include, in as comprehensive manner as possible, the Management's reaction to the National Audit Office'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

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The **Financial Report** (page 17), incorporating financial statements and accounts for the year 2018, 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 was noted that Letters of Comfort and Bank Guarantees, considered as contingent liabilities, reached almost €1.2 billion. Furthermore, pending advances at year-end totalled €32 million, of which €19.9 million will continue to be repaid from public funds out of an annual budgetary provision.

As at end of year 2018, the percentage of Government's debt to the country's Gross Domestic Product amounted to 45.8%, resulting in a decrease of 4.5% over the previous year. Thus, the respective ratio has successfully continued to decline below the 60% Treaty requirements, indicating that the economy is growing relatively fast.

Shortcomings were noted by the National Audit Office in relation to the collation and reporting of **Creditors and Accruals** as at year-end in the three different Ministries reviewed. Consequently, the information compiled was insufficient to provide meaningful information for decision making which is the ultimate aim of accrual accounting. (pages 82, 107 and 114)

The National Audit Office satisfactorily noted that the income due to Government from the **Individual Investor Programme**, relating to the applications sampled for the purpose of this review, was traced to the accounting records. However, the Malta Individual Investor Programme Agency is not yet equipped with a comprehensive information communications technology system to manage applications and facilitate its functions. (page 62)

Revenue from **Refunds from the European Union Health Scheme** was not maximised, mainly because the health centres were not adequately equipped to service the scheme and owing to the lack of proper maintenance of debtors' data. (page 66)

Due to human resource limitations, the administrative aspect of the **Pharmacy of Your Choice Scheme** was somewhat constrained. Furthermore, the lack of an integrated information technology system for the operation and management of this Scheme resulted in the use of multiple fragmented applications running in parallel, entailing duplication of work as well as increased risk of errors due to manual intervention. (page 71)

An audit on the provision of **Long Term Medical Beds** revealed instances of overpayment of social benefits due to lack of timely communication between the Department of Social Security and Mater Dei Hospital. Thus, pension deduction rates were not regularly updated on the Social Assistance and Benefits System. (page 79)

Internal controls by the **Malta Investment Management Company Limited** over inventory management were weak. (page 88)

Terms and conditions relating to reimbursements effected by the Ministry for Education and Employment for the financing of salaries of **Learning Support Assistants in Private Schools** were not documented in formal contracts. The respective amounts were also refunded ahead of the respective employment approvals. (page 94)

Although the **Malta College of Arts, Science and Technology** has a subsidiary company which is the commercial arm and the main academic revenue contributor, the respective computerised system is not integrated to the accounting software used by the College's Finance Office, thus restricting its effectiveness. (page 98)

The value of non-current assets acquired in previous years will not be reflected in the accounting records of the **Malta Libraries**, thus resulting in an understated figure of fixed assets. (page 103)

Procedures and internal controls in relation to the areas tested at the **Engineering Resources Limited** were found to be adequate and in sound operation. (page 112)

The procurement of accountancy services for the last seven years by the **Occupational Health and Safety Authority** was not in line with the regulations. Inaccurate amounts in the Authority's audited financial statements were also noted. (page 118)

Statistics on procurement made through **Negotiated Procedures without prior Publication** during the year under review were not readily available for audit purposes at the Department of Contracts. A review of purchases totalling approximately €86 million, made by **Direct Order** following approval from the Ministry for Finance during 2018, revealed that nearly 9% of such procurement was made by the Central Procurement and Supplies Unit within the Ministry for Health. (page 124)

An audit at the **Malta Tourism Authority** revealed concerns, particularly related to items of expenditure, as well as the organisation of events. (page 132)

The Public Procurement Regulations were occasionally bypassed by **Projects Malta Limited**. There were also instances when services procured by direct order were not backed up by formal agreements. (page 139)

The National Audit Office acknowledges that for the first time, the 2018 Final Accounts of the **Malta Police General Fund** were prepared on the accrual basis of accounting. However, it was noted that no provision was made for a substantial liability which the Malta Police Force is committed to refund to its retired members; thus, resulting in the financial statements not giving a true and fair view. (page 144)

The procedures and internal controls in relation to the areas tested at the **Office of the Refugee Commissioner** were adequate and in sound operation. (page 147)

Weaknesses were encountered in so far as the collection of revenue from fines due to the **Courts of Justice** is concerned even though it is acknowledged that in certain cases such collection is beyond the administration's control. Inaccurate conversions of outstanding fines also resulted in incorrect number of days of confinement. (page 152)

Review of travel on official duty undertaken by the staff of the **Asset Recovery Bureau** during 2018 revealed instances of non-compliance with standing regulations. (page 160)

An audit on capital expenditure incurred by the **Manoel Theatre** identified some serious corporate governance issues. These included, amongst others, the fact that audited financial statements for the last five years were not prepared. Furthermore, the minutes of the Board Committee meetings were not always maintained. (page 163)

The **Valletta European Capital of Culture 2018 Foundation** bypassed the Public Procurement Regulations on various occasions. There were also instances where no formal agreements covering services procured were in place. (page 170)

The processes and internal controls relating to procurement, payroll and revenue, as well as the pertinent Information Technology setup and systems in use within the **Environment and Resources Authority**, were found to be in place. (page 176)

Revenue from consular services as reported by the **Maltese High Commission in Canberra** was not substantiated by any source documentation, hindering both the respective Ministry and the Identity Malta Agency to carry out the necessary reconciliations. Moreover it resulted that, at times, fees charged by the Mission for the services in question were not in line with the applicable standing rates. (page 180)

The National Audit Office was satisfied that the procedures and controls in relation to the expenditure on personal emoluments paid by the **Ministry for Transport, Infrastructure and Capital Projects** were adequate and in sound operation. (page 190)

No proper records were forwarded to the National Audit Office substantiating claims by the **Ministry for Gozo** that stocktakes were carried out throughout the last 10 years. Lack of internal control and security were also noted. (page 194)

Deterrents were not adequate to prevent abuse of the social assistance and benefits system. Following an audit on **Age Pension**, the National Audit Office also identified areas of potential improvement where overpayments of the benefits in question are concerned. In addition, several valuations applied by the Department of Social Security on the land and property owned by beneficiaries were understated. (page 202)

The review of expenditure on **Public Social Partnerships** revealed the need for enhanced enforcement on eligibility criteria and, in certain instances, lack of verification prior to fund disbursements to the respective beneficiaries. (page 208)

Statements of **Arrears of Revenue** submitted by Ministries and Departments for 2018 showed that total gross arrears as at 31 December 2018 amounted to approximately €4.2 billion, an increase of €836 million (25%) over last year's figure. Further analysis also showed that the total net amount due to Government increased by €161.4 million since 2014, however when taken as a percentage of the Gross Domestic Product, net collectable arrears remained fairly stable over the same period. (page 216)



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# Financial Audit Opinion

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# Opinion on the Financial Audit to the House of Representatives

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## **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 National Audit Office'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 will always detect material misstatements, arising from fraud or error.

## **Basis for Opinion**

We conducted our financial audit in accordance with the relevant International Standards on Auditing, the applicable public sector perspective provisions, and in line with the Office's auditing practices.

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

We have complied with independence requirements in accordance with the International Standard of Supreme Audit Institutions 30 – Code of Ethics and the Code of Professional Conduct of the National Audit Office, 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 aforementioned Constitution.

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

## Opinion

### Clean Opinion

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

In terms of para. 5(ii) of the First Schedule of the Act, I am to report that 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  
2<sup>nd</sup> December 2019



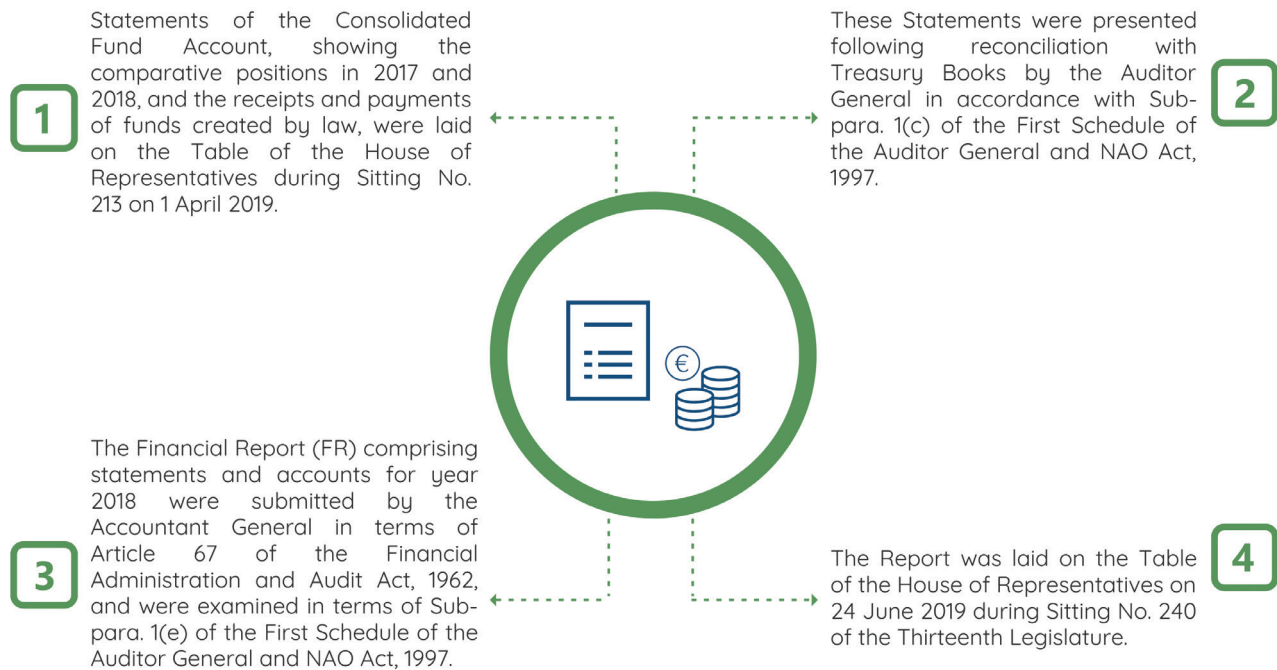
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# Financial Report

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# Analysis of the Financial Report 2018

## Introduction



Further details of Government financial operations can be found by referring to both the Annual Financial Statements and the FR for 2018.

## Consolidated Fund Statement – 2018

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

The House of Representatives approved the year 2018 Budget (Estimates)<sup>2</sup> for a total expenditure of €4.8 billion and a further €488 million approved by Supplementary Estimates<sup>3</sup>. Actual expenditure for the year, amounting to €5.1 billion, exceeded revenue by more than €242 million, leading to an end-of-year consolidated negative balance of €309 million.

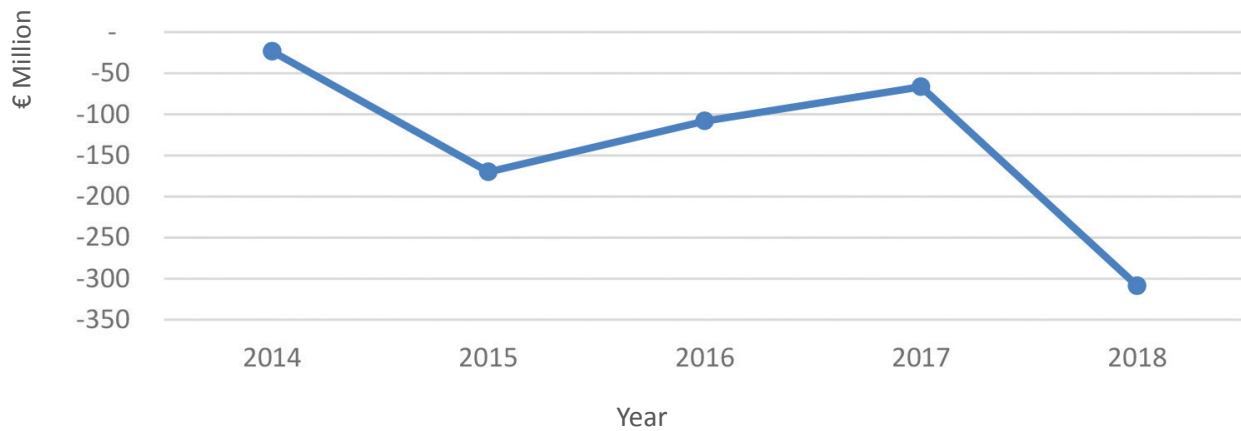
A line graph comparing the CF closing balance as at 31 December 2018 with the prior four years is depicted in Chart 1 overleaf.

<sup>1</sup> Does not include amounts payable into any other fund established by or under any law, currently in force in Malta for a specific purpose.

<sup>2</sup> As authorised by Warrant No. 1 of 2018 issued on 21 December 2017.

<sup>3</sup> As authorised by Warrant No. 2 of 2018 dated 19 December 2018.

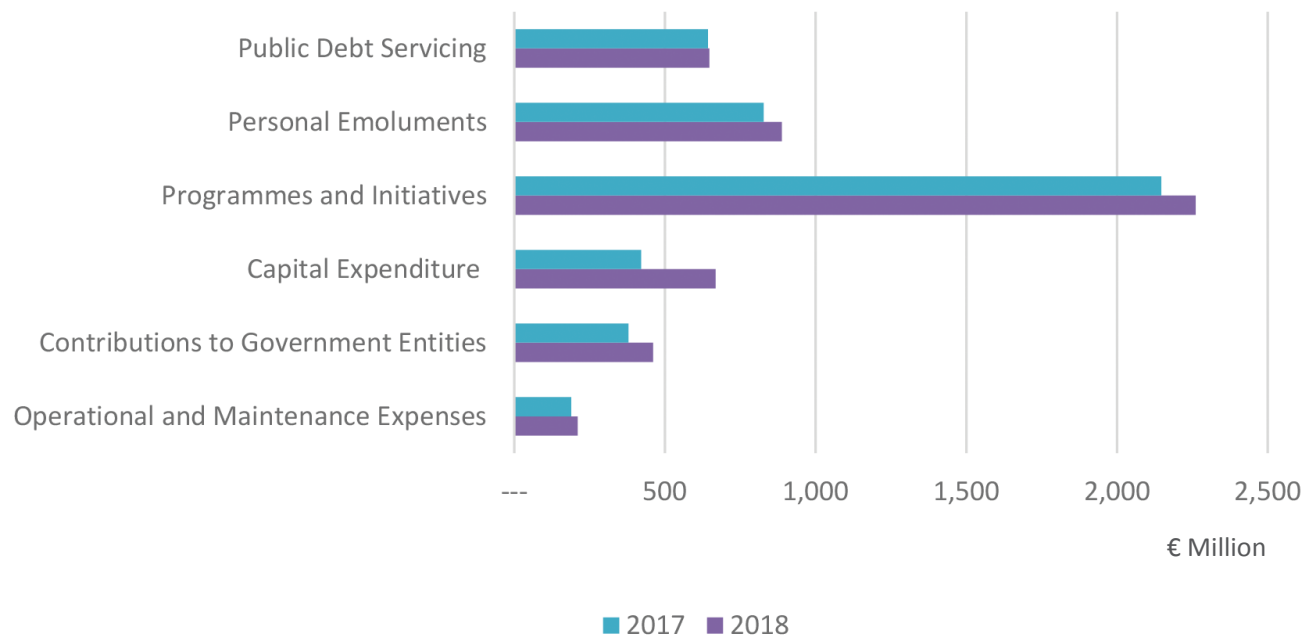
Chart 1: Trend analysis of the Closing Consolidated Fund Balance (2014 – 2018)



(Source: FR 2014 page xvi, FR 2015 page xv, FR 2016 page xv, FR 2017 page xv, FR 2018 page xv)

When comparing the actual results for 2018 to prior year, it transpired that although the aggregate revenue registered in the CF increased by 5%, this was not enough to sustain the increase in total expenditure of 11%. The substantial drop in the closing balance was attributable to the growth in all expenditure areas. Particularly, significant increases were noted in capital expenditure, programmes and initiatives as well as contributions to Government entities, which surged by €247 million, €115 million and €82 million, respectively. Chart 2 refers.

Chart 2: Growth registered in all expenditure areas during 2018



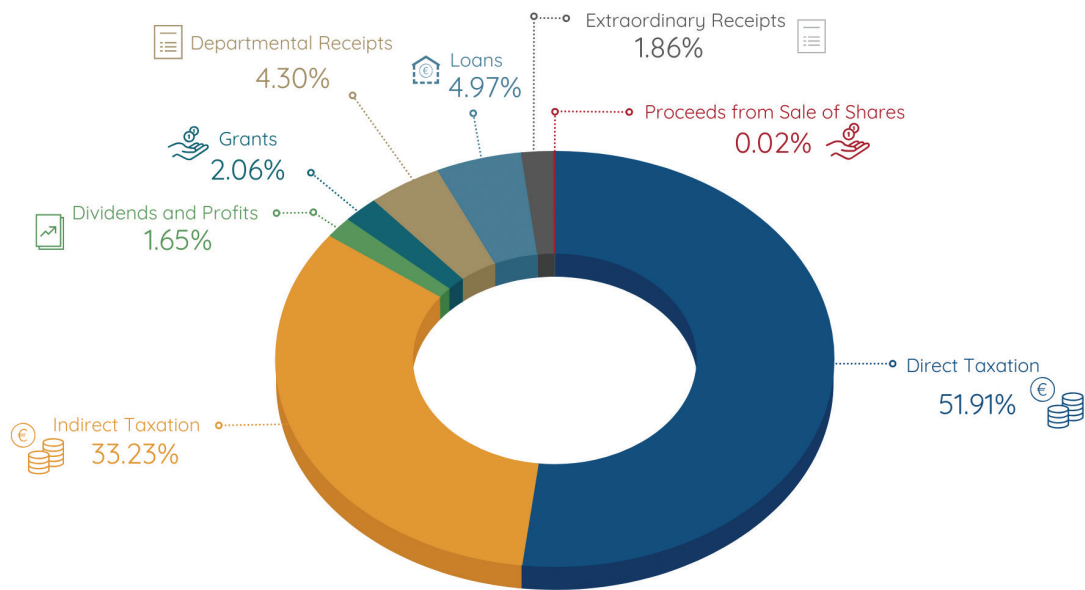
(Source: FR 2018 page xv)

## Revenue

### Revenue by Category

Actual total revenue collected during 2018 amounted to €4.9 billion, representing a 5.29% increase over the previous year. Chart 3 hereafter shows the different categories of Revenue as a percentage of Total Consolidated Revenue.

Chart 3: Revenue by Category as a percentage of Total Consolidated Revenue



(Source: FR 2018 page xx)

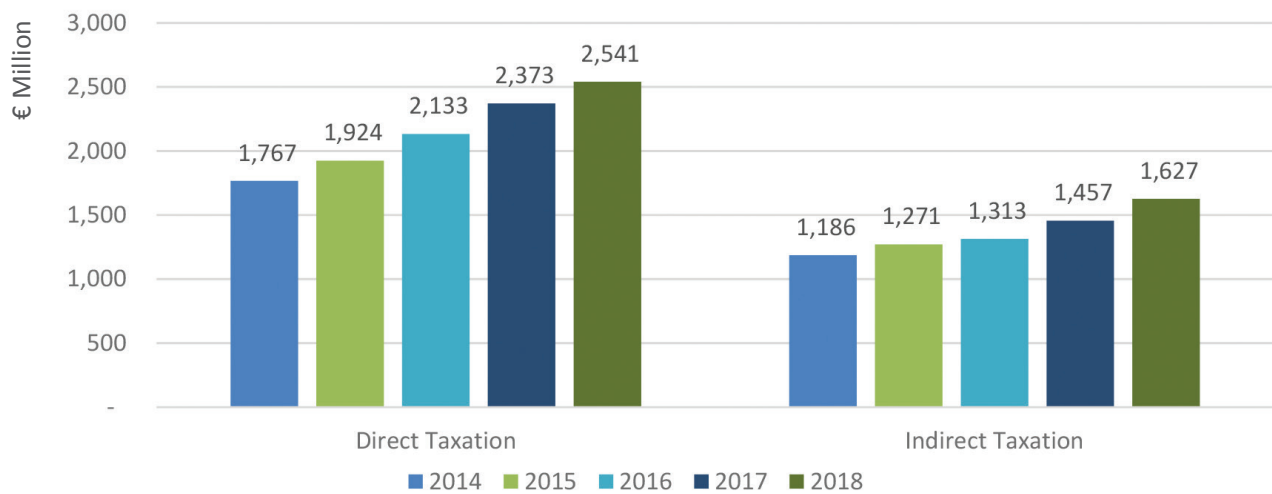
**Five Year Trend Analysis**

**Recurrent Revenue**

**a. Tax Revenue**

An analysis of tax revenue for the years 2014 to 2018 is shown in Chart 4.

Chart 4: Tax Revenue between 2014 and 2018



(Source: FR 2014 page xix, FR 2015 page xviii, FR 2016 page xviii, FR 2017 page xviii, FR 2018 page xviii)

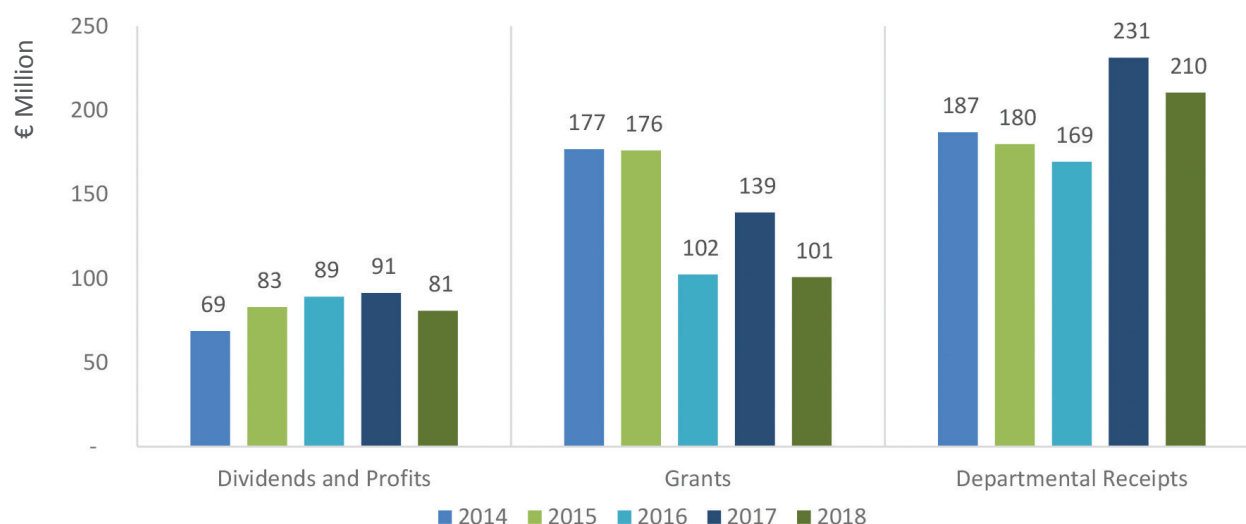
Revenue arising from Income Tax and Social Security Contributions grew consistently by an average of 10%, over a five year period. Primarily, this was due to economic growth, continuous enforcement, as well as a rise in the number of gainfully occupied persons.

Meanwhile, indirect taxation collected during 2018 surged by 12% over the previous year. The major increase was mainly influenced by a rise of approximately €107 million in VAT collected, almost €39 million from Duty on Documents and more than €10 million from Gaming Taxes. The economic growth and continuous enforcement were again the main factors contributing to these results, coupled by a growth in the number of licences actually operating under the Maltese gaming legislation. Moreover, the surge in the number of contracts related to Capital Transfer Duty and their corresponding contract values, when compared to prior year, led to higher inflows.

## b. Non Tax Revenue

Chart 5 depicts an analysis of non-tax revenue for the five years 2014 to 2018. An analysis of these figures follows.

Chart 5: Non-Tax Revenue between 2014 and 2018



(Source: FR 2014 page xix, FR 2015 page xviii, FR 2016 page xviii, FR 2017 page xviii, FR 2018 page xviii)

*Dividends and Profits* – Following three consecutive increases in this form of revenue, a fall of 12% was registered in 2018 due to a drop of €15 million in dividends received from the Central Bank of Malta (CBM), which, for prudential considerations, reduced amounts transferred to Government.

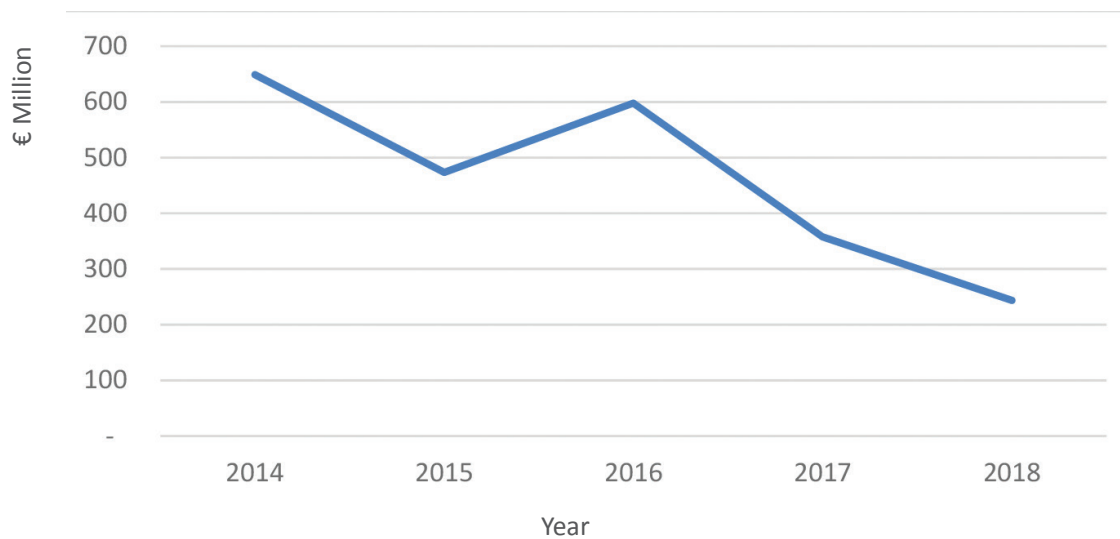
*Grants* – Although income collected from Grants remained stable for two years, a drop of 42% was recorded in 2016. This was followed by a rise of 36% in 2017 and a fall of 28% in the subsequent year. As indicated in the FR, the variations in this category are mainly due to timing differences in the actual receipt of funds from the European Union (EU).

*Departmental Receipts* – During the last five years, several fluctuations were noticed in revenue collected from Fees of Office, Reimbursements, Rent and Miscellaneous Receipts. The lowest inflow was registered in 2016, amounting to €169 million, mainly influenced by a decline of more than €30 million in Miscellaneous Receipts. In the following year, the highest amount of receipts in these five years was noted, i.e. €231 million, due to increases of 58% and 59% in Fees of Office and Reimbursements, respectively.

The 2018 amount experienced another reduction as a result of a €30 million decrease in Fees of Office, mainly due to a reduction of revenue from the Individual Investor Programme.

*Capital Revenue*

Chart 6: Revenue from Loans between 2014 and 2018



(Source: FR 2014 page xix, FR 2015 page xviii, FR 2016 page xviii, FR 2017 page xviii, FR 2018 page xviii)

Capital Revenue represents proceeds from sale of Malta Government Stocks (MGS). As depicted in Chart 6, in 2014 the amount of long-term debt issued amounted to nearly €649 million, whilst the lowest figure was registered in 2018, i.e. approximately €244 million. The significant drop in the latest year was influenced by the substantial revenue increases, which resulted in a reduction in the actual borrowing requirements.

***Proceeds from Auctioning of Emission Trading Units***

Emissions trading is a key market-based approach for the control of pollutants through the provision of economic incentives to limit or reduce emissions. The rationale is that emission reductions are achieved where the cost of the reduction is lowest, thus lowering the overall cost of mitigation efforts against climate change. Emission trading was adopted as a principal means for controlling emissions of greenhouse gases.

The Government sets a cap on the total amount of pollutants that can be emitted under the emissions trading scheme. Participating entities are each allocated a quantity of tradable emission permits also referred to as allowances, the sum of which would be equivalent to the overall cap. Each emission allowance is equivalent to a specific amount of pollutant. Participants have the flexibility of determining how and where emission reduction will take place.

The EU has established the largest multi-country and multi-sector emissions trading scheme, covering large, stationary, greenhouse gas-emitting industrial installations and as from 2012, aviation activities. The emissions auctions are monitored by the European Energy Exchange Group, consisting of a group of specialised companies providing market platforms for energy and commodity products across the globe.

The implementation of the EU Emissions Trading Directive in Malta is applied through S. L. 423.51 of 2012 – ‘European Union Greenhouse Gas Emissions Trading Scheme for Aviation Regulations’ and Legal Notice 434 of 2013 – ‘European Union Greenhouse Gas Emissions Trading Scheme for Stationary Installations Regulations, 2013’, for aviation and stationary installations respectively. The local competent authority responsible for the overall implementation and administration of the EU Emissions Trading System is the Malta Resources Authority. On the other hand, the Treasury Department fulfils the role as auctioneer of emission allowances for Malta-based stationary installations’ and aviation on behalf of Government.

In 2018, 139 auctions related to stationary installations and four auctions in respect of aviation were held throughout the year. Related actual revenue recorded in the FR for the year 2018 was €15.7 million as against a budgeted amount of €3.6 million under Miscellaneous Receipts for line item 0914. This amounted to approximately €9.8 million more than the previous year. Most of the proceeds, that is €15.2 million, were generated from stationary installations, whilst the remaining €0.5 million were received from aviation auctions.

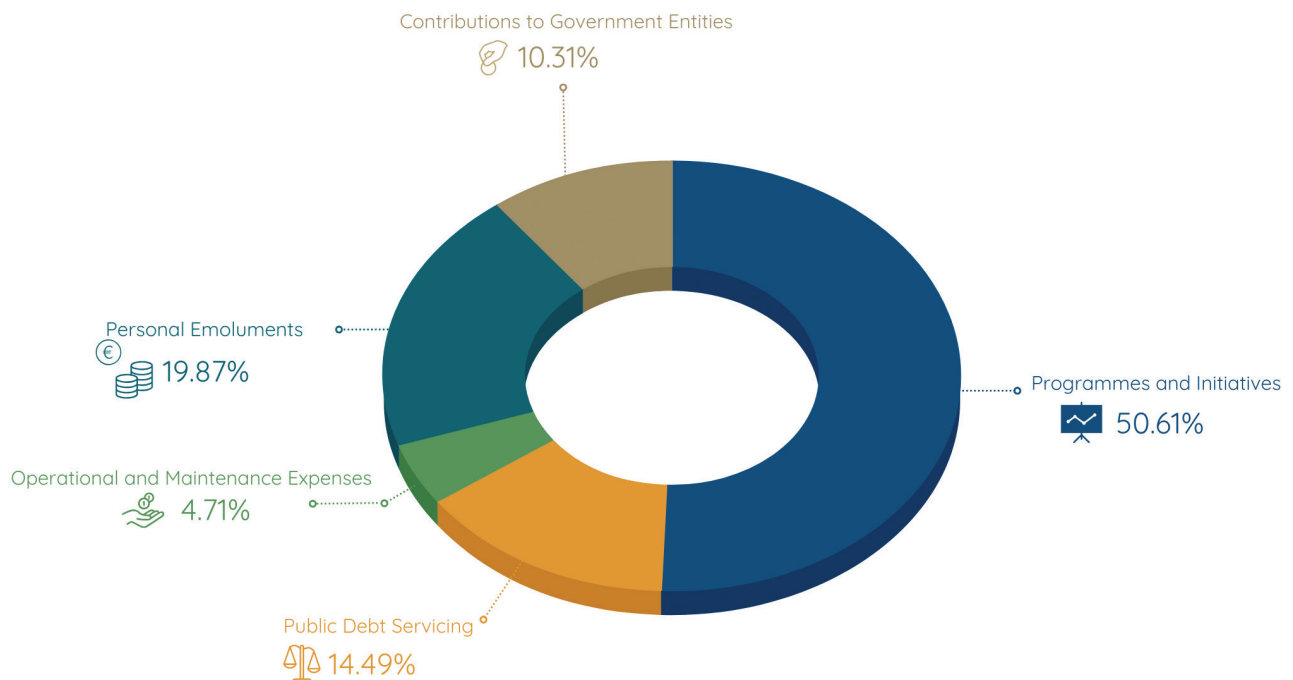
A meeting was held with representatives from the Treasury Department to obtain an understanding of the procedure and internal controls relating to the collection of proceeds from auctioning of the emissions trading units. Supporting documentation kept by Treasury related to this revenue item was also forwarded to this Office and reviewed. Internal controls were noted to be in place by means of regular reconciliations and no material risks were identified during our review.

## Expenditure

### Recurrent Expenditure and Public Debt Servicing

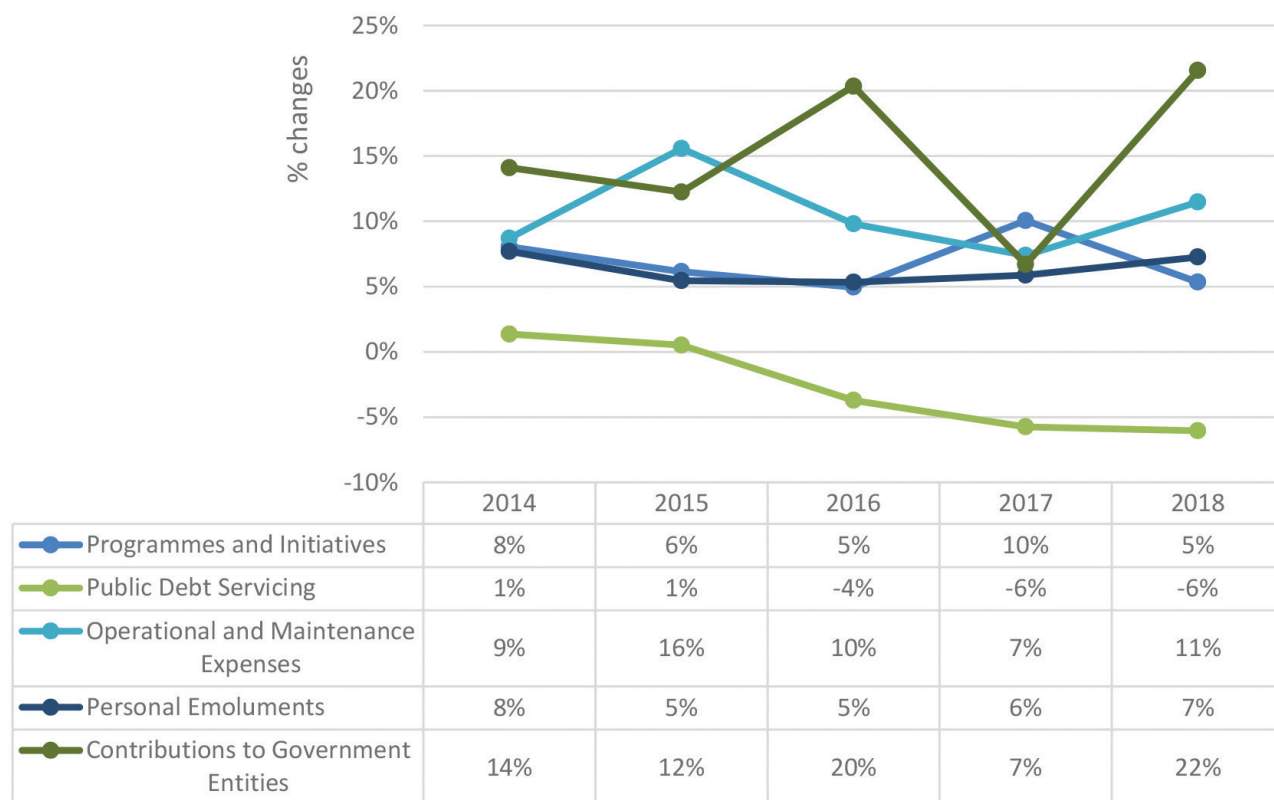
The total recurrent expenditure during 2018 amounted to €4.5 billion, representing a 7% increase over the previous year. This amount includes €647.5 million in relation to Public Debt Servicing. Chart 7 hereafter shows the different categories of expenditure as a percentage of total recurrent expenditure.

Chart 7: Recurrent Expenditure by Category as a percentage of Total Recurrent Expenditure



(Source: FR 2018 pages xxvi - xxvii)

Chart 8: Five-year Trend Analysis of Recurrent Expenditure by Category



(Source: FR 2013 page xxvi, FR 2014 page xxvi, FR 2015 page xxv, FR 2016 page xxv, FR 2017 page xxvi, FR 2018 page xxvi)

The percentage fluctuations of the various recurrent expenditure categories<sup>4</sup> over the last five years were analysed as depicted in Chart 8. The major fluctuation during 2018 was noted in Contributions to Government Entities, which grew by nearly €82 million and represented a rise of 22%. The main areas of expenditure which contributed to this variation are summarised in Table 1.

Table 1: Contributors for the most material increases in Recurrent Expenditure registered in 2018

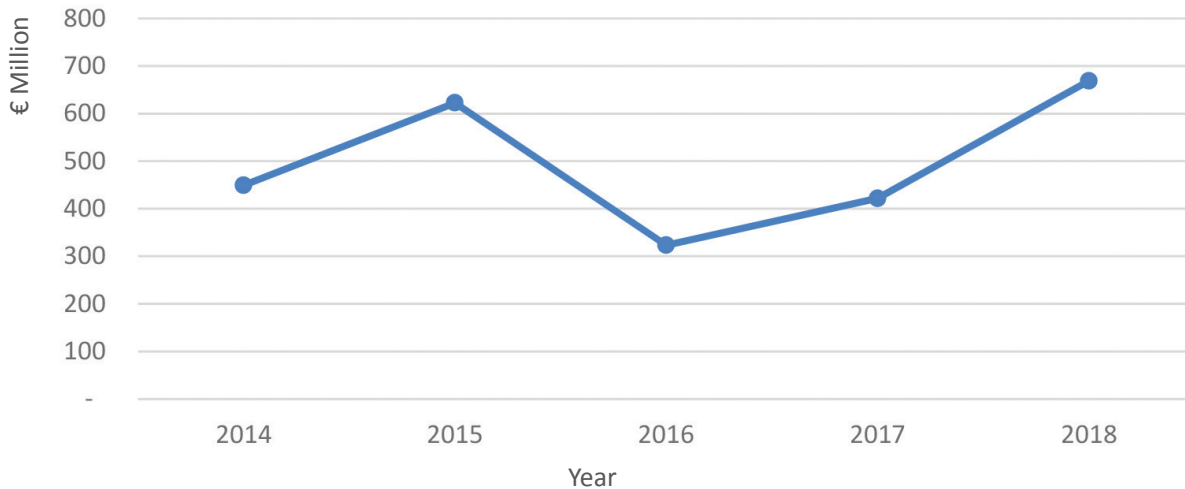
Classification	Expenditure Type/Government Entity receiving funds	Increase €
Contributions to Government Entities	Mental Health Services	11,812,000
	Financial Intelligence Analysis Unit	8,537,000
	Valletta European Capital of Culture 2018 Foundation	6,794,530
	Ambjent Malta	4,058,767
	University of Malta	3,699,999
	Malta Tourism Authority	3,500,000
	Housing Authority	2,231,218
	Environment and Resources Authority	2,181,123
	Sapport	1,950,000
	Foundation for Social Welfare Services	1,910,830

<sup>4</sup> Any repayments and contributions made to sinking funds were excluded from Public Debt Servicing expenditure.

### Capital Expenditure

An analysis of the total capital expenditure revealed that in 2018 such outflow amounting €668.5 million, reached its highest level over the last five years. Chart 9 refers.

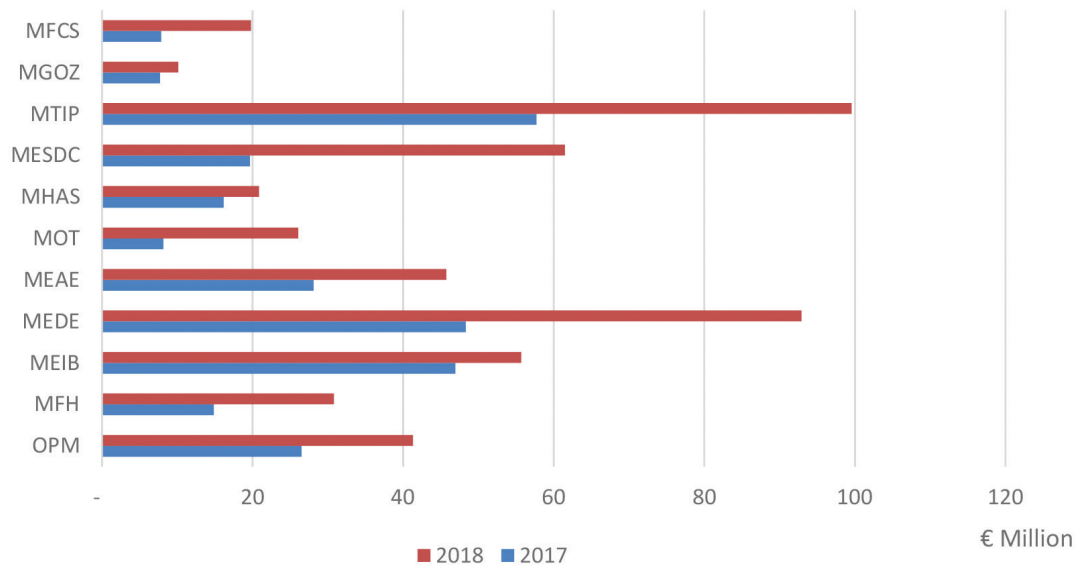
Chart 9: Capital Expenditure over the last five years



(Source: FR 2014 page xxx, FR 2015 page xxix, FR 2016 page xxix, FR 2017 page xxx, FR2018 page xxx)

The increase in capital expenditure of €246.9 million during 2018 over the previous years was mainly attributable to the Ministry for Education and Employment, the Ministry for the Environment, Sustainable Development and Climate Change and the Ministry for Transport, Infrastructure and Capital Projects, whose spending increased by more than €40 million each. Chart 10 refers. Table 2 lists the line items that mainly contributed to these increases.

Chart 10: Main Increases in Capital Expenditure during 2018



The Ministries referred to in the Chart are as follows: Ministry for the Family, Children’s Rights and Social Solidarity (MFCS), Ministry for Gozo (MGOZ), Ministry for Transport, Infrastructure and Capital Projects (MTIP), Ministry for the Environment, Sustainable Development and Climate Change (MESDC), Ministry for Home Affairs and National Security (MHAS), Ministry for Tourism (MOT), Ministry for European Affairs and Equality (MEAE), Ministry for Education and Employment (MEDE), Ministry for the Economy, Investment and Small Businesses (MEIB), Ministry for Health (MFH), and Office of the Prime Minister (OPM).

(Source: FR 2018 pages 147-181)

Table 2: Contributors for the most material Capital Expenditure increases

Ministry	Line Item Number	Line Item Name	Increase Amount €
Ministry for Education and Employment	7836	Structural Funds 2014-2020	30,543,563
	7936	Structural Funds 2014-2020	7,163,396
	7028	Information Technology in Government Schools	5,047,977
Ministry for the Environment, Sustainable Development and Climate Change	7827	European Agricultural Fund for Rural Development 2014-2020	16,646,197
	7164	WasteServ Malta Limited	8,128,873
	7927	European Agricultural Fund for Rural Development 2014-2020	7,550,637
	7826	European Maritime and Fisheries Fund 2014-2020	3,227,888
	7926	European Maritime and Fisheries Fund 2014-2020	1,217,621
Ministry for Transport, Infrastructure and Capital Projects	7205	Road construction/improvements	28,225,928
	7836	Structural Funds 2014-2020	13,840,636

### Analysis of Appropriations

The appropriations for expenditure during 2018, authorised by the Ministry for Finance (MFIN) Warrant Nos. 1 and 2, were made under the following Statutes:

	€
a. Appropriation Act	3,544,452,066
b. In terms of Special Laws	1,765,085,000
c. In terms of the Constitution	3,594,934
<b>Total Appropriations</b>	<b>5,313,132,000</b>

#### a. Appropriation Act

	€
Appropriated by Act XXIX of 2017 (Original Budget)	3,058,452,066
Appropriated by Act XLVI of 2018 (Supplementary)	486,000,000
<b>Appropriation Act</b>	<b>3,544,452,066</b>

#### b. Special Laws

The following amounts, including Supplementary Estimates as detailed in Warrant No. 2 of 2018, were appropriated in terms of the various laws as indicated:

Table 3: Amounts Permanently Appropriated in terms of the various Laws

Description	2018 €	2017 €
Expenses of the Electoral Commission – General Elections Act (Cap. 354)	330,000	320,000
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)	60,000	50,000
Land Acquisition (Public Purposes) Ordinance (Cap. 88)	-	115,000
Social Security Act, 1987 (Act X of 1987 – Cap. 318)	982,250,000	937,730,000
Pensions Ordinance (Cap. 93)	100,400,000	103,700,000
Expenses of the Office of the Ombudsman (Cap. 385)	1,150,000	1,200,000
Expenses of the Permanent Commission Against Corruption (Act XXII of 1988 – Cap. 326)	80,000	200,000
Government Borrowing and Management of Public Debt Act (Cap. 575)	659,511,000	644,784,594
Interest plus contribution to the Sinking Funds in respect of Foreign Loans (Cap. 213)	-	2,509,325
Malta Arbitration Centre (Act II of 1996 – Cap. 387)	75,000	75,000
Expenses of the NAO (Act XVII of 1997 – Cap. 396)	3,400,000	3,150,000
Refunds under VAT/Customs & Excise Tax Acts	3,500,000	3,200,000
Widows' and Orphans' Pensions Act (Cap. 58)	530,000	530,000
Personal Injuries (Emergency Provisions) Ordinance (Cap. 111)	45,000	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)	2,480,000	1,960,000
Short Term Borrowing – Treasury Bills Act (Cap. 133)	-	176,081
Lease of Parliament Building – Budget Measures Implementation (Act V of 2012)	4,430,000	4,430,000
Parliamentary Services Act (Cap. 562)	6,261,000	-
<b>Totals</b>	<b>1,765,085,000</b>	<b>1,704,759,000</b>

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	91,504
The Attorney General	79,166
Judges and Magistrates	3,330,264
The Public Service Commission	94,000
<b>Total</b>	<b>3,594,934</b>

**Public Credit – Shareholding**



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

**New Investments**

**Air Malta Aviation Services Ltd**

Historically, Air Malta has been an integrated undertaking, not only focusing on airline business operations, but also on the ancillary business of ground handling activities. The Government’s strategy for Air Malta is to focus on the core airline business. Thus, in 2018, a decision was taken to hive-off Air Malta’s ground handling business to a separate company owned by Government, namely Air Malta Aviation Services Ltd, with an investment of 5,020,000 Ordinary Shares of €1 each, fully paid up.

**Engineering Resources Ltd**

Engineering Resources Ltd was set up in 2014 with the scope of taking on all the employees of the defunct Enemalta Corporation by virtue of Act XXXIV of 2014. The Company is registered with the Malta Financial Services Authority and its operations are based on the provision of human resources to Government departments and entities, as well as other entities operating in the energy sector. During 2018, the Government of Malta acquired 1,199 Ordinary Shares of €1 each, 100% paid up, being 99.9% share of total share capital.

**Malta Air Travel Ltd**

The purpose of the establishment of Malta Air Travel Ltd was to purchase and hold the landing and take-off slots at Heathrow and Gatwick airports in London which were previously leased by Air Malta. The investment in Malta Air Travel Ltd totalled to 59,740,111 Ordinary Shares of US\$1.1992 each, fully paid.

### **Movements in Values of Existing Investments**

During 2018, the cost of investments in the following entities collectively increased by €656,029 due to changes in the exchange rate of the American Dollar:

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

### **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 42 companies as at 31 December 2018 amounted to €24,272,739. However, the estimated net book value of these amounted to €21,833,537, thus a total unrealised loss of €2,439,202. Data by investment type is provided in Table 4.

Table 4: Investments through Malta Government Investments Ltd

<b>Investment Type</b>	<b>No. of Companies</b>	<b>Cost</b>	<b>Provisional Loss</b>	<b>Net Book Value</b>
		€	€	€
Subsidiary Companies	21	22,815,534	1,332,421	21,483,113
Associated Companies and Other Investments	21	1,457,205	1,106,781	350,424
<b>Totals</b>	<b>42</b>	<b>24,272,739</b>	<b>2,439,202</b>	<b>21,833,537</b>

Out of these 42 companies, seven were undergoing liquidation procedures and another two were struck off by the Malta Financial Services Authority Registrar of Companies.

At the end of 2018, the total of investment in industry as reported by Treasury amounted to €24,295,022 (2017: €19,319,710). An investment in a particular company during the year contributed to the increase in the net book value balance by €4,975,312 over the previous period.

Indirect investments at year-end, as reported by Treasury, do not tally with the MGI balances. The difference of €22,283 is mainly due to an investment of €22,369 in a private company, namely Topwear Ltd, that is 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 2018, the CBM issued Euro Coins totalling €6,229,000, on behalf of Treasury, bringing the total amount of Euro Coins in circulation as at 31 December 2018 to €84,431,000.

### ***Dividend/Profit Received***

#### **Central Bank of Malta**

By the end of financial year 2018, the CBM distributed a total dividend of €35 million in five equal tranches.

#### **Malta Financial Services Authority – Capital Fund**

During 2018, total surplus funds amounting to €6,460,000 were received from the Malta Financial Services Authority in terms of Section 26(3) of the Malta Financial Services Act (Cap. 330).

#### **Investment in Industry**

A dividend of €1.3 million was received during 2018; €500,000 relating to Malta Air Traffic Services Ltd and €800,000 were received from the MGI.

### ***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, the NAO has 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 2018, as reported in Appendix E of the FR 2018, totalled €55,257,641.

#### **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 2018. As a result, the closing balance as at 31 December 2018 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 dated 8 May 2010 between the Euro Member States<sup>5</sup> (the Lenders) and the Hellenic Republic (the Borrower). The principal repayments are scheduled between 15 June 2020 and 15 September 2026. 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. However, the actual contribution amounted to €50,683,923.

### Loan – Mariam Al Batool

In order to assist the Mariam Al Batool School in addressing its financial circumstances, the Government agreed to lend the sums of €460,000 annually in scholastic years 2018-2019, 2019-2020 and 2020-2021, as well as €300,000 as from scholastic year 2021-2022, as per agreement dated 19 December 2018. The School bound itself to repay the full amount of any loans provided throughout a calendar year in two equal instalments at the end of June and December of the third year that follows the year in question, without interest.

A total drawdown of €112,397, was made during 2018 as shown in the Statement of Loans made by Government as at 31 December 2018.

### 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 the respective return, in other financial assets. To this effect, the amounts in question are invested 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 5: Sinking Funds Investments

Investment	Sinking Funds - Local €	Sinking Funds - Foreign €
Central Bank of Malta Deposit Accounts	105,732,414	729,959
Malta Government Stocks	101,862,299	-
<b>Totals</b>	<b>207,594,713</b>	<b>729,959</b>

(Source: FR 2018 pages 204 - 205)

During the year under review, the Council of Europe Social Development Fund Loan borrowed in 2003 and the EU Loan "B" were fully repaid, thus these do not feature in the Statement of Investments as at 31 December 2018.

<sup>5</sup> Excluding the Hellenic Republic since it was not a signing party for a loan to itself.

## Advances (Receivables)

### Accounting for Advances



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



Appendix L of the FR incorporates a detailed statement of balances remaining outstanding as on 31 December 2018, in respect of Advances made to various Ministries on behalf of Government Departments, Agencies and Organisations.

Chart 11: Outstanding Advances



Outstanding advances as at 31 December 2018 were the following:

Table 6: Outstanding Advances

Description	Amount €
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	1,570,801
Commissioner of Inland Revenue, to meet loans in terms of Article 4 of the Monte Di Pieta' Act (No. XXXIX) of 1976	283,399
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	3,366,078
Ministry for Economic Services, for the purpose of settling Malta Freeport equipment claims	9,448,178
Ministry of Finance, advanced to Mid-Med Employees Foundation, for the purpose of investment, pursuant to the agreement dated 3 December 2002, entered into between Malta Government and the Foundation in the interest of the members of the said Foundation	6,926,529
<b>Total</b>	<b>32,021,652</b>

## **Remarks**

### **Bank of Valletta Employees Foundation - €1,570,801**

The MFIN is continuing to pursue the repayment of the loan through annual instalments in accordance with the respective agreement. During 2018, a repayment of €86,102 was effected.

### **Loans in terms of Article 4 of the Monte Di Pieta' Act (1976) - €283,399**

Amounts are still being paid out of, and repaid into, this account in respect of activity emerging from 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**

The MFIN confirmed that these two outstanding amounts have since been paid in 2019 through funds provided under Item 7189 Contributions towards the Treasury Clearance Fund, voted in the 2019 Financial Estimates.

### **Loan to Maltacom Employees Foundation - €3,366,078**

The MFIN continued to pursue the repayment of this loan; with the amount of €1,178,064 effected during 2018.

### **Malta Freeport Equipment Claims - €9,448,178**

The MFIN confirmed that following a repayment of €1,034,003 in 2018, the outstanding amount has since been paid in 2019 through funds provided under Item 7189 - Contributions towards the Treasury Clearance Fund, voted in the 2019 Financial Estimates.

### **Mid-Med Bank Employees Foundation - €6,926,529**

As stated by MFIN, since the 15-year moratorium has come to an end, the loan repayment commenced in 2018 in line with the applicable programme.

## **Full Settlement of Advances**

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

The advances in relation to the Construction of Ships at Malta Shipbuilding and the Malta Freeport (Privatisation Process) have been paid back through funds provided under Item 7189 Contributions towards the Treasury Clearance Fund, voted in the 2018 Financial Estimates.

With respect to the purchase of Verdala Hotel, the amount due to Government was recouped from the borrower during 2018, as also reported in last year's Annual Audit Report (AAR).

## Central Bank of Malta Public Account

Treasury submitted to the NAO outstanding monthly reconciliation statements for the Public Account for the period January to December 2018.

As reported in last year's AAR, the NAO noted that discrepancies classified as 'Other Adjustments' between the balance as per the CBM Statement and the balance reported in the Cash Book, fluctuated from circa €4.3 million in January to circa €616.7 million in December 2018. Treasury confirmed that there was an error since a cancellation of a cheque amounting to €50 on 17 October 2018, was inadvertently inputted as €621,318,406, being the reference number of the transaction instead of the actual amount. This error was corrected immediately, however, the amount in question will continue to feature as an unreconciled balance in the future.

With regards to the reconciliation for the period June 1992 to December 2001, Treasury once again confirmed no development in this respect, and its position remained the same as detailed in the 2017 AAR.<sup>6</sup> No developments on this matter are scheduled for the near future.

### Boards of Survey

Boards of Survey at the 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 2018.

The NAO received the 2017 Board of Survey Report on 7 January 2019, following the related publication of the 2017 AAR in December 2018. The relevant statements for the year ended 2017 were duly certified for correctness with no adverse remarks.

The Report from the Board of Survey at the Ministry for Gozo for the year ended 31 December 2018 reached this Office in September 2019. The Board noted that some inconsistencies were indicated in the Survey Report and suggested appropriate measures to rectify such issues.

However, at the date of this publication, the NAO had not yet received the Board of Survey Report certifying, amongst others, the correctness of the List of Securities held at Treasury for the year ended 2018.

## Ministerial/Departmental Bank Accounts

Treasury Circular No. 1/2019 - 'End of Year (2018) Statements of Account Cash in Hand and Bank Balances held at Local Commercial Banks and Central Bank of Malta', issued on 14 January 2019, requested Heads of Departments and other Accounting Officers to submit both soft and hard copies of the Return indicating the cash and bank balances as at 31 December 2018, including the position of each bank account held both at local commercial banks and the CBM. In addition, officers were to submit a hard copy of these statements to the Treasury, clearly indicating those bank accounts against which a liability exists, as well as identifying bank accounts in respect of Trust Funds.

The respective balances were published accordingly in the FR 2018 (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. Any exceptions are queried by Treasury with the respective Ministry and corrective action is taken as necessary.

<sup>6</sup> Treasury still maintains that the start-off date of the new reconciliation exercise should be January 2002. Treasury stated that during the indicated 10-year period, there had been various changes both in 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.

As at December 2018, the total balances of Government bank accounts held in Euro at the CBM and commercial banks amounted to €180,686,872 (2017: €344,086,474). In addition, accounts held by Departments at the CBM in foreign currency as at year end totalled €8,019,302.

## Public Debt

### Debt Composition

The composition of Government Debt as at end-of-year is shown in Table 7.

Table 7: Government Debt

Type of Debt	2018		2017	
	Amount	Percentage of Total Debt	Amount <sup>7</sup>	Percentage of Total Debt
	€'000	%	€'000	%
Malta Government Stocks (Consolidated)	4,709,421	83.48	4,976,961	87.59
Treasury Bills	290,000	5.14	177,000	3.11
Malta Government Retail Savings Bond	192,582	3.41	99,624	1.75
European System of National and Regional Accounts Rerouted Debt	203,079	3.60	183,048	3.22
Extra Budgetary Units and Local Councils	160,504	2.85	158,316	2.79
Euro Coins	84,431	1.50	78,202	1.38
Foreign Loans	1,084	0.02	8,952	0.16
<b>Total Debt</b>	<b>5,641,101</b>	<b>100</b>	<b>5,682,103</b>	<b>100</b>
<b>Gross Domestic Product (GDP)</b>	<b>12,323,839</b>		<b>11,302,828</b>	
<b>Ratio of Public Debt to GDP</b>	<b>45.77%</b>		<b>50.27%</b>	

(Source: News Release NSO 051/2019; News Release NSO 170/2019; News Release NSO 145/2019; Budget Speech 2020; Debt Management Directorate (DMD))

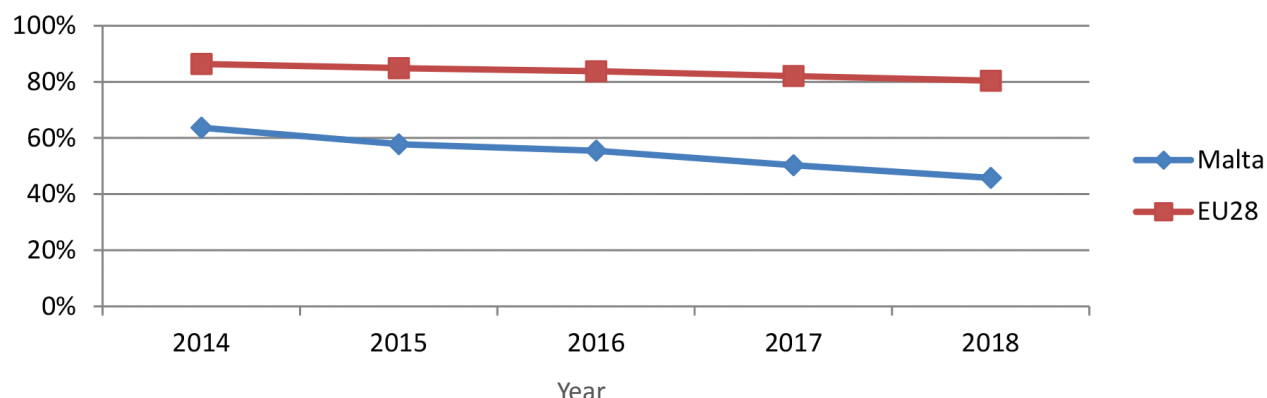
Foreign loans account for less than 1% of total debt. As at end-of-year 2018, the percentage of Government's debt to the country's GDP amounted to 45.8%, resulting in a decrease of 4.5% over the previous year. This means that Government Debt-to-GDP ratio has successfully continued to decline below the 60% Maastricht Treaty requirements, indicating that the economy is growing faster than the respective debt.

Moreover, it was noted that since year 2014, Malta had a considerably lower Government Debt-to-GDP ratio when compared to the average of the EU28<sup>8</sup>, which as at end 2018 was recorded as 80.4%. Chart 12 overleaf refers.

<sup>7</sup> Public Debt and GDP balances as at 31 December 2017 as reported in the previous year's AAR have been updated to provide a more accurate analysis as per most recent publications.

<sup>8</sup> EU28 refers to the total 28 Member States, which form the EU.

Chart 12: Government Debt-to-GDP Ratio (2014 to 2018)



(Source: Year 2014: Provision of deficit and debt data for 2017 - second notification - Eurostat News Release No. 163/2018; Years 2015 to 2018: Provision of deficit and debt data for 2018 - second notification - Eurostat News Release No. 161/2019)

## Debt Management

### Legal Framework

On 1 September 2017, 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 (Cap. 575 of the Laws of Malta). 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.

### Methodology for the Analysis of Public Debt

The analysis of Public Debt was based on the latest revised guidelines for Public Debt Management dated 1 April 2014, as prepared by the World Bank and the International Monetary Fund, as well as the Government Borrowing and Management of Public Debt Act.

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.

International Standards of Supreme Audit Institutions (ISSAI) followed during the review are:

- 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

### Characteristics of Public Debt Management Activities

The following two tables<sup>9</sup>, as listed in ISSAI 5440, provide checklists of issues drawn from the Guidelines for Public Debt Management, which auditors should consider when developing their understanding of public debt management.

<sup>9</sup> The two tables were originally compiled by the International Organisation of Supreme Audit Institutions based on 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 8: 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 <sup>10</sup>
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	Yes <sup>11</sup>
Business recovery procedures in place	Yes

Table 9: 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 <sup>12</sup> System	No <sup>13</sup>
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

<sup>10</sup> In the case of Malta, the public debt ceilings arise from four different legislations or Parliamentary resolutions.

<sup>11</sup> Subject to Code of Ethics incorporated in the First Schedule of the Public Administration Act (Cap. 497 of the Laws of Malta). On 1 March 2019, this Legislation was replaced by the Public Administration Act, 2019 (Cap. 595 of the Laws of Malta).

<sup>12</sup> 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.

<sup>13</sup> In the absence of a Primary Dealer System, the DMD has a comprehensive process of reconciliation in place, including daily reconciliations between Treasury's selling agents and Treasury's accounting system.

Malta Government Stocks

As announced in the Indicative Issuance Calendar published on 30 January 2018, the Treasury confirmed that the MGS conventional fixed rate was going to remain the primary instrument through which it financed the central government borrowing requirements for the year. A limited amount of funds was going to be raised through a new non-negotiable instrument, namely the Malta Government Retail Savings Bonds. The Treasury continued to target both the retail and the institutional segments of the domestic market. The entire programme was financed by fixed rate securities/bonds all issued in the domestic currency.

As can be seen from the Bid-to-Cover ratios in Table 10 below, there was strong participation in both the MGS and Malta Government Retail Savings Bonds. This demand contributed towards the diversification and broadening of the investor base and somewhat has mitigated the risk of relying excessively on few domestic players within the local capital market.

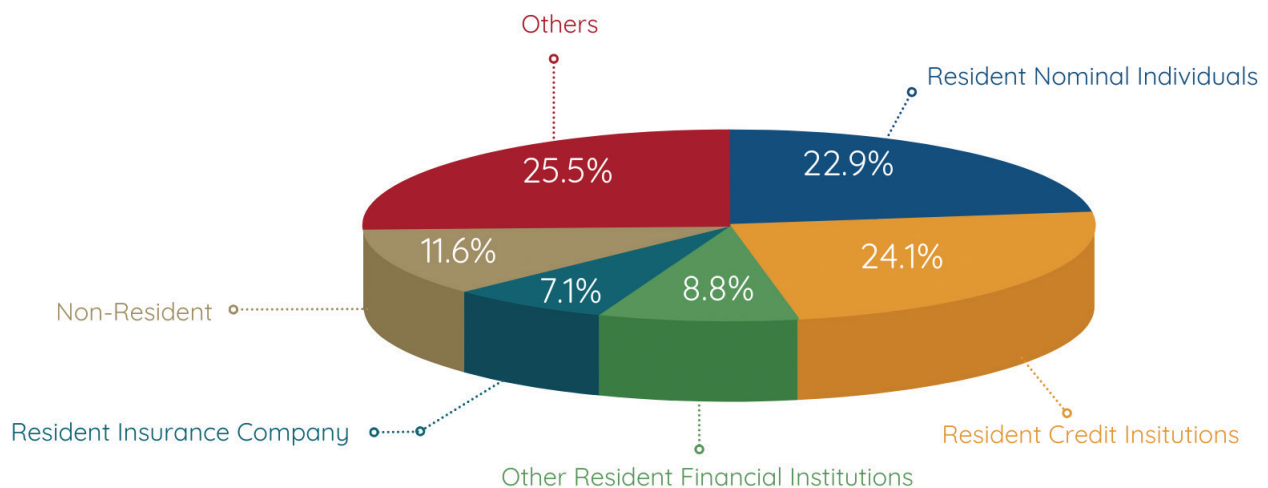
Table 10: 2018 Issuance Performance

Date	On offer (plus over- allotment) €'million	Total participation €'million	Bid-to- Cover
<i>Malta Government Stocks</i>			
December	100 + 50	236.6	2.37
<i>62+ Malta Government Savings Bond</i>			
June	65 + 35	93.5	1.44

(Source: DMD 2018 Annual Report, pages 10-11)

The distribution of the MGS among the different types of investor categories as at 31 December 2018 is depicted in Chart 13. Holdings by other investors, mainly resident entities not falling under the main categories, including non-profit entities, Local Councils and public non-market units, collectively amounted to 25.5%. This resulted in an increase of 2% over the previous year’s holding by this category of investors. On the other hand, resident credit institutions and resident nominal individuals held ownership of 24.1% and 22.9%, thus decreased their holdings by 2.2% and 0.9% respectively.

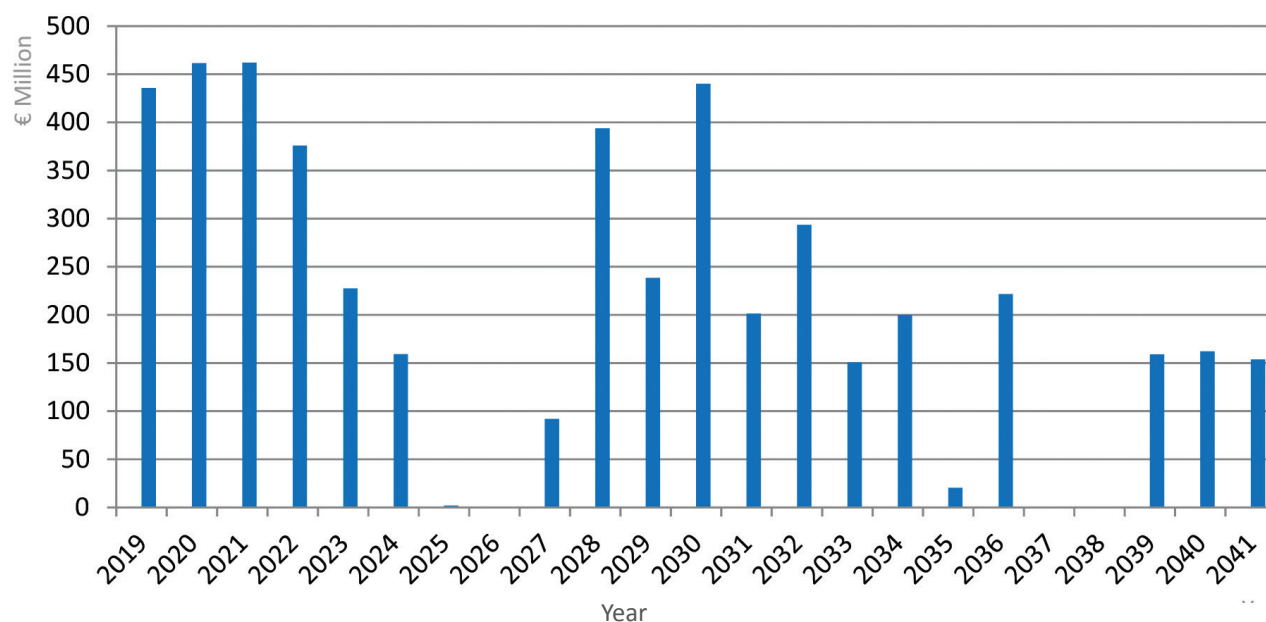
Chart 13: Malta Government Stocks Holder Distribution as at 31 December 2018



(Source: DMD 2018 Annual Report, page 12)

The gross outstanding nominal value of the MGS (the main component of Government debt representing 90.9% of total outstanding central Government debt), as at 31 December 2018 stood at €4.9 billion. This represented a 4.7% decrease over the end 2017 balance in line with lower levels of outstanding debt and some minor changes effected in central Government debt portfolio. Chart 14 illustrates the distribution of outstanding MGS by year of maturity.

Chart 14: Maturity Profile of Malta Government Stocks as at 31 December 2018



(Source: FR 2018, pages 183-185)

The refinancing volume within the next four years is more or less equally distributed, thus making the repayment 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 the MGS during 2018 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 9.5 to 9.1 years.

The current WAM compares very well with that of Organisation for Economic Co-operation and Development (OECD)<sup>14</sup> countries. In fact, a publication by the latter, on the Sovereign Borrowing Outlook for the year 2019, estimated that the average term to maturity of outstanding marketable central Government Debt in several selected OECD countries reached almost eight years in 2018.

### Central Government Outstanding Debt

For the second consecutive year, the absolute amount of Central Government Debt decreased over the previous year. In the year 2018, the Central Government outstanding debt declined by €59 million (or (1.08%) when compared to the outstanding amount reported in the previous year (2017)). The decrease in Central Government Debt was manifested in a lower outstanding level of MGS and foreign loans. The decrease in the outstanding levels of these two components outpaced the increases registered in the outstanding balance of T-Bills and Malta Government Retail Savings Bonds.

<sup>14</sup> The OECD is a forum of 34 industrialised countries that develops and promotes economic and social policies.

### 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 2018:

**Table 11: 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"> <li>• Weekly monitoring of cash management.</li> <li>• Daily monitoring of the interest rates in the MGS secondary market and international sovereign bond markets.</li> <li>• When possible, avoids issuances of medium to long term debt during times of market stress or volatility.</li> </ul>
Interest Rate	As at end-of-year 2018, rate of interest maturing in respect of Floating-Rate Notes within 1 and 2 years, stood below the Euro Area average.	<ul style="list-style-type: none"> <li>• The DMD keeps the level of Floating-Rate Debt out of all Malta Government Stock issues around the 5% threshold and in any case not exceeding 10% (as at 31 December 2018 and 2017, such ratio stood at 2.6% and 4.4% respectively).</li> </ul>
Refinancing	Rollover risk is traditionally and conceptually assessed by the debt metric known as the WAM.	<ul style="list-style-type: none"> <li>• Over the years, the DMD has pursued a strategy of lengthening the WAM of the MGS portfolio, being the debt component that makes around 90% of the total central Government debt portfolio (as at end December 2018).</li> </ul>

### Risk Management Framework

The NAO satisfactorily noted that a Medium-Term Debt Management Strategy was prepared for a four-year period starting 2018, and the DMD's based its risk management framework accordingly.

### Information Technology Systems

As already recommended in the previous years' AARs, the debt management activities should be supported by a reliable, accurate and comprehensive Information Technology management system with proper safeguards, which would deal with debt management. The DMD confirmed that this issue will be addressed once the Corporate Financial Management System (CFMS) is implemented. A separate debt management module is going to be developed.

## Financial Aspect

Table 12 shows the servicing cost of Central Government Debt.

Table 12: Central Government Debt Interest Expense

Description	2018 €	2017 €	Variance €
<b>Local Loans:</b>			
Malta Government Stock	203,190,937	214,204,758	(11,013,821)
<b>Treasury Bills:</b>			
Negative Interest	(1,176,428)	(609,716)	(566,712)
Bank Charges	390	322	68
<b>Sub-Totals (Local)</b>	<b>202,014,899</b>	<b>213,595,364</b>	<b>(11,580,465)</b>
Foreign Loans	363,271	846,323	(483,052)
<b>Totals</b>	<b>202,378,170</b>	<b>214,441,687</b>	<b>(12,063,517)</b>

(Source: FR 2018, pages 145-146)

During year 2018, the overall servicing cost of Government's debt totalled €203.6 million, resulting in a decrease of €11.5 million over the previous year. The interest paid on the MGS amounted to €203.2 million, i.e. 5.1% less than that paid in 2017. 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 MGS high coupons with bonds paying lower coupons (interest rate). In fact, the MGS portfolio Weighted Average Coupon<sup>15</sup> as at 31 December 2018 continued to decrease to 3.9% from 4.1% a year earlier. Lower servicing cost on foreign loans resulting from lower outstanding amounts of foreign loans also contributed to a decrease of €0.5 million.

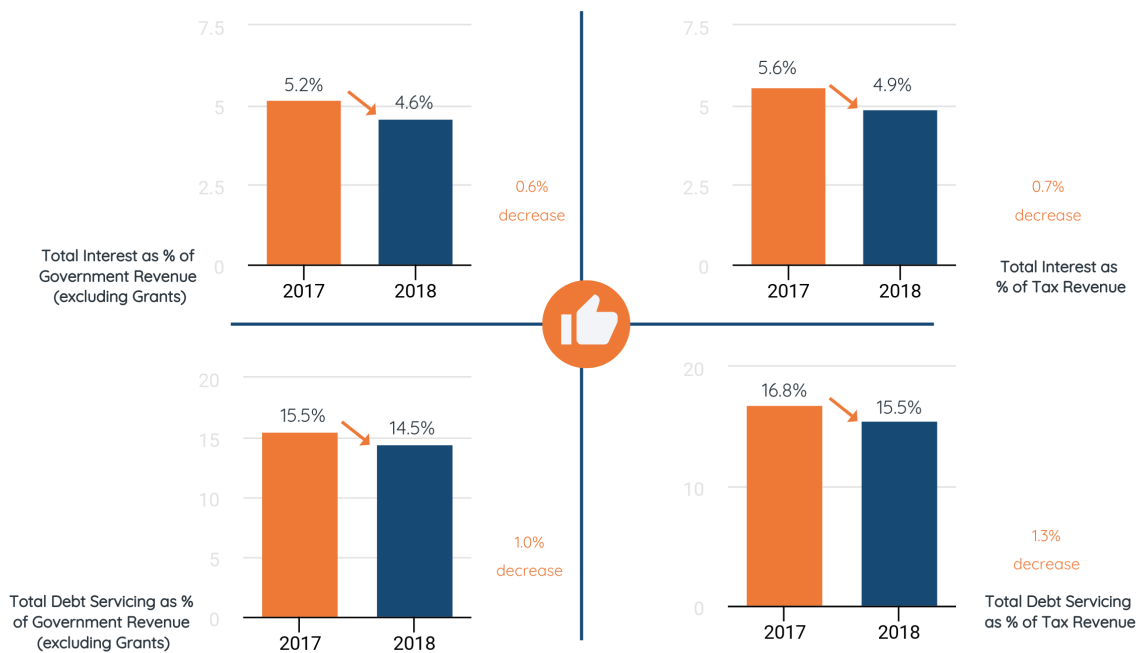
## Debt Metrics

On a regular basis, the DMD calculates various ratios both for internal analysis, as well as for publication. The Treasury submits to the Economic and Financial Committee, through the Sub-Committee on EU Sovereign Debt Markets, a comprehensive set of risk metrics, the most important of which are included in the Medium-Term Debt Management Strategy published by MFIN.

Two of these ratios are mainly intended to address the issue of debt sustainability. Typically, the responsibility for compliance with debt ceilings and for conducting debt sustainability analysis are catered for by fiscal authorities (outside the DMD's remit) to ensure that public indebtedness remains on a sustainable path. These ratios are normally evaluated against a wide range of scenarios. In the case of the DMD they are computed for internal use only.

<sup>15</sup> The Weighted Average Coupon of the MGS portfolio is the weighted average gross interest rate of the outstanding MGS portfolio at a point in time, in this case, 31 December 2018.

Chart 15: Debt Sustainability ratios



(Source: FR 2018, pages xviii, 4; FR 2017, pages xviii, 4)

All four ratios calculated in Chart 15 have shown favourable movement over the previous year, since the interest paid and debt servicing as a percentage of Government Revenue and Tax Revenue decreased. These results mainly derived from a decrease of €11.5 million in Central Government debt interest expense and an increase in Government Revenue and Tax Revenue of €307.1 million and €338.5 million respectively (the latter outpaced the minor increase of €4.6 million in debt servicing).

### Contingent Liabilities

As already reported in previous years’ AARs, risk assessment needs to be carried out by the DMD prior to a guarantee being granted in favour of the respective entity. Moreover, where contingent liabilities exist, information on their cost and risk aspects should be disclosed in the Government Accounts. The same Reports indicated that Government guarantees were not being managed by the DMD, but resided within the MFIN. Thus, this Office had recommended that the Directorate is properly equipped to be able to assess the risks associated with a guarantee before it is actually granted. Communication between Treasury and MFIN regarding Government guarantees was also solicited.

The NAO also recommended that Government monitors the potential risk that the latter could be exposed to, by its contingent liabilities to ensure that it is aware of the related obligations. Furthermore, 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 this publication, the responsibility including the scrutiny and risks arising from Government Guarantees lied within the Ministry for Finance remit. 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. The assessment of new request for Guarantees and the reassessment of the financing risk of outstanding guarantees were not conducted by Treasury. 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 detailed regulations are published via a Legal Notice.

## Letters of Comfort and Bank Guarantees

The position of Contingent Liabilities as at 31 December 2018, otherwise referred to as Government Potential Debt, as reported upon in Part I of the FR 2018, and comparative figures for 2017 are reproduced in Table 13.

Table 13: Contingent Liabilities

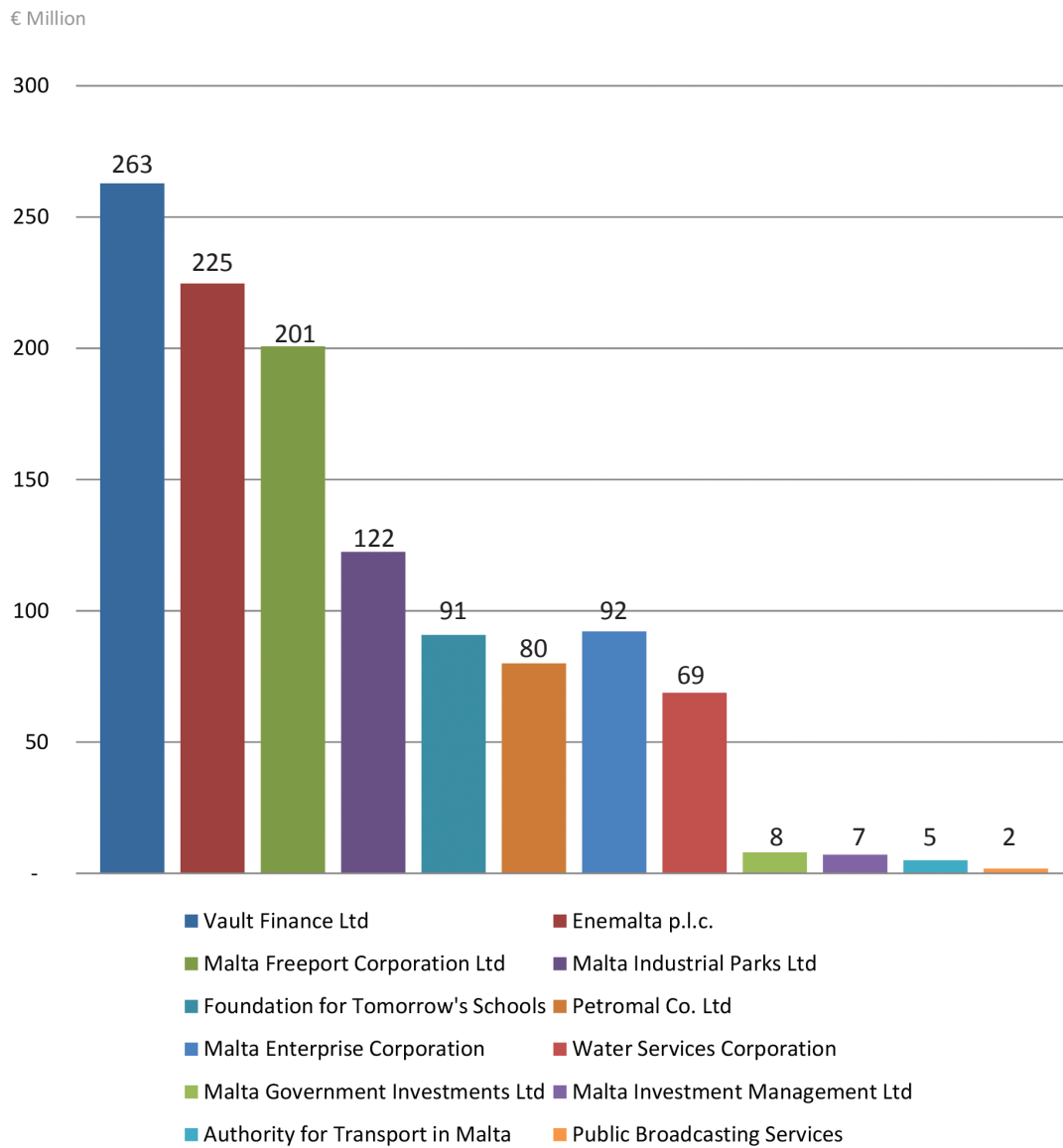
	2018	2017
	€	€
Government Guarantees:		
Local	688,304,041	690,076,763 <sup>16</sup>
Foreign	450,614,965	464,499,482
<b>Totals</b>	<b>1,138,919,006</b>	<b>1,154,576,245</b>
Letters of Comfort	25,516,455	28,495,042
<b>Grand Totals</b>	<b>1,164,435,461</b>	<b>1,183,071,287</b>

Premiums received by Government during 2018 with respect to Letters of Comfort and Bank Guarantees amounted to €2,344,182, which revenue was appropriately accounted for under 'Guarantee Fees' in the MFIN Revenue account. Revenue from guarantee fees decreased in 2018 when compared to the preceding year, mainly due to the cancelled Letter of Guarantees of Electrogas Ltd.

A breakdown by entity is shown in Chart 16, which shows a spread of 34 Letters of Comfort and Bank Guarantees issued in favour of 12 entities.

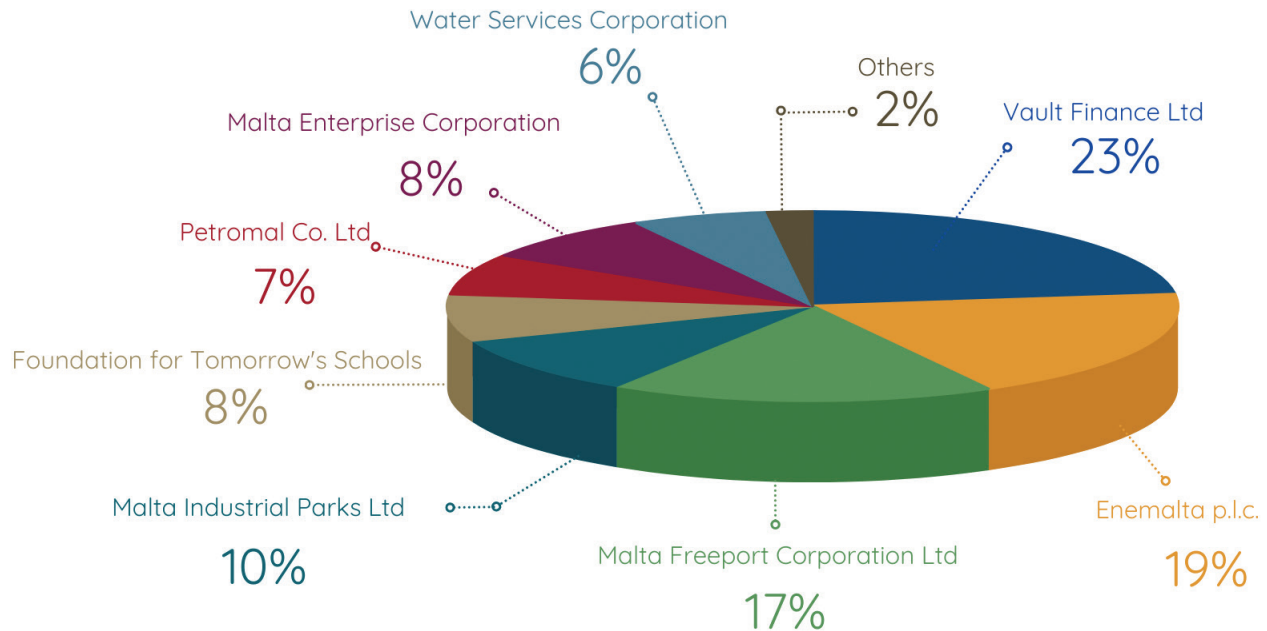
<sup>16</sup> The figure for Local Government Guarantees was erroneously reported as €718,571,805 in Part I of FR 2017 due to double counting of the Letters of Comfort.

Chart 16: Letters of Comfort and Bank Guarantees for the year ended 31 December 2018



Indeed, most of the guarantees were given to eight entities, accounting for 98% of the aggregate outstanding amount as at end 2018. The energy sector absorbed 49% of guarantees, whilst other sizeable ones related to water services, the industrial sector and education. Chart 17 refers.

Chart 17: Outstanding Guarantees



These Letters of Comfort and Bank Guarantees offered to Government entities and the Extra Budgetary Units may translate into dues, up to almost €1.16 billion by Government, should the companies call upon the latter to make good for their debts. This represented a small decrease of €18,635,826 (1.6%) over the amount reported in the previous year, which movement also represented 0.15% of the GDP for 2018, bringing total guarantees at 9.45% of the GDP.

Government's exposure of €1,164,435,461 differs from that as reported by the National Statistics Office (NSO), at €1,071,061,608 which figure has been reported to Eurostat in line with the European System of Accounts 2010. The NSO confirmed that this was due to the elimination of "Guarantees granted between units of General Government ... as their debt is already accounted for in the government debt ...". Thus, NSO data includes guarantees granted by the Extra Budgetary Units 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 Fiscal Responsibility Act, 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.

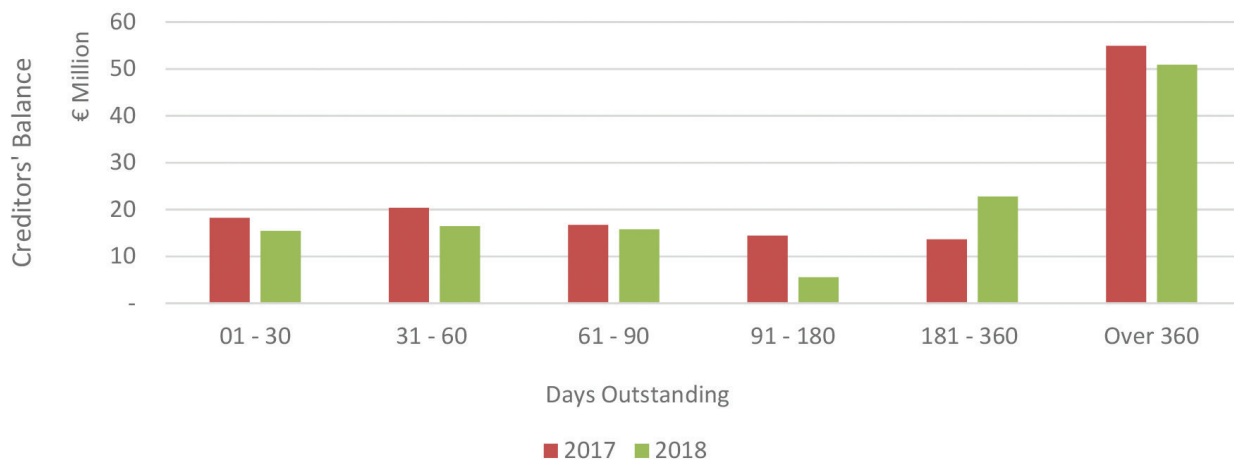
Fifty-two Ministries and Departments submitted an ‘Analysis of Creditors’ as at 31 December 2018 to the Treasury, in the required template. Only the VAT Department failed to submit to Treasury the form as at year-end 2018. Total creditors reported in this return amounted to €127,530,861 as at year-end out of which an aggregate amount of €1,005,489 related to contested amounts. The opening balance as at 1 January 2018 was made up of balances submitted by 54 Ministries and Departments, with an aggregate amount of €138,801,990. This indicates a decrease of about 8% by the end of the year.

Seven Ministries and Departments reported a ‘Nil’ creditors balance in their Return.

Chart 18 depicts an ageing analysis of the creditors’ balances as at 31 December 2018, categorised by the number of days overdue, compared to prior year. A decrease in the unpaid balances of various periods was noted, except for the amounts outstanding between 181 and 360 days, which registered a 66% increase when compared to the total figure for 2017. This rise was mainly influenced by an upsurge in balances due by the Elderly and Community Care, the Central Procurement and Supplies Unit, as well the Ministry for Health, which increased by €5,288,462, €2,993,368 and €1,363,605, respectively.

Credit balances outstanding by over 360 days related mainly to the Government Property Division and Mater Dei Hospital, with aggregate amounts of €43,643,519 and €5,918,442 respectively.

Chart 18: Ageing of creditor balances in 2017 and 2018



This Office conducted a number of audits on the reported creditors and accruals balances of the following three entities:

- a. Ministry for Energy and Water Management
- b. Ministry for Education and Employment
- c. Ministry for Health – Primary Health Care Directorate

The main scope of these audits was to assess compliance with the pertinent Treasury Circulars regulating the collation and reporting of creditors and accruals balances as at 31 December 2018, together with a financial audit of figures submitted to the Treasury.

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

### **Transition to Accrual Accounting**

As reported in more detail in the Report by the Auditor General – Public Accounts 2017, the Government of Malta is currently preparing for the full implementation of accrual accounting in Central Government, based on the International Public Sector Accounting Standards (IPSAS) but as adopted by the Maltese Government to reflect local requirements.





The implementation of IPSAS will bring about considerable challenges, including a complete overhaul of current policies and circulars, changes in business processes and the enactment of new legislation. This project will also be accompanied by the change-over from the Departmental Accounting System, which is a cash-based system, to the new CFMS, which is a fully-fledged accrual accounting system.

The risks of undertaking these major changes should not be underestimated and support at higher levels of authority will be critical to reduce risks and ensure a successful implementation.

The Technical Guidance Note on Implementing Accrual Accounting in the Public Sector, issued by the International Monetary Fund in 2016, describe the following key preliminary tasks which governments should consider in the transition:

**Key Preliminary Tasks**

**Was this task considered by Government?**

<p>Clarify the objectives of the reform .....</p>		<p>Objectives are listed in the IPSAS Implementation Project Plan for Central Government .....</p>
<p>Establish a representative reform team .....</p>		<p>Reform team was set-up as part of the IPSAS Implementation Project Plan for Central Government .....</p>
<p>Survey existing accounting policies, systems, skills and practices .....</p>		<p>A Scoping Study was conducted in 2013 .....</p>
<p>Estimate the costs of reform .....</p>		<p>Costs as reported in Report by the Auditor General – Public Accounts 2017 .....</p>
<p>Establish a mechanism for setting accounting standards .....</p>		<p>An IPSAS Project Board and Team were set-up for this purpose .....</p>
<p>Training and change management .....</p>		<p>Various training is being provided .....</p>
<p>Develop an action plan for the transition .....</p>		<p>A CFMS Implementation Project Plan was developed and is being implemented .....</p>

The piloting stage of accounting on accruals basis is to commence in November 2019, with the core CFMS going live in pre-agreed sites. Following this piloting stage, the core CFMS will be going live in all Ministries and Departments as from 1 January 2021.

## Conclusion

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 €32 million, of which €19.9 million will continue to be repaid from public funds out of an annual budgetary provision.

As at end-of-year 2018, the percentage of Government's debt to the country's GDP amounted to 45.8%, resulting in a decrease of 4.5% 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.

As already recommended in the previous years' AARs, the debt management activities should be supported by a reliable, accurate and comprehensive Information Technology management system with proper safeguards, which would deal with debt issuance and management. The DMD confirmed that this issue will be addressed once the CFMS is implemented. A separate debt management module is going to be developed.

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. The assessment of new request for Guarantees and the reassessment of the financing risk of outstanding guarantees were not conducted by Treasury. Thus, this Office recommended that the DMD is properly equipped to be able to assess the risks associated with a guarantee before it is actually granted. Communication between Treasury and MFIN regarding Government guarantees was also solicited.

The Government is committed to the implementation of an accrual accounting based system on the IPSAS within Central Government. The piloting stage is to commence in November 2019, with the CFMS going live in pre-agreed sites. Following this piloting stage, the CFMS will be going live in all Ministries and Departments as from 1 January 2021.

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



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# Compliance Audit Opinion

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# Opinion on the Compliance Audits to the House of Representatives

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## **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.

I 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 National Audit Office'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 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 International Standards on Auditing, the applicable public sector perspective provisions, and in line with the Office'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 30 – Code of Ethics and the Code of Professional Conduct of the National Audit Office, 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 aforementioned Constitution.

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

## Opinion

### 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  
2<sup>nd</sup> December 2019



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House of Representatives

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# House of Representatives

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## Expenditure

Formal financial statements were not prepared by the **House of Representatives** for year 2018 as required in terms of the Parliamentary Service Act (Cap. 562). Other shortcomings relating to procurement were also noted.

### Background

The Parliamentary Service is the entity responsible for providing a wide range of services and facilities to ensure that the House of Representatives (HOR) of the Parliament of Malta functions effectively.

During 2018, the HOR's budget for recurrent expenditure allocated through Vote 2 totalled €10,103,000. This was decreased by €3,689,999<sup>1</sup>, for a revised budgeted figure of €6,413,001. Payments as recorded in the Departmental Accounting System (DAS) totalled €5,739,409, thus resulting in unutilised funds of €673,592 from the allocation.

The Entity is not listed as a Contracting Authority under Schedule 1 of the Public Procurement Regulations, and hence is not bound to abide by these regulations. However, it is the HOR's practice to follow this legislation as much as possible.

### Audit Scope and Methodology

The main scope of the audit was to ensure that expenditure incurred on contractual services by the HOR during the year under review, as well as payments to political parties, was appropriately recorded and processed in accordance with the applicable agreements.

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

An introductory meeting was held with the Clerk of the House and a number of other senior officials, to discuss the audit objectives and obtain a general understanding of the expenditure incurred, as well as the relevant procedures adopted. Subsequent discussions were held with key personnel on issues encountered during the audit.

Transactions on contractual services, amounting to €1,253,810 and representing 46% of the total amount paid by the HOR on Operational and Maintenance Expenses, were extracted from DAS and analysed accordingly. The major contracts were then selected for testing. Payments reviewed represented 97% of the total amount expensed on contractual services during 2018.

Furthermore, payments totalling €200,000 from Line Item 5298 – Development of relations with E.U. and the Mediterranean region by Political Groupings in Parliament, under Programmes and Initiatives, were also assessed.

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<sup>1</sup> The revision was due to a reduction in the budget for Item 24 – Rent. The respective funds were suppressed in favour of the Ministry for Transport, Infrastructure and Capital Projects to pay non-completion fees to the owners of the Parliament building.

## Limitation on Scope of Audit

The Grand Harbour Regeneration Corporation (GHRC) was responsible for the management of the Parliament building project since its inception and certain items were procured by the aforementioned Corporation. The HOR was therefore compelled to enter into agreements with particular service providers, formerly engaged by the GHRC. This included the maintenance agreements of the Parliament building itself, its lifts and audio-visual equipment, as well as the lease of printing equipment.

In view of the fact that the GHRC was primarily responsible for the original procurement of equipment, documentation available at the HOR in this respect was limited. Thus, the actual procurement process for these services could not be reviewed by this Office.

## Key Issue

### *Proper Set of Financial Statements not prepared*

Article 18(1) of the Parliamentary Service Act (Cap. 562) requires that the financial statements of the HOR are to be audited and presented to the House Business Committee. However, although the Act was enacted in 2017, up to time of audit, the HOR was still maintaining its records on DAS, with no formal financial statements being prepared at year-end. Consequently, proper audited accounts are not being presented.

## Recommendations

Since efforts to employ a qualified accountant to prepare the financial statements proved futile, the possibility of outsourcing this function is to be actively considered. The changeover from cash to accrual accounting is of utmost importance; thus, the financial statements have to be prepared by a duly qualified person or accounting firm, in line with International Accounting Standards. For the Parliamentary Service to be fully autonomous, such efforts need to be complemented with the acquisition and operation of an accounting software package which is independent from that of Central Government. This would permit a more independent management of its budgetary allocation on the lines of two long-established Parliamentary Officials, i.e. the Auditor General and the Ombudsman. The operation and maintenance of this accounting package necessitates the support of a professional accounting service.

The National Audit Office (NAO) is of the opinion that, not only would the engagement of such services bring the Parliamentary Service in line with the legal requirements, but it would also serve to strengthen its current and long-term internal accounting setup.

## Management Comments

*The Parliamentary Service (hereinafter referred to as 'the Service') confirms that as stated by the NAO it has been unable to employ a qualified accountant to prepare the necessary financial statements required by law. As pointed out by the NAO, for the Service to be fully autonomous and truly independent of Government and its accounting systems, the Service agrees that it needs to restructure its internal accounting organisation. To this end, the Service is committed to establish a more professional accounting service within the HOR by engaging the services of a reputable accounting firm to assist in the proper maintenance of accounting records and in the preparation of the proper financial statements in line with its legal obligations. In addition, it intends to also acquire and make use of an accounting software package which is truly independent from that of Central Government, similar to the other Parliamentary Officials.*

*The Service is committed to engage such services as soon as possible in order to bring its financial statements in line with the international accounting and reporting standards.*

## Control Issues

### *Agreements signed retrospectively*

Four instances were encountered whereby the HOR entered into agreements with third parties following the commencement of the respective contract periods, thus implying that financial commitments were entered into without legal backing.

### Recommendation

The HOR is to ascertain that contracts are endorsed before their effective date. This would ensure that the applicable terms and conditions have been mutually agreed upon beforehand.

### Management Comments

*The Service acknowledges that the four service contracts were concluded following the commencement of the respective contract periods.*

*The Service agrees with the NAO's recommendation that contracts are to be endorsed before their effective date. The Service will endeavour to abide with such a recommendation. Whilst every effort was made to conclude the said agreements in time, negotiations to secure favourable conditions in respect of certain contracts, at times with foreign contractors, have prolonged said talks leading to the conclusion of agreements well beyond the appropriate timeframes.*

### *Procurement through Expired Contracts*

- a. The cleaning services agreement entered into for a period of one year, with a value of €43,482, was renewed for another year up to March 2017, in line with the provisions of the original tender. The contract was formally further extended for an additional 12 months (up to March 2018) which procurement is considered as a direct order.

Up to time of audit, i.e. the second quarter of 2019, the HOR was still procuring the services from the same contractor on the basis of the expired agreement.

- b. A one-year maintenance agreement amounting to €77,635 excluding Value Added Tax, signed retrospectively on 13 October 2016 for technical support services relating to audio-visual equipment, with effect from 1 May 2016, allowed the contracting parties to extend the agreement for a further year. On 14 July 2017, the HOR retrospectively requested direct order approval from the Ministry for Finance (MFIN) to "... formalise the extension of the Agreement ...", for one year from 1 May 2017, with MFIN approving on the same day and recommending that requests are placed prior to the commencement of the contract period. It was also noted that, at time of audit, the service was still ongoing without formal authorisation.
- c. Six different contracts for the lease of printing equipment expired during 2018. However, the HOR was still effecting payments on the basis of these agreements, even though they were no longer valid.

### Recommendations

The HOR is to ascertain that contracts are not extended beyond the prescribed timeframes. Before expiry of the term of an agreement, a fresh procurement process is to be initiated by issuing a new call for tenders or by obtaining quotations, as applicable. This will ensure fairness and provide an equal opportunity to all interested parties.

All services purchased are also to be duly backed up by a valid agreement, clearly laying down the terms and conditions agreed between the contracting parties.

### Management Comments

*The Service acknowledges that it was compelled to procure services through expired service contracts in order to secure essential services, such as preventive maintenance of electrical and mechanical installations, technical support in respect of audiovisual equipment, cleaning services and the leasing of printing equipment. However, the Service notes that in doing so, the Service ensured that the charges in the expired contracts continued to apply.*

*With regard to the cleaning contract, the Service kept procuring such services on the basis of an expired agreement because a fresh procurement process was cancelled by the Department of Contracts. Additionally, earlier this year the Service discussed the possibility with the property-owners of the Parliament building, and the GHRC to reach a formal agreement by end of this year for the transfer of the obligation for the upkeep of the premises, which would include cleaning services, to the property-owners.*

*With regard to the contract for technical support in respect of audiovisual equipment, whilst every effort was made to conclude the agreement in time, negotiations with foreign contractors have prolonged talks leading to the conclusion of the agreement beyond its expiry.*

*With regard to the leasing of printing equipment, the Service opted to issue one service contract covering the required six copiers and printers, rather than a number of contracts relative to individual copiers and printers. An investigation conducted by the Office of the Ombudsman following a complaint by an interested party related to the Adjudication Process of the equipment further delayed the conclusion of the service contract.*

*The Service is committed to ensure that fresh procurement procedures are initiated before contract expiry.*

### **Insufficient Documentation supporting Payments to Political Groupings in Parliament**

Back in 1994, the Government agreed to make available funds to the Government and Opposition groups in Parliament, to allow them to appoint representatives in Brussels to handle European Union (EU) matters. Both groups were also offered compensation for the salary of an officer to work in their respective international offices on EU matters in Malta. Over the years, both main parties took the opportunity and engaged the services of various representatives and consultants as necessary, with the HOR agreeing to refund these expenses accordingly.

The 2018 allocation for Line Item 5298 – ‘Development of relations with E.U. and the Mediterranean region by Political Groupings in Parliament’ amounted to €200,000, split equally between the two main political parties.

The latest agreements pertaining to the two political parties in question date back to December 1997 and December 1999 respectively. Both agreements contained a clause specifying that refunds are to continue beyond the end of the respective period, provided that the party’s agreement with its consultants is still in force and as long as the HOR has moneys voted for the same purpose at its disposal. The HOR confirmed that it was not aware of any other recent agreements on this matter.

The two political groupings were bound to furnish “... *the necessary documentation and/or data to substantiate that the moneys refunded ... are being utilised according to the terms of this agreement*”. During one of the House Business Committee meetings in November 2017, when the HOR’s Financial Plan for 2018 was being discussed, the Hon Speaker made reference to this matter and reminded the two political parties of their obligation to furnish details on how these funds were being expensed. However, during the audit, the HOR confirmed that the respective supporting documentation was not being submitted.

In the circumstances, the NAO could not establish whether the amounts in question paid to the two political groupings were being utilised as originally intended.

## Recommendations

It is advisable that the HOR assesses whether the two political parties are still entitled to receive this financial assistance. As also stated in the HOR's Financial Plan for 2018, these agreements may need to be revisited in view of the fact that part of the objectives were achieved following Malta's accession to the EU in 2004.

In the event that such expense is still considered justified, the HOR is to ascertain that it is presented with the necessary documentation to substantiate how these funds are being utilised by the beneficiaries. This will improve transparency and accountability.

## Management Comments

*The Service notes the observation that the NAO was unable to ascertain that the amounts transferred to the two political groupings are being utilised as originally intended. The Service notes that the matter was formally raised during the House Business Committee meeting of 30 November 2017 and in the first Financial Plan of the HOR for the year 2018 which was approved by the House on 18 December 2017. Notwithstanding, no receipts have been presented for the year under review.*

*The Service has brought up the matter once more in the Financial Plan for 2019 which is yet to be approved by the House.*

## **Lack of verification of Amounts charged**

Instances of lack of verification of amounts charged by service providers were noted. These included the payment of insurance pertaining to the Parliament building, cleaning service, as well as salaries and overtime paid to an officer seconded with the HOR.

## Recommendation

The HOR is to ascertain that adequate verification is carried out, to ensure that amounts charged are justified and accurate before the respective bills are approved for payment.

## Management Comments

*With regard to the building insurance due, the Service takes note of the observation that the NAO could not verify the premium charged for the Parliament building since the original invoice issued by the insurer is not being made available to the Service. The original invoice was not being made available by the owners of the building since the invoiced amount relates to other premises they managed, in addition to the Parliament building. To address this shortcoming the Service has contacted the property-owners who have agreed to provide the relative documentation.*

*With regard to the amounts charged by the cleaning service provider, the Service will make sure that invoiced hours tally with the attendance sheets kept by the Service before effecting payments.*

*As to the refund of the salary of the officer currently on secondment, the monthly salary, as well as other allowances and bonuses are refunded by the Service upon receipt of an invoice. Overtime schedules, duly endorsed by the Clerk of the House, are dispatched to the officer's employer and are invoiced separately. The Service will, with immediate effect, start requesting copies of the officer's payslip to ensure that the amounts invoiced can be reconciled with the amounts charged by the employer.*

*The Service is committed, with immediate effect, to ensure the proper verification of bills against contracts and supporting documentation prior to their final settlement.*

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Office of the Prime Minister

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# Individual Investor Programme

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## Revenue

The National Audit Office satisfactorily noted that the income due to Government from the **Individual Investor Programme**, relating to the applications sampled for the purpose of this review, was traced to the accounting records. However, the Malta Individual Investor Programme Agency is not yet equipped with a comprehensive information communications technology system to manage applications and facilitate its functions.

## Background

The Malta Individual Investor Programme Agency (MIIPA) was established by virtue of Legal Notice 96 of 2018 – Public Administration Act (Cap. 497) to execute functions and duties of public administration relating to the Individual Investor Programme (IIP) of the Government of Malta. Essentially, it is responsible for the processing of applications, the carrying out of an in-depth due diligence process and putting forward recommendations to the Government regarding the granting of citizenship or otherwise. On the other hand, the IIP is regulated by the Maltese Citizenship Act (Cap. 188), namely Legal Notice 47 of 2014 which contains the contribution payable and schedule of fees.

In line with the contract agreement and subsequent amendment, the relative contributions are due to the MIIPA and to the concessionaire. According to Legal Notice 47 of 2014, 70% of the remaining balance is to be paid to the National Development and Social Fund and the rest to the Consolidated Fund.

The 2018 budgeted revenue for the Office of the Prime Minister, Line Item 0348 – Individual Investor Programme, amounted to €33,000,000. Actual figures show that during the year under review, this scheme yielded €44,082,720 in revenue to Government.

## Audit Scope and Methodology

The audit scope was to assess whether the necessary controls were in place to ensure that the revenue collected from the IIP was appropriately accounted for and duly received by the Government of Malta in line with the regulating provisions, thus ensuring compliance and completeness.

An introductory meeting was held with Management to obtain a general understanding of the relevant procedures adopted by the Agency. Upon request, the National Audit Office (NAO) was provided with lists pertaining to applications processed during the year under review.

A sample of 12 approved applications was selected randomly for testing purposes. Reference to the relevant files was made in order to determine the contribution payable. Amounts due were traced to the MIIPA records and subsequently to government income in the Consolidated Fund.

## Key Issue

### *Absence of an Automated System*

Notwithstanding the recommendations made by the Office of the Regulator (IIP), the Agency is not equipped with a comprehensive Information Communications Technology system to manage applications, thus facilitating its functions.

The MIIPA makes extensive use of spreadsheets to record revenue generated. This does not give the necessary comfort of completeness, as entries may be amended or deleted without any audit trail. The NAO was informed that discussions with the pertinent authorities regarding the best way forward to procure such system were in progress.

On the other hand, it was positively noted that all the income due to Government, pertaining to the sampled applications selected for the purpose of this review, was satisfactorily traced to the Departmental Accounting System records.

### Recommendations

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.

Considering the data sensitive applications and the substantial income generated therefrom, the establishment of a robust system encompassing a complete audit trail is to be given priority. To this effect the MIIPA, in corroboration with the pertinent authorities, is encouraged to take a decision on the best way forward without undue delay.

### Management Comments

*The MIIPA does appreciate and share the concerns expressed by the NAO on the lack of a comprehensive Information Communications Technology system to manage the IIP applications.*

*Discussions are underway with the Malta Information Technology Agency and other Government units, on the design of the system to cater for the current and future needs of the MIIPA. It is envisaged that this project would be completed during the first half of 2020.*

*In the meantime, the MIIPA does have a system of internal controls in place which involves various manual checks and segregation of duties to allow any errors to be detected and adjusted at an early stage. We aim to re-evaluate the internal control system and needs, once the new system is in place.*



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Ministry for Health

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# Refunds from the European Union Health Scheme

## Revenue

Revenue from **Refunds from the European Union Health Scheme** was not maximised, mainly due to health centres not being adequately equipped to service the scheme and the lack of proper maintenance of debtors' data.

## Background

The Health Care Funding Directorate (HCFD) was set up in 2005 as the national liaison body for healthcare benefits-in-kind in terms of European Union (EU) regulations. These entitle individuals hailing from the EU and those from countries forming part of the European Free Trade Association, for free medical treatment or hospitalisation in public hospitals and Health Centres (HCs), as well as the necessary free medicine.

Details of all patients receiving treatment in the Maltese Islands and the respective cost, can be generated from all local public healthcare entities, namely Gozo General Hospital (GGH), Karin Grech Rehabilitation Hospital (KGRH), Mount Carmel Hospital (MCH), Mater Dei Hospital (MDH), Primary Health Care (PHC) Directorate, Pharmacy of Your Choice (POYC) Unit, Sir Anthony Mamo Oncology Centre (SAMOC) and Sir Paul Boffa Hospital (SPBH). These are forwarded periodically to the HCFD, which subsequently sends requests twice yearly for refund from the respective Member State (MS)<sup>1</sup>.

The amounts claimed by the various healthcare entities in the last five years are as shown in Table 1. With reference to year 2018, the total claims forwarded to the relative MS amounted to close to €1.5 million<sup>2</sup>.

**Table 1: Amounts claimed by the Local Healthcare Entities for 2014 up to 2018**

Healthcare Entity	2014 €	2015 €	2016 €	2017 €	2018 €
GGH <sup>3</sup>	89,869	199,353	205,251	230,971	193,099
KGRH	-	40,997	33,054	32,029	19,473
MCH	55,346	24,342	47,146	35	-
MDH	260,214	211,076	634,585	660,377	1,200,548
PHC Directorate	3,632	28,869	21,662	20,827	24,194
POYC Unit	-	1,210	467	5,939	5,237
SAMOC	-	-	49,987	36,188	23,095
SPBH	-	261	766	3,000	2,486
<b>Totals</b>	<b>409,061</b>	<b>506,108</b>	<b>992,918</b>	<b>989,366</b>	<b>1,468,132</b>

<sup>1</sup> Since a reciprocal health agreement is in place between Malta and the United Kingdom, the respective information is kept by the HCFD for information purposes only.

<sup>2</sup> Minor discrepancies were noted when checking amounts claimed in 2018, between this amount and the total in Table 1. These were discussed with the HCFD.

<sup>3</sup> Amounts include patients admitted to the Victoria HC, since it still formed part of the GGH during 2018.

## Audit Scope and Methodology

The main objective of the audit was to verify the adequacy of the procedures in place for the collection of revenue from the MSs, in reimbursement for free healthcare given to foreign patients in the Maltese Islands.

As part of the audit methodology, the National Audit Office (NAO) held a walkthrough at the HCFD, in order to obtain an overview vis-à-vis the procedure in place for claiming refunds from the respective EU countries. During this exercise it was established that the HCFD is solely dependent on the input from the various healthcare entities for the compilation of data. Subsequently, meetings were held with the eight entities concerned, whereby further information was obtained from various officers as necessary.

Reconciliations were then carried out between data collected from all healthcare entities and information generated from the Information Technology (IT) system at the HCFD. Any material discrepancies were queried upon.

Testing was also carried out to ascertain whether fees, which were not listed in the S.L. 35.28, 'Healthcare (Fees) Regulations', were backed up by an approved official price list. Additionally, the NAO assessed whether adequate internal controls were in place to ensure that information related to revenue is complete and reliable, enabling reconciliations with source records.

## Key Issues

### *Records at the Primary Health Care Directorate not always kept*

According to the PHC Directorate, nursing aids and health assistants employed within the HCs were operating under a Union directive to conduct receptionist duties only, thus any paperwork related to treatment given to foreign patients and/or the collection of the respective money, were not to be carried out by them. Only contracted employees performed such work; however, these were not on duty during all opening hours. This was essentially leaving a substantial period during which no records were maintained and revenue was not collected. The PHC Directorate officials also expressed concern on the competence of the sub-contractor staff since the required paperwork was often found to be incomplete. This resulted in loss of revenue for the Government.

### Recommendations

The PHC Directorate is to take action to ensure that all foreign patients visiting any of the HCs around the Maltese Islands are invariably asked to provide the necessary documentation. Moreover, an official is to be responsible to manage the billing system during all opening hours.

The PHC Directorate is also expected to immediately discuss with the sub-contractor the level of service being provided by the latter's employees, to ensure that staff deployed with the PHC Directorate is competent and reliable.

### Management Comments

*The PHC Management will be implementing by the end of 2019 the recommended approach on a pilot basis in those HCs currently operating on a 24/7 basis (Paola, Floriana and Mosta). Management will also continue its ongoing consultation with the sub-contractor to ensure that competent staff is hired.*

### **Evidence of Eligibility not obtained by the Mount Carmel Hospital**

Although a provisional replacement certificate<sup>4</sup> can be requested from the respective MS in order to verify that the patient is eligible for free healthcare, during the year under review, such certificate was never requested by the MCH. Moreover, it transpired that the officer in charge was being informed of discharge of foreign patients long after their departure and, as a result, the service fees remained unclaimed. Furthermore, these cases were not reported as debtors at year-end, and therefore, no action could be taken to recoup the costs involved.

Stays at the MCH are often lengthy and consequently the related costs are relatively high. In fact, in 2018, the respective costs pertaining to nine patients amounted to €44,584.

### **Recommendations**

In the absence of supporting documentation, a provisional replacement certificate is to be invariably obtained for in-patients, considering that the issuance thereof is not a lengthy process. If not attained, the MCH is to ensure that full patient details are provided so that relative costs are included in a debtors' list and chased accordingly.

It is also imperative that every effort is made to ensure that, whenever possible, the healthcare costs that Government can recoup are duly collected. Any difficulties encountered in this regard are to be communicated to higher levels of authority as deemed necessary, in order to maximise the amount of revenue due to Government.

### **Management Comments**

*The HCFD proactively planned and is currently deploying an IT system which will be implementing two important business use cases:*

- *the first one will provide a comprehensive approach to the issuing of a provisional replacement certificate to all public health care providers; and*
- *the second case will enhance the process of reimbursement from other MS to be efficient and effective from the start when a citizen is provided medical care until costs are reimbursed.*

*This implementation is expected to be completed by the end of quarter four of 2019.*

### **Control Issues**

#### **Debtors' Lists lacking essential Detail**

Most addresses listed in the debtors' lists submitted from the MDH and the GGH, which amounted to €147,644 and €35,882 respectively, were local ones. This raises serious concerns on whether any action is effectively taken to recoup the pending amounts, besides rendering the recovery of costs incurred extremely difficult.

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<sup>4</sup> This document replaces the European Health Insurance Card if this is lost or forgotten, or if the respective insurance institution is unable to issue the applicant with such document prior to his departure. The HCFD is required to confirm the patient's eligibility with the competent institution in the relative MS before issuing this document.

## Recommendation

Whilst it is understandable that foreign patients requiring healthcare cannot be turned away at any of the local healthcare entities, it is important that whenever possible, they are either asked for payment or provide full personal details before they are allowed to leave the premises.

## Management Comments

*Both the MDH and the GGH have adopted a Treatment First approach in emergency cases with billing issues still handled during the patient's stay at the hospital. This includes the gathering of the relevant details and the payment of a deposit, all of which are necessary for billing.*

*Furthermore, any elective treatment at MDH is paid for beforehand in accordance with legislation, unless exemption documentation is provided. It is envisaged that the GGH will also implement a similar approach as from the second quarter of 2020.*

*Towards the end of first quarter 2020, training will be provided again to all front desk clerks so that timely and correct personal details are documented before patients leave the premises.*

## Low Treatment Costs

As highlighted in the Report published by the NAO in 2018, S.L. 35.28, 'Healthcare (Fees) Regulations' was enacted in 2004<sup>5</sup>, but the stipulated fees therein were not revised. In their response, Management had stated that "*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*".

During this audit, the NAO noted that such costs were in the process of being updated. Following a meeting with SAMOC, it was also satisfactorily noted that instructions were given by the Chief Executive Officer to claim the full costs of chemotherapy sessions if the amounts in question were higher than that prescribed by the underlying legislation.

## Recommendation

The NAO encourages Management to proceed with this costing exercise to ensure that the necessary amendments are put into effect as early as possible.

## Management Comment

*The Ministry is currently considering the updating of the legislation through new regulations.*

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<sup>5</sup> Although this legislation was updated in 2007, the fees were not revised, since the respective Legal Notice was only issued due to the conversion to Euro.

### **Positive Observation**

During the audit, the NAO was informed that officials at the Billing Section at the MDH were carrying out an exercise to identify costs which were overlooked during the previous three years, i.e. 2016 to 2018. To this effect, up to the date of this publication, an aggregate amount of approximately €20,000 was due to be claimed.

In view that the provisions of the pertinent regulation allow for claims to the MSs to be made within 12 months from when they are recorded in the accounts of the creditor's institution, the respective amounts can still be claimed. This Office highly commends the initiative taken by the MDH and recommends that such exercise is also to be carried out by the other healthcare entities to follow in their footsteps.

The NAO also noted the sharp increase of 81.8% in the amount claimed by the MDH during 2018 in this regard, when compared to the previous year. Although more effort is required to ensure that amounts due to Government are recovered, especially with regard to emergency cases, the efforts made thus far are encouraging.

### **General Management Comment**

*The Ministry for Health took note of the key issues and the recommendations provided in the Management Letter and has embarked on the implementation of several measures and initiatives to address such weaknesses.*

# Pharmacy of Your Choice Scheme

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## Expenditure

Due to human resource constraints, the administrative aspect of the **Pharmacy of Your Choice Scheme** was hampered. Furthermore, the lack of an integrated information technology system for the operation and management of this Scheme resulted in the use of multiple fragmented applications running in parallel, entailing duplication of work as well as increased risk of errors due to manual intervention.

## Background

Launched in December 2007 initially as a pilot project, the Pharmacy of Your Choice (POYC) Scheme developed into a national pharmaceutical service that meets the needs of over 150,000 patients who benefit from medicines and pharmaceutical devices that are given for free by the Government.

Through this system, patients are able to collect their entitlement of medicines from a preferred private community pharmacy; currently a total of 221 pharmacies across Malta and Gozo are operating the POYC Scheme. In 2018, payments effected to pharmacies administering the Scheme aggregated to over €7 million.

## Audit Scope and Methodology

The main scope of the audit was to assess the effective functioning of the POYC Scheme, determine the level of controls in place with respect to payments made to pharmacies for the distribution of medicines to patients, as well as to ascertain the adequacy of stock maintenance, both at POYC stores and pharmacy level. Adherence to the applicable regulations and agreements was also verified.

Furthermore, an evaluation was carried out on the Information Technology (IT) systems supporting the operation of the Scheme, whereby standard operating procedures, audit trails, data extracts from reports generated by the system, as well as the level of user-friendliness of such applications were assessed.

To achieve the audit objectives, a number of meetings were held with POYC's Management and key personnel in order to obtain an understanding of the relevant policies in place and procedures adopted. Audit inspections at pharmacies<sup>1</sup> and the POYC stores were carried out, whilst walkthrough tests were performed to confirm the existence and the correct application of controls.

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 the POYC

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<sup>1</sup> These were carried out at three of the pharmacies falling within the audit sample.

Unit were adequate. To this effect, samples selected were qualitative, thus not designed to gather data on the frequency of error in the population as a whole, but to ensure compliance with standing regulations and to identify ways through which current practices could be improved. Consequently, any conclusions reached in this Report only relate to those areas that have been examined.

A sample of 11 pharmacies out of a total population of 221 formed the basis for audit testing. Whilst two of the sampled pharmacies were specifically chosen due to the materiality of the payments<sup>2</sup> made to them by the POYC Unit, the remaining nine were selected on a random basis.

A total of 17 items was chosen from the stock maintained at the stores under the responsibility of the POYC Unit, to ascertain whether physical quantities tallied to those as per stock records. In this regard, the three pharmaceutical products carrying the highest cost per unit were checked, while the remaining 14 were chosen arbitrarily.

### **Limitation on Scope of Audit**

The POYC Unit pays pharmacies enrolled within the Scheme on a per patient basis. However, amounts paid were not substantiated with a report showing the number of patients forming the basis of the respective payments. Thus, correctness of amounts disbursed could not be ascertained.

### **Key Issues**

#### ***Insufficient Human Resource Capacity***

Testing carried out revealed that, while the POYC Unit was continuously aiming to improve the service provided to patients making use of the Scheme, the administrative aspect was hampered, mainly due to human resource constraints.

#### **Recommendation**

A review of the human resource capacity will enable the improvement of the internal control setup should the necessary deployment take place. This will also contribute to reduce inherent risks while providing a vital step in the growth of the POYC Unit.

#### **Management Comments**

*The POYC acknowledges and appreciates that the National Audit Office (NAO) has highlighted the fact that administrative lacunae are mainly due to human resource constraints.*

*With the aim of addressing this issue, the former has conducted a human resource capacity review and submitted a revised capacity building plan to the Ministry for Health, Human Resources Department on 6 February 2019.*

#### ***Multiple Information Technology Systems for the Management of Patients' Medicinals Entitlement***

The lack of an integrated IT system for the operation and management of the POYC Scheme resulted in the use of multiple fragmented applications running in parallel. Apart from duplication of work, such methodology is highly prone to errors due to substantial manual intervention.

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<sup>2</sup> During the last quarter of 2017 and the first two quarters of 2018.

## Recommendation

Management's intention to integrate the IT systems is commendable so that the current processes are streamlined. This will minimise the duplication of work whilst also facilitate the overall management of the Scheme.

## Management Comment

*The new integrated IT system went live on 4 March 2019.*

## Control Issues

### *Pharmacy of Your Choice Level*

A physical audit inspection, as well as a stocktake of a sample of 17 pharmaceutical items, was undertaken by the NAO Officers at the POYC stores on 30 October 2018. The observations below highlight the main weaknesses encountered during this exercise.

#### *Poor Access Controls*

Strict access controls are applied in the rooms assigned for the storage of named patient items and dangerous drugs; however, no other restrictions were in place to limit the right of entry to staff to the main stores during working hours. The only security control noted in this area was limited to a closed-circuit television camera, covering the loading bay.

## Recommendations

To minimise the risk of possible intrusion and theft, the POYC officers are to be assigned physical access only to designated areas, as required, to enhance accountability. Entry by outsiders is to be strictly forbidden. The installation of closed-circuit television cameras capturing all areas of the stores is also recommended.

## Management Comments

*A second door is being installed in front of the security doors which are currently the only access to the store. The new door will only be operated via the POYC access control card and will close automatically, thereby removing the current dependence on staff compliance with existing rules.*

### *Multiple Stock Management Systems*

Review of the Unit's stock management systems revealed that stock records were being maintained on two separate IT systems, as well as bin cards. The following shortcomings were noted:

- a. Issues of stock items which are not barcoded were recorded manually in the IT system, thus making stock records more susceptible to human error and intervention.
- b. There was a lapse of two days prior to recording the same stock movements in the other IT system<sup>3</sup>, hindering reconciliation between the respective stock reports.

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<sup>3</sup> This system is updated manually to reflect transactions that were effected in the previous 48 hours.

- c. Although it was confirmed that bin cards were to be discontinued to avoid duplication of work, stores officers stated that they worked overtime hours to make up for the backlog and update the bin cards up till the end of October 2018.

### Recommendation

Accurate and updated stock records are essential to good inventory management. The Unit is to actively consider introducing a real-time stock management system whereby all stock is barcoded and scanned accordingly, thus reducing any manual interventions as well as human error to a bare minimum.

### Management Comments

*The POYC has commissioned a hand-held friendly picking module to further facilitate the updating of the stock system. It is expected that this function will be operational by end of 2019.*

*The time lapse between the updating of the two systems is unavoidable since stock is delivered to the community pharmacies two days after it is picked from the store, and it is vital that the POYC only updates the pharmacy stock holding when the pharmacy has actually received the stock.*

*In the period when the audit took place, the bin cards were still in use as the POYC was in the parallel-running phase and thus this was essential to address the probability of error in data capture during the learning period in the initial stages of the new stock system.*

### Stock Discrepancies and Write-offs

- a. During the physical stocktake undertaken by the NAO at the POYC stores, discrepancies were identified between actual physical stock quantities and those as per stock records in 10 out of the 17 items selected. The net adverse variance amounted to €297,120.
- b. The stocktake undertaken by the POYC Unit in March 2018 revealed 282 instances where stock records differed from actual physical stock, resulting in a net negative variance of €8,610. Although the variance of a number of items was fairly significant in quantity and/or value, investigations to identify the reason behind the discrepancies<sup>4</sup> were only undertaken in five instances. In the 277 remaining cases, the stock system was just adjusted accordingly to reflect the actual physical quantities found, without obtaining prior higher approval to write off the said loss.
- c. The writing off of expired or damaged stock items, amounting to €338,072<sup>5</sup>, was only approved by the Director General Finance (Health). In line with section 4.3.5 of Treasury Circular No. 6/2004 – ‘Stock Control Procedures’ due to the amount involved, such disposal required the endorsement of the Permanent Secretary, Ministry for Finance.

### Recommendations

Unless given due importance, stocktakes will not be effective. On the other hand, lack of proper corrective action from those entrusted to manage the Unit is unacceptable. Accordingly, in addition to the yearly stocktake, Management is encouraged to introduce cyclic counting, whereby the entire inventory is divided into groups, with each group being counted on a periodic basis, thereby making it easier to track down the source of any discrepancies without undue delay.

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<sup>4</sup> According to the POYC Unit, divergences were mainly the result of physical quantities being counted or written incorrectly during the stocktake.

<sup>5</sup> This represented the writing off of expired or damaged stock accumulated from April 2015 to January 2017.

Furthermore, approval from the right level of authority in line with standing regulations is to be sought in the case of write-offs. Management is also to ensure that officers in charge are aware of the statutory returns that are to be compiled and that accurate and timely feedback is regularly submitted to the Auditor General.

### Management Comments

*The POYC is currently undergoing a transition period to ensure that the computerisation of its stores area is in line with Good Pharmaceutical Practice Guidelines, thereby ascertaining that stock is managed on a first expires, first out basis. Until March 2018, manual bin cards were the only tool to record transactions in the POYC stores.*

*Out of the 10 items where discrepancies were identified, following the audit stocktake performed by the NAO, only one was not fully resolved, after an investigation was conducted by the POYC. All the resolved discrepancies were due to data input errors attributable to the learning phase in the use of the system and were not related to any actual physical shortages.*

*Efforts to resolve discrepancies encountered following the stocktake carried out by the POYC in March 2018 were made commensurate with the limitations of the resources available. Though corrections were few in number, these amounted to 31% of the total value of discrepancies found. The total value of unresolved discrepancies was of €41,224 representing 0.9% of the total stock turnover since the previous stocktake.*

*Notwithstanding the above, the POYC intends to commission an auditing firm to assist with the investigation of discrepancies identified during the annual stocktake that was due to take place in March/April 2019. Any write-offs will be made in line with standing regulations.*

### Pharmacy Level

#### *Patient's Data not disseminated to Pharmacies*

- a. The dispensing IT system currently in operation at pharmacies does not provide pharmacists with the facility of viewing a list of their respective patients and the pharmaceuticals they are entitled to. Pharmacists are compiling and maintaining patient's data themselves on separate spreadsheets. However, patient's deaths, as well as transfers to other pharmacies, are not communicated by the POYC Unit, thus increasing the risk of idle or expired stock on the pharmacies' shelves.
- b. The lack of information also hinders pharmacists from performing the necessary verifications to confirm correctness of payments received from the POYC Unit.

### Recommendations

The NAO acknowledges the fact that Management is envisaging to address the above-mentioned issues with the implementation of the new dispensing IT system which is intended to come into operation in 2019. To this effect, it is recommended that a list of patients, as well as the respective pharmaceuticals entitlement, is embedded within the dispensing IT system. This will enable pharmacists to track patient movements and accordingly return back to the POYC Unit any excess medicinal products prior to their expiry.

### Management Comments

*The POYC has secured access to timely data regarding patient's deaths and this data, together with data regarding changes in pharmacies, has started to be disseminated.*

### *IT System lacks Pertinent Data*

The IT system in place to manage pharmaceutical stock at the pharmacies' end is limited to basic data, mainly stock items and quantities. It does not indicate batch numbers and expiry date. Thus, the pharmacy is expected to inspect expiration dates on an item-by-item basis and dispense accordingly.

### Recommendation

The new IT system that is in the process of being introduced is to incorporate batch numbers, as well as expiration date for all medical supplies.

### Management Comment

*The new dispensing system, complying with the General Data Protection Regulations, and which will provide extensive data to pharmacies both in terms of patient's entitlements and stock holdings, is scheduled for deployment by end 2019.*

### *Physical Stocktake not carried out in a Timely Manner*

Clause 6.3 of the Service Level Agreement (SLA) specifies that, on a quarterly basis, pharmacies participating in the POYC Scheme are to reconcile the reported closing balances with the physical stock held in stores and submit the respective reconciled report to the POYC Unit.

By end of November 2018, when audit testing was conducted, it was expected that stocktake reports for the first three quarters of the year would be traced for all pharmacies forming part of the POYC Scheme. However, although such requirement was not always complied with, no action was taken by the POYC Unit in case of default.

### Recommendation

Action is to be taken against those pharmacies that fail to comply with stipulated requirements.

### Management Comments

*It was the first time that such an intensive programme of pharmacy stocktaking was undertaken by the POYC Unit. Despite requests by the latter for additional human resources, none were assigned to cater for the performance of 884 pharmacy stocktakes annually. In this regard, the POYC was not empowered to institute action against non-compliant pharmacies. Yet, as recommended by the NAO, the POYC will seek to be granted such powers in the next review of the POYC SLA due by end 2019. Stocktakes for 2019 have been planned in advance and are being carried out on schedule.*

### *Pharmacy Stocktake Discrepancies*

- a. Staff from the POYC Unit is never present during stocktakes at the respective pharmacies to monitor that the reported stock level is accurate; it is completely relying on the data submitted by the latter.
- b. A review of the stocktake results presented by pharmacies falling within the audit sample revealed various discrepancies between the actual physical stock on the shelf and the stock balance as recorded in the IT system. One of the explanations given was that such discrepancies are triggered when pharmacists deduct the items from the system during the preparation process and do not reverse them in the event that patients

do not collect the respective medicine<sup>6</sup>. Drugs which were dispensed but not recorded in the system also trigger variances. Both scenarios undermine the effective control over the system.

- c. Fast-moving items declared as 'short' by pharmacies are generally replenished without obtaining any justifications. Thus, stock dispensed for free outside the entitlement of Schedule II<sup>7</sup> and Schedule V<sup>8</sup> can never be detected.
- d. Rather than investigating variances at product level, according to the applicable agreement, pharmacies were instructed to offset such discrepancies if an overall bottom difference of +/- 0.75% of total stock value is not exceeded since this percentage is considered as acceptable.
- e. To date penalties, equivalent to the value of the discrepancy, as stipulated in Clause 6.2 of the agreement, have never been imposed on those pharmacies that reported stock discrepancies above the established threshold. It was only in April 2018, that the POYC Unit embarked on an exercise to calculate the value of variances exceeding the aforementioned threshold.

### Recommendations

Stock comes at a cost; thus, pharmacies are to be made aware of the importance of maintaining an adequate and up-to-date trail, as well as proper recording of receipts and dispensing transactions to support an accurate stock balance. Accordingly, all stock adjustments are to be reflected in the system prior to carrying out stocktakes. Furthermore, discrepancies are to be analysed on an item-by-item basis, with defaulting pharmacies being held liable for any reported variances.

In addition to the above, the POYC Unit is to ensure that items declared as 'short' are substantiated by an adequate statement giving a brief explanation.

### Management Comments

*Human error is a source of discrepancies in any stock management system. Management believes that the new rules ensuring regular stocktakes, as well as charges on discrepancies above the set threshold, are serving to ensure that community pharmacies exercise a higher degree of accuracy in the management of Government stock. Furthermore, this is ensuring that losses are borne by the pharmacies and not by Government, as was the case before the SLA came into effect.*

*Pharmacists' discretion in inputting prescription information could be fully eliminated by end 2020, however only if the use of the e-prescription system for free medicinal is mandated.*

*The POYC could not initiate the procedure for calculating variances prior to April 2018. For this exercise to take place, all pharmacies had to sign the SLA individually, which task was completed between September and December 2017. Between January and March 2018, the POYC conducted a stocktake of all 221 pharmacies, thus enabling this process to start on 1 April 2018. Any losses incurred during 2018 will be deducted from pharmacy fees falling due as from second quarter 2019.*

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<sup>6</sup> This relates to positive discrepancies where actual stock in hand is higher than that recorded in the computerised system.

<sup>7</sup> Free Medical Aid (under Schedule II) is awarded to an eligible person who is means tested or a person who is in receipt of social assistance.

<sup>8</sup> Schedule V cards are issued to persons suffering from different chronic conditions and who are thus entitled for free medication for that specific condition.

### *Executive Powers not implemented to the Full*

Stock disposed of by the POYC Unit during a 22-month period, between April 2015 and January 2017, amounted to €338,072, of which €282,322<sup>9</sup> was expired or damaged stock held by different pharmacies. Section 6 of the applicable agreement provides that penalties are to be imposed on pharmacies that fail to align their operations with the Government's stock management and dispensing guidelines. However, it was only in May 2018, that the POYC issued the first invoices to cover the cost of damaged stock at two pharmacies, which in aggregate amounted to €18,858.

#### Recommendation

A stricter stance is to be taken against those pharmacies failing to adhere to the respective guidelines and, if need be, applicable penalties are to be imposed.

#### Management Comments

*The POYC is currently invoicing for damaged and expired stock for which community pharmacies are found to be liable. Deductions for losses as per stocktakes will start in the second quarter of 2019.*

### **Other Matters**

#### *Unreasonable Timeframe on which Pharmacy Fees are calculated*

Any pharmacy operating the POYC Scheme is guaranteed the payment of the related pharmacy fees for the subsequent six months even in the event that no further dispensing is effected during that period. By way of example, if a patient collected his entitlement on 2 January, the respective pharmacy will be guaranteed payment up to 1 July, irrespective of whether dispensing has been effected or not in the interim.

#### Recommendation

Management is to consider initiating discussions to shorten the timeframe on which pharmacy fees are calculated.

#### Management Comments

*Management is considering available options to implement NAO's recommendation. It is envisaged that such measures are adopted as from the third quarter of 2019.*

### **Compliance Issue**

#### ***Non-submission of Fiscal Receipts***

More than 60% (€278,771) of the total payments (€451,997) falling in the audit sample were not covered by a fiscal receipt from the respective pharmacies. Furthermore, despite that Management acknowledged the fact that such pharmacies were in default, these were not listed in the quarterly returns that ought to be submitted to the Value Added Tax (VAT) Department, as outlined in MF Circular No. 5/2002 – 'Submission of Fiscal Receipts to Government Departments'.

#### Recommendations

Management is to ensure that all service providers adhere to the VAT Regulations by being furnished with a fiscal receipt upon receiving the respective payments. Defaulters are to be reported to the VAT authorities.

#### Management Comment

*Issue not addressed.*

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<sup>9</sup> Almost 28% of this amount signifies expired or damaged stock in 10 pharmacies.

# Long Term Medical Beds

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## Expenditure

An audit on the provision of **Long Term Medical Beds** revealed instances of overpayment of social benefits due to the lack of timely communication between the Department of Social Security and Mater Dei Hospital. Thus, pension deduction rates were not regularly updated on the Social Assistance and Benefits System.

### Background

Since 2015, due to the high number of long-term patients and the limited number of beds available, an annual budget is approved to provide alternative accommodation for such patients. The Central Procurement and Supplies Unit (CPSU), on behalf of the Mater Dei Hospital (MDH), entered into a number of agreements essentially to procure additional space to complement what is already available within the Government's own retirement homes. These Long Term Care (LTC) services are provided at a pre-determined fee per resident with lower rates charged for every absent night.

For 2018, an estimated budget of €3 million was provided under Line Item 5895 – Long Term Medical Beds, within the Ministry for Health. This amount was fully utilised during the year with the exception of €37,262 which was subject to a virement to another account. Payments of €2,962,738 in this regard were made to four service providers and covered 178 resident-beds.

### Audit Scope and Methodology

The main scope of the audit was threefold:

- to verify that the necessary internal controls over the amounts paid to these residential homes for the LTC beds were in place;
- to ascertain that the contracted rates were comparable to what was being charged to the Department for Active Ageing and Community Care (DAACC) for similar services; and
- to confirm whether deductions from the patients' pensions were made in a timely manner and that these were in line with the respective legislation.

During an introductory meeting with the MDH officials, the audit objectives and a high-level understanding of the relevant procedures and controls in place with regard to the LTC contracts were discussed.

Audit testing was conducted in the following areas:

- Relevant contracts were reviewed to verify invoices received by the hospital on a periodical basis, generally every month, from the residential homes denoting the patients currently in their care.
- Comparisons were made between rates paid by the MDH and the rates agreed upon in similar contracts with private residential homes entered into by the DAACC.
- The pension deductions calculated by the MDH when a patient became a resident in a state-financed home, were assessed by the National Audit Office (NAO) for a sample of 10 patients who were chosen at random.

- Testing was also carried out to ensure that there was an appropriate cut-off date; i.e. deductions started when the patient was declared as a social case, and end when the individual is no longer a resident in LTC.

## Key Issue

### *Lack of Timely Communication*

Pension deductions depend on the level of care received by the individual. In the case of patients under the MDH LTC, deductions stand at 80% of any pension, social assistance and bonus receivable (net of income tax) and 60% of any other income<sup>1</sup>. A 30% deduction is worked out on the total pensioner's income in cases where the spouse is still alive with only one pension available.

Testing in this regard revealed that the amounts withheld from the pension payments via the Department of Social Security's (DSS) Social Assistance and Benefits System were being based on 'old' pension rates, although confirmation received from the MDH indicated that updates showing the changes required in the deduction rates were sent to this Department on a yearly basis. However, the DSS claimed that it did not always receive these updates. In such instances, no changes to the deduction rates were done, unless the pensioner's file was brought up for some other reason and was then updated accordingly.

This resulted in the creation of overpaid social benefits, which could take very long to be collected, if at all.

### Recommendations

The NAO strongly recommends that discussions are carried out between the MDH and the DSS to streamline the updating process of the pension rate deductions.

The automatic update of the deduction rates between the respective two applications in use should also be considered since this would save considerable time and effort and eliminate most of the overpayments which are created when the rates are not updated in a timely manner.

### Management Comments

*The MDH supports the introduction of live tools that would eliminate the manual processes in place leading to deduction errors or delays in processing.*

*The DSS fully agrees with the NAO's recommendation to streamline the process by recording pension deductions automatically as it would avoid the creation of overpayments on social benefits, particularly pensions. However, the Department depends fully on the Malta Information Technology Agency (MITA) to effect such changes in its system. Nonetheless, the Department will seek to enter into discussions with MITA to possibly enhance the system.*

## Control Issues

### *Dependency on Information provided by Patients*

The calculation made for the deduction of 60% from other income depends on the information provided by the respective patients or their relatives to the MDH. Very often, this information is provided long after it is initially requested. Moreover, because this is a self-declaration, there is a risk that the information received by the MDH is incomplete. In these instances, overpayments in social benefits are created.

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<sup>1</sup> Income which is received during the calendar year immediately preceding the year in which the assessment of such other income is made.

## Recommendation

The MDH is encouraged not to rely solely on information obtained from the patients or relatives; where possible, evidence is to be obtained from independent sources, such as the Inland Revenue Department and the banks, to ensure its completeness and integrity.

## Management Comments

*The MDH lacks the tools and legislative framework to go beyond the self-declaration being submitted by patients and/or their relatives. The hospital believes that such audits and investigations can happen via the DSS using the powers given to this department at law to conduct such reviews.*

### **Continual use of Expired Contracts**

Following an approval for negotiated procedure received from the Department of Contracts (DC) in March 2017, contracts for the LTC in three particular homes were renewed for a further period of six months until June 2017. A subsequent approval was granted in January 2018 for these contracts to be extended again retrospectively from July 2017 until June 2018.

The DC also gave its approval to the MDH to enter into a negotiated procedure for the provision of LTC beds with one of these homes, for another 36 months, i.e. until June 2021.

A separate DC approval was granted for LTC services provided by another residential home between January 2017 and June 2018. Additionally, certain amounts were paid after contract expiry without the proper authorisation.

A number of contracts with the service providers were also found to have been signed retrospectively.

## Recommendations

It is strongly recommended that a system is put in place to monitor the expiry of the various LTC contracts. Close communication is required between the MDH and the CPSU to ensure that a new contract is negotiated before the one in force expires without the need to resort to direct order approvals from the Ministry for Finance, or the Chief Executive Officer's approvals where a formal contract is not in place.

## Management Comments

*The MDH is committed to improve these procurement processes made complex by the fact that in most cases these require lengthy negotiations with suppliers. The services being provided in this case make it hard for the contracting authority to undertake frequent changes of suppliers due to social considerations of patients and relatives involved.*

# Primary Health Care Directorate

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## Creditors and Accruals

Testing of the accrual accounting returns prepared by the **Primary Health Care Directorate** revealed that both the amounts of creditors and accruals were inaccurate. This was mainly due to limited human resources with accounting knowledge.

### Background

The Primary Health Care (PHC) Directorate includes 54 peripheral clinics and 10 health centres distributed over Malta and Gozo, providing a free primary health service. This Directorate was chosen as one of the pilot sites for the Corporate Financial Management Solution project. The financial and accounts section is situated within the Head Office in Floriana.

According to the accrual accounting returns, submitted by the PHC Directorate to the Treasury Department, the balances of creditors and accruals as at end of December 2018 amounted to €670,330<sup>1</sup> and €703,780 respectively.

### Audit Scope and Methodology

The main scope of this review was to ensure compliance with pertinent circulars relating to accrual accounting, for balances reported as at year-end, and that there were the necessary internal controls to confirm the accuracy of the amounts recorded.

The lists of creditors and accruals provided for audit purposes were scrutinised by the National Audit Office to ensure conformity with applicable circulars. Completeness of the creditors' list was checked by comparing the latter with the data recorded in the Departmental Accounting System as at cut-off date. A sample of 16 creditors, amounting to €624,861 (93%), was also selected to confirm balances with third parties by means of circularisation letters. Testing also involved verifying the ageing of the creditors and that the respective amounts were recorded under the correct category. Furthermore, the calculation of a sample of 10 accrued amounts, totalling €668,001 (95%), was reviewed.

### Limitation on Scope of Audit

Eleven<sup>2</sup> out of the sixteen creditors, selected for the creditors' circularisation exercise, did not submit their feedback to this Office, indicating the balances due to them by the PHC Directorate as at 31 December 2018. As a result, existence, completeness and accuracy of the respective amounts could not be confirmed.

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<sup>1</sup> Out of this amount, 5% was outstanding for more than one year.

<sup>2</sup> One of these creditors comprised various doctors. However, not all doctors submitted such confirmation.

## Key Issue

### *Limited Accounting Knowledge and Lack of Staff*

The senior officer at the PHC Directorate verbally conveyed his concern about the limited knowledge on accrual accounting of the current staff working on the accounting tasks. He was not aware of the related circulars issued from time to time by the Ministry for Finance. The above-mentioned officer also considered that the staff complement assigned to such tasks was insufficient. As a result, the returns submitted by the PHC Directorate could neither be considered as accurate nor reliable.

### Recommendations

Officers in charge are to be well versed with accrual accounting, particularly through adequate training and pertinent circulars, in order to ensure that the related provisions are invariably followed. Furthermore, the number of accounting staff is to be sufficient in view of the transition to accrual accounting.

## Control Issues

### *Inaccurate Provision for Accrued Expenses*

Testing revealed both over and under provision of accrued expenditure, mainly due to amounts incorrectly calculated, retention money not accrued for, as well as erroneous or omitted entries in the return.

### Recommendations

In view of Government's transition towards accrual accounting, the exercise on accrued expenditure at year-end should be thorough to ensure that amounts not yet invoiced are accurately accrued for. Furthermore, accrued expenditure for the goods and services received is to be estimated as accurately as possible. Retention money is also to be invariably included. Reference is to be made to TR Circular No. 3/2003 – 'Government Accrual Accounting: Procedures for the Management of Prepayments, Accruals and Capital Commitments', to be guided accordingly.

### *Incorrect Amounts of Creditors*

The following main observations were noted:

- a. Thirty-seven invoices amounting to €29,598, dated 2018 or prior, that were settled in 2019<sup>3</sup>, were not recorded in the list of creditors. Besides invoices inadvertently overlooked, the main reasons for such omissions were that works were billed before certification and purchases of stock items were invoiced before delivery. On the other hand, six invoices, in aggregate totalling €14,061, were recorded in the creditors' list, although dated in year 2019.
- b. Two invoices were incorrectly recorded in the creditors' list, resulting in a net overstated amount of €117,300.
- c. Invoices were at times grouped in the creditors' list; thus, not indicating the invoice number, amount and date for each invoice. Several invoices received from different doctors were also grouped under one service provider.
- d. Two bills which were never received from the service provider, were recorded with the creditors instead of accrued expenditure.

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<sup>3</sup> Up to cut-off date 9 April 2019.

### Recommendations

Invoices are to be recorded as creditors based on the date of the invoice. It is also important to inform suppliers and service providers not to send invoices before the respective goods and services are delivered. Furthermore, the Finance Section is to coordinate with all clinics and health centres to ensure that all invoices are timely forwarded, especially at end of period.

Regular reconciliations are to be carried out so that creditors' records reflect accurate details of the respective amounts. In addition, records for each creditor are to be individually listed, showing the invoice number, amount and date. This will also enable the Directorate to analyse the ageing of its creditors. As also required in terms of MF Circular No. 10/2001 – 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors', goods and services that have been received but which have not been invoiced are to be recorded as accruals and not in the creditors' list.

### **Results of Third Party Confirmations**

From the five circularisation letters received, three balances disagreed with that recorded in the creditors' list. The Directorate confirmed that no quarterly statements were requested from suppliers and service providers to reconcile the respective balances.

### Recommendations

Periodic statements are to be requested from creditors, in order to crosscheck the outstanding balances and confirm the accuracy of the information held at the PHC Directorate. Any discrepancies are to be checked and the necessary action is to be taken in a timely manner.

### **Amounts not shown as contested**

The column for amounts under contestation was omitted from the analysis of creditors submitted by the PHC Directorate. Following audit queries, it was claimed that only one invoice was contested in the year under review. However, 22 long outstanding invoices, still not settled up to cut-off date, were not shown as under contestation, notwithstanding that some were dated 2011.

### Recommendations

The PHC Directorate is to refrain from using the present template; future submissions are to be invariably made in the required format. This should include amounts that are subject to contestation in a separate column, which is to be exhaustive. Furthermore, unless invoices are contested, they are to be settled on time, in order to avoid any possible late payment interest charges.

### **Other Matters**

During testing the following deficiencies were also noted:

- a. The analysis of creditors by age gave distorted information due to an amount of €61,277, comprising 12 invoices, shown under the wrong category of ageing. Creditors were also incorrectly categorised by nature in the creditors' list.
- b. Invoice date was not indicated in seven invoices and therefore, it could not be confirmed whether amounts were properly allocated in the days outstanding.

- c. Invoices were not always marked with date of receipt.
- d. A file for pending invoices was not maintained for creditors' management purposes. In addition, invoices were not always certified correct by the relevant personnel and authorised in a timely manner, thus it was difficult to ascertain that the amounts due were correct.

### Recommendations

Invoices are to be allocated to their respective ageing bracket, to enable accurate reporting. The PHC Directorate is also to ensure that there are the necessary controls to establish the amounts of creditors and accruals at any particular date. The use of rubber stamps is recommended to facilitate the process and establish the exact date when the invoices are received, duly certified and authorised by the appropriate level of authority. Reference is to be made to the Explanatory Notes on Standard Objects of Expenditure featuring in the Financial Estimates, which give indication of what certain titles of expenditure comprise, to ensure consistency and that creditors are appropriately categorised.

### General Management Comments

*The PHC Directorate (Ministry for Health) highlighted the findings of limited accounting knowledge, lack of staff and lack of accounting software since the end of 2017 when the current administration took over. The Directorate is in the process of evaluating a Call for Assistant Manager (Accounting and Finance) together with a Call for the Provision of Accounting and Payroll Services; if all goes well, the PHC Directorate will be in a position to fully take on board the recommendations by end 2019.*



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Ministry for the Economy, Investment  
and Small Businesses

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# Malta Investment Management Company Limited

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## Inventory and Transport Expenditure

Internal controls over inventory management by the **Malta Investment Management Company Limited** were weak. Moreover, the rental of parking spaces direct from the open market was not covered by the necessary Finance approval.

### Background

The Malta Investment Management Company Limited (MIMCOL) was set up in 1988. Its main aim is to rationalise the portfolio of investments held by Government. Nowadays, it offers strategic management services, restructuring and privatisation, Human Resources guidance, as well as a wide range of financial services. MIMCOL is also the technical advisor to the subsidiaries of the Malta Government Investments Limited<sup>1</sup> and the consultancy arm of the Cabinet of Ministers and other agencies.

The approved 2018 budget allocation for MIMCOL under Vote 11, Line Item 6830 was €2,380,000. An additional €867,000 was allocated for Debt Servicing under Line Item 5880, leading to an aggregate budget of €3,247,000.

### Audit Scope and Methodology

The scope of the audit was to verify whether internal controls over inventory management were adequate, and that Government resources utilised for transport expenses were used prudently and in a judicious manner.

MIMCOL's Fixed Asset Register (FAR) was reviewed to verify whether the principles of MF Circular No. 14/99 – 'Government Accrual Accounting: Revised Inventory Control Regulations' were being adopted. A sample of inventory items, based on the cost, as well as the nature of the assets, was selected from this register for physical inspection. An attempt was also made to verify the inventory records' completeness, by randomly selecting a number of items held at the entity's premises and tracing them to FAR.

The National Audit Office (NAO) also reviewed two accounts relating to transport expenditure and a total of 10 transactions, based on materiality, were selected for testing.

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<sup>1</sup> Malta Government Investments Limited is MIMCOL's sister company, responsible for a portfolio of Government-owned companies and investments.

## Key Issues

### Inventory Management

#### Weak Internal Controls

Audit testing on inventory records and physical items held by MIMCOL revealed lack of internal controls over inventory. The following relate:

- Insufficient Details in FAR – Essential information, such as a detailed description of the assets, brand names, model numbers, serial numbers, a unique reference number, as well as reference to the location where the items were found, was not included in FAR. The earliest transactions recorded in this register were the aggregate cost and accumulated depreciation by category as at end 2006, with no details of what these totals constitute. Thus, these records could not be considered as a reliable tool for inventory management. The NAO's physical inspections on a sample of inventory items, intended to ascertain completeness of inventory records held by MIMCOL, were hindered due to lack of information.
- Motor Vehicles held by MIMCOL – According to the trial balance, on 31 December 2018 MIMCOL held motor vehicles which had an aggregate cost of €291,886. This figure could not be corroborated against FAR, due to the lack of information and insufficient details recorded in this register. The list of vehicles owned by MIMCOL and their respective cost, as forwarded to the NAO, only included five vehicles with an aggregate cost of €74,956<sup>2</sup>. In these circumstances, it could not be established whether this discrepancy was the result of an overstated cost of motor vehicles in MIMCOL's accounts or if the list of vehicles provided was incomplete.

#### Recommendations

MIMCOL is to take stock of all its assets and compile a detailed inventory database, using the principles of MF Circular No. 14/99 as guidelines. This database, which is to include the necessary details to identify the assets, is to be updated on a regular basis to reflect acquisitions, write-offs and disposals. Periodical assessment of recorded assets and their respective condition is to be carried out by Management. All items falling under the entity's responsibility are also to be tagged with a unique asset code. An internal policy on inventory management is to be introduced to ensure adequate internal controls of Government-owned assets from acquisition to their disposal.

Moreover, the financial statements are to be adjusted accordingly to reflect an accurate figure of Fixed Assets.

#### Management Comments

*Indeed, we are aware that since its establishment in the late 80's, MIMCOL did not have an inventory database in place. We are now taking on board the NAO's recommendation and are giving this high priority to take stock of all its assets and compile a detailed inventory database. By mid-July, MIMCOL will have in place a description of all its assets, including acquisitions, write-offs and disposals, together with a unique tagging system. As part and parcel of this exercise, MIMCOL will also be introducing an internal policy on inventory management, whilst FAR is being finalised.*

*We have to point out that whereas there is room for improvement, especially with respect to details pertaining to pre-2006 assets, this information is available. Furthermore, a detailed exercise will be provided to further explain the movements in the Motor Vehicle account and during the next statutory audit, this account will be adjusted accordingly.*

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<sup>2</sup> This figure excluded the cost of one of the vehicles, since the respective amount was not indicated.

## **Rented Carpark Spaces**

### **Background**

In 2016, MIMCOL entered into a contractual agreement for the rental of 83 spaces on a 24/7 basis at a nearby carpark in Sliema. A total of 34 car parking spaces were for MIMCOL's employees, while the remaining were negotiated on behalf of other Government entities. The cost was €963.86 per space, for a total of €80,000, for the duration of the contract, covering a period of 16 months from June 2017 up to September 2018. An additional 23 parking spaces were requested during the contract period, for an extra charge of €13,245<sup>3</sup>.

Following the expiration of the contract, MIMCOL rented additional parking spaces for October and November of the same year. Payments in this respect totalled €12,869. However, no formal extension of the agreement was in place.

In March 2019, a retrospective agreement was entered into with the new operator of the carpark for two years up to December 2020, for a total of 93 parking spaces at an aggregate cost of €76,436 per year. Forty of these spaces were rented on a 24/7 basis at €1,100 per parking space, while the remaining were rented for 12 hours a day, from Monday to Friday, at €612 per space.

### **Procurement not in line with Regulations**

Notwithstanding the aggregate amount of €258,986, due for the period June 2017 to December 2020, out of which €182,550 were already paid by April 2019, this procurement was made direct from the open market without the necessary approval from the Ministry for Finance.

Moreover, this Office was not provided with a reason for the need of additional spaces, procured during the contract period, and upon whose authorisation this expense was made. The aggregate cost was €13,245.

Management verbally stated that the provision of parking facilities for the majority of MIMCOL's employees, as well as rental of spaces on a 24/7 basis, is an internal policy; however, this policy was not documented.

### **Recommendations**

The Public Procurement Regulations stipulate that, where the estimated value of goods and services exceeds €10,000, these may be procured after a departmental call for tenders. As far as possible, procurement by direct order is to be resorted to only in exceptional circumstances and provided adequate justification exists. Written approval from the Ministry for Finance is to be obtained before such procurement is made.

MIMCOL is also to ensure that its policies are documented.

### **Management Comments**

*The parking arrangement was negotiated by MIMCOL on behalf and with the consent of the other Government entities in order to obtain a bulk discount, and MIMCOL invoices all these entities for their share of the parking costs.*

*While the procurement in question technically qualifies as a direct order, MIMCOL elected to approach the only two suppliers (two distinct carpark operators) for quotations and negotiations prior to committing to a contractual agreement. In practice, the process met the objectives of issuing a tender, namely giving the opportunity to all interested yet eligible parties (providers in the area) the option to present an offer and to ensure that the most cost-effective offer is selected.*

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<sup>3</sup> These extra parking spaces were not covered by a formal contract.

*This procurement method was selected in view of the very specific conditions that needed to be satisfied: necessarily, the car spaces had to be in close proximity to MIMCOL's offices, and secondly the carpark in question had to be large enough in size so as to make the procurement financially viable to the operator. It is perhaps opportune to point out that upon the move from MIMCOL's former premises to Tigné, which was forced upon the company, the Commissioner of Lands assigned a number of Government-owned spaces specifically within the relative carpark unto MIMCOL<sup>4</sup>. This assignment of spaces in a way can be construed as having conditioned the eventual agreement entered into with service provider way back in 2011.*

*As indicated, only two carparks satisfy the aforementioned two criteria. Both operators of these carparks were approached to present their offer, but one of the operators did not want to improve on the incumbent service provider's quote, and this left just one potential candidate<sup>4</sup>.*

*We therefore feel that the specificity of the contract meant that the "exceptional" requirement of direct orders was satisfied as it was not technically viable to procure from other sources given that only one carpark operator could conceivably provide the service.*

*Parking for all employees was initially introduced in 2011 by the Board of Directors of that time. The Management and the Board of Directors is not in a position to answer or justify decisions or other similar operational and/or financial commitments made by the previous Board. In 2011, MIMCOL was under the direct responsibility of the Ministry of Finance and it is understood that the parking arrangement was entered into with the Ministry's consent.*

*The current Management, with the support of the Board, opted to change the terms of reference of the original agreement and effected big changes by slashing in half the number of parking spaces accessible on a 24/7 basis.*

*MIMCOL is giving much importance to the NAO's recommendations and suggestions and shall address immediately the matter and is considering the introduction of an internal system of transport whereby key members of Management and staff will be provided a form of car-pooling transport service when required to attend meetings out of office.*

#### *No Fiscal Documentation*

The payment of €80,000 for the rental of car parking spaces during the contract period June 2017 to September 2018 was not supported by fiscal documentation.

#### *Recommendations*

Fiscal documentation is to be obtained for every purchase of goods or services, in line with standing Value Added Tax regulations. In case of default, service providers are to be reported to the pertinent authorities.

#### *Management Comments*

*The former carpark operator was a fully-owned subsidiary of a public listed company and as such is a regulated company. However, we take note of the NAO's comments and MIMCOL has ensured that subsequent documentation is as per requirements.*

#### *General Comment*

*The recommendations given by the NAO will be taken in consideration and implemented with immediate effect.*

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<sup>4</sup> This information was only given to the NAO after the conclusion of the audit.



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Ministry for Education and Employment

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# Learning Support Assistants in Private Schools

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## Expenditure

Terms and conditions relating to reimbursements effected by the Ministry for Education and Employment for the financing of salaries of **Learning Support Assistants in Private Schools** were not documented in formal contracts. Other weaknesses, mainly involving claim sheets not thoroughly compiled and amounts refunded ahead of the respective employment approvals, were also noted.

## Background

The responsibility for the education system in Malta primarily lies with the Ministry for Education and Employment (MEDE), with the respective teaching being provided by state, church, as well as private schools.

In the past years, the said Ministry carried out an ambitious inclusive education programme to ensure equitable access to the national curriculum. To this effect, in the 1990s, one of the concepts introduced was that of supporting children with special requirements, who attend mainstream schools, by means of Learning Support Assistants (LSAs).

The current system in place is one whereby, if a Head of School together with the parents and/or guardians believe that extra resources are required for a particular student to attain a quality education entitlement, the individual is referred to the Statementing Moderating Panel. After conducting the necessary procedures, the latter submits a report to the Director General (Education), showing its final assessment and recommendations, clearly indicating the type of support required by the respective student, usually whether one-to-one or shared support, and up till which scholastic year.

The employment of the LSAs by schools, whether state or otherwise, also requires the approval of the Education Resources Directorate (ERD). Following the call for application to fill the vacancies and the eventual selection of the LSAs by the respective schools, the Directorate is informed accordingly, to ensure that those selected have the minimum qualification requirements for the appointment of teaching staff.

The LSAs working in church and private schools are reimbursed by the MEDE using the same rates applicable to state-employed LSAs.

## Audit Scope and Methodology

This audit focused on state expenditure incurred from Vote 13, Programmes and Initiatives Line Item 5503 – Learning Support Assistants in Private Schools, during financial year 2018. The budget earmarked in this respect for the year under review stood at €2.2 million, with actual net expenditure aggregating to over €4 million.

The main objective of the audit was to ensure that state expenditure incurred in this regard was within the approved limits and in line with the provisions of the applicable rules and regulations. The audit was also directed towards ascertaining whether claims for reimbursements made by the private schools were covered with supporting documentation and that necessary verifications, including confirming that the employment of the respective LSAs was duly acknowledged by the ERD, were undertaken before the respective payments were effected.

The audit was conducted in accordance with generally accepted auditing standards. Planning and audit procedures were performed in order to obtain reasonable assurance on the effectiveness of the internal control system adopted by the MEDE in relation to the area under review. To this effect, samples selected were qualitative, implying that these were designed to identify ways through which current practices could be improved. Accordingly, any conclusions reached in this Report only relate to those areas that have been examined.

A sample of 19 Payment Vouchers<sup>1</sup> (PVs), collectively amounting to €1.3 million, and representing 33% of total expenditure incurred during 2018, formed the basis of substantive audit testing. Whilst two of the sampled PVs were specifically chosen due to the materiality of the payments made, the remaining 17 were selected on a random basis.

A further sample of 31 individuals was also chosen from the claims for reimbursement sheets attached to the 17 sampled PVs covering the LSAs employed during the scholastic year<sup>2</sup>, so as to ascertain that the required documentation confirming each individual's eligibility to be employed as an LSA was in place.

## Control Issues

### ***No Formal Agreements in Place***

Whilst the MEDE is reimbursing private schools for services rendered by the LSAs, no formal agreements stipulating the terms and conditions of the service, as well as the applicable reimbursement rates, were entered into between the respective parties.

### Recommendation

For the sake of transparency, the MEDE is to ensure that formal agreements, outlining the binding terms and conditions, are to be signed with each private school being reimbursed for learning support services.

### Management Comment

*As recommended, an exchange of correspondence will be drawn up so that there is an official document highlighting the process and the rate that is reimbursed.*

### ***Claims for Reimbursement Forms not thoroughly compiled***

A review of the sampled claim sheets provided for audit testing revealed that the section intended to be compiled by the MEDE in cases where the reimbursable amount differed from that claimed, was being left blank also in cases where the amount did not match. Moreover, the claim sheets were not endorsed by the officer in charge at the MEDE. Therefore, confirmation that necessary checks were actually carried out could not be ascertained.

### Recommendations

All documentation relating to payments expensed from public funds is to be adequately compiled as a means of

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<sup>1</sup> Two of which pertained to summer schools.

<sup>2</sup> This sample excluded individuals employed with summer schools.

attesting that the necessary vetting and reconciliations have been undertaken. This will also enhance audit trail. Moreover, claim forms are to be appropriately endorsed and marked as reviewed by the officer in charge at the MEDE following adequate verification.

#### Management Comments

*Claim sheets will be adequately compiled as recommended. Further to this, the claim sheets will be updated to reflect changes throughout the years.*

#### **Reimbursements effected prior to approval of Employment**

During meetings held with the officers concerned, the National Audit Office was informed that the salary of an LSA is not reimbursed to the employing private school until the respective employment is acknowledged by the ERD. However, from a total sample of 31 LSAs selected for review, in two instances the schools in question were actually reimbursed before the said approval was given.

#### Recommendation

The MEDE is to ensure that private schools are only compensated for individuals whose employment has been duly approved.

#### Management Comment

*An internal checklist will be compiled to ensure that all items are checked, including approvals.*

#### **Payslips not countersigned by Head of School**

In a number of instances, payslips in support of the monthly claim form for reimbursement of the LSAs' emoluments were not countersigned by the respective Head of School or a representative<sup>3</sup>.

#### Recommendation

Before requests are processed for reimbursement, claim forms, together with all the relevant attachments, are to be complete and endorsed, as applicable.

#### Management Comments

*The MEDE will be checking that all payslips are signed by the respective Head of School. The MEDE will also be informing independent schools that if any payslips are not signed, the reimbursement will remain on hold until such documentation is signed.*

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<sup>3</sup> Such requirement is stipulated under the 'Declaration by Head of School' section on the claim form itself.

### Shortcomings in Claims relating to Summer Schools

In May 2018, the MEDE notified non-state licensed summer schools that, on submission of an Inclusion Provision Schedule, the summer school would be entitled to a reimbursement of €7.04 per hour for every Child Support Worker (CSW) engaged during the period from 9 July to 7 September 2018. This reimbursement was subject to a maximum of 160 hours per CSW. Claims by summer schools were to be made on a prescribed form, indicating the total number of hours worked and the amount paid to each CSW, backed up by copies of the respective payslips, the CSWs' timesheets and students' attendance sheets.

An aggregate amount of €78,384 was issued by the MEDE to a total of 22 different summer schools, for claims made in respect of summer 2018.

The following shortcomings indicate lack of verifications carried out by the MEDE before issuing the aforementioned reimbursements:

- a. In four instances, hours claimed by each respective school were reimbursed in full despite that these exceeded the maximum claimable hours.
- b. The 279.2 hours claimed for payment by one summer school could not be reconciled to the payslips submitted or to the related CSWs' timesheets.
- c. In five instances, the payslips attached to the respective sampled claims reviewed were not sufficiently detailed to determine the accuracy of the number of hours claimed by the respective summer school, or else did not cover the whole claim period.

### Recommendations

Before issuing reimbursements, the MEDE is to ensure that all the required documentation has been compiled and submitted by the beneficiary. The Ministry is then to carry out all necessary verifications, to ensure that only eligible amounts are reimbursed.

### Management Comments

*The MEDE will be checking that before issuing reimbursements, all the required documentation has been correctly compiled and submitted by the beneficiary. The Ministry will then carry out all necessary verifications, to ensure that only eligible amounts are reimbursed.*

*Further to this, the Finance Unit will do a full exercise to check all independent schools summer hours to ensure that only the eligible amounts were reimbursed. If there are cases of overpayment the Finance Section will inform the independent school and initiate process to collect any money back.*

# Malta College of Arts, Science and Technology

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## Revenue

Although the **Malta College of Arts, Science and Technology** has a subsidiary company which is the commercial arm and the main academic revenue contributor, the respective computerised system is not integrated to the accounting software used by the College's Finance Office. Consequently, its effectiveness is restricted. Moreover, credit management was found to be weak since monitoring of dues from foreign students was insufficient.

## Background

The Malta College of Arts, Science and Technology (MCAST) is the island's leading provider of vocational and professional education and training with an international dimension, responsive to the needs of its students and the economy at large. MCAST has three distinct but related Colleges, namely the Foundation, Technical and University Colleges, as well as the Gozo Campus and the following six institutes<sup>1</sup>:

- Institute of Applied Sciences
- Institute for the Creative Arts
- Institute of Engineering and Transport
- Institute of Business Management and Commerce
- Institute of Community Services
- Institute of Information and Communication Technology

MCAST offers a wide selection of full and part-time courses leading to internationally recognised certificates and diplomas at further and higher education level, degree programmes, as well as Master's degrees. Daytime courses are free for Maltese and European Union (EU) citizens. Fees are charged to applicants from non-EU countries, including third-country nationals, unless these are granted an exemption from the Ministry for Education and Employment.

MCAST is funded mainly through a Government subvention, which was budgeted at €25,530,000<sup>2</sup> for year 2018. The College also has a commercial arm, namely MCAST Gateway to Industry Ltd (MG2i), which was set up in 2008. Its core business consists of training provision to a broad target audience, offered on a part-time schedule, as well as through bespoke courses that are custom-designed upon request and through negotiations with industry clients. The company also engages in international business to generate further revenue.

Additional income generated by the College, emanating from other sources, includes rents receivable in respect of the canteen and bookshop, sponsorships, income from hairdressing services and fees earned from the use of gym and childcare facilities.

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<sup>1</sup> Source: MCAST official website.

<sup>2</sup> Financial Estimates: Vote 13 Line Item 6457.

## Audit Scope and Methodology

The audit focused on the revenue generated from the fees charged for courses. The main objectives were to determine whether an adequate system of internal controls on revenue collection was in place, to assess the operating effectiveness of the said controls over the main revenue streams, and to provide recommendations to enhance governance, whilst reducing risks associated with revenue management.

A qualitative sample approach was adopted during this audit; samples selected were not designed to gather data on the frequency of error in the population as a whole but to assess the effectiveness of the internal controls with respect to revenue collection. Accordingly, any conclusions reached only relate to those areas that have been examined.

## Key Issue

### *Absence of a Robust Management Information System*

The accounting software used by the Finance Office within the Head Office was not integrated with the computerised system used by the MG2i, being the main academic revenue contributor.

Controls and monitoring over the collection of fees of part-time courses, that could be settled in instalments in line with the prospectus, were lacking. During March 2018, the MG2i carried out an extensive exercise in respect of degree and Master's programmes, to collate data for the years 2015 to 2018 in an attempt to recoup pending dues. However, apart from the fact that the follow-up task was not entirely centralised, this was a time consuming manual process, thus prone to human error.

The students' database for part-time prospectus courses cannot be modified to reflect an applicant's course day schedule change. The facility to transfer courses and/or schedules is not possible with the current system since cancelling and raising a new application distorts the reconciliation process, in view that no funds are involved.

## Recommendations

Management's intention to have a fully interfaced Information System is to be given high priority. The interface is to include the finance function, as well as the student management system. The proposal is also expected to be cost-effective, enabling the simplification of the process and enhancing manageability.

## Management Comment

*Management intends to have a fully interfaced information system implemented by the second quarter of 2020.*

## Control Issues

### *No Structured Credit Management*

- a. Participation in certain courses is at times allowed to be paid by instalments. This is usually indicated in the prospectus and very often relates to courses pursued over a period of more than one academic year. In such cases, invoices were not issued; thus, any pending fees were not included as MG2i debtors.
- b. The audit also revealed that a credit management structure was lacking in the case of both MCAST and the MG2i. The Finance Office was only partly dealing with the collection of outstanding amounts due to other priorities, and this was done in a non-systematic manner. The balance of debtors from the year 2010 until 16 November 2018, i.e. when the audit was in progress, had reached €1,449,602.

- c. Following up overdue amounts and other financial matters were also taking up significant time and effort of the MG2i senior staff. This hindered focus on more strategic matters demanded by their respective roles.
- d. This situation was discussed at Board level on various occasions and approval was given on 24 October 2017 to recruit a credit controller, to manage debt collection in respect of both MCAST and the MG2i, as well as a finance officer to deal with the MG2i financial day-to-day matters, including credit control. However, as at end 2018, the recruitment had not materialised.
- e. The collectability of certain debtors is also questionable. MCAST consolidated financial statements for year 2017 indicated that the trade receivables were disclosed net of a provision of €110,733<sup>3</sup>. Since debtors for the years 2010 to 2016 in aggregate amounted to €218,445, and it is unlikely that these would be recovered, the provision for bad debts is considered to be understated by more than €100,000.
- f. An analysis of the debtors as at 16 November 2018 revealed that amounts due from a particular debtor had accumulated to €324,212 in less than one year. Moreover, the amount due was not supported by an agreement between MCAST and the respective entity. Although an email dated 13 October 2018, from the Chief Executive Officer of the latter, stated that the foregoing intended to settle the outstanding amounts, as at mid-February 2019 MCAST had received no payments to this effect.

### Recommendations

In order to maximise revenue collection, Management is encouraged to take immediate action as follows:

- a. Considering the sporadic manner in the way the credit control function is currently being managed, the establishment of a structured credit management unit is to be given priority. This unit is to be staffed with competent personnel to actively monitor debt collection and carry out other credit control duties efficiently and effectively.
- b. Clear credit control policies, to ensure timely collection of revenue and follow-up procedures of outstanding accounts receivable, are to be drawn up.
- c. The long and/or accumulating outstanding amounts are to be closely followed-up. Particularly, in the case of the debtor with a substantial outstanding amount, Management is to endeavour entering into a formal agreement, outlining a payment schedule. Decisive action is to be taken in case of default.
- d. Legal advice, to determine the prescription period, particularly in respect of the long outstanding amounts, is to be obtained. Furthermore, rigorous action is to be taken to try and recoup the pending amounts and ensure that an adequate provision for bad debts is taken.

### Management Comment

*Management has accepted all recommendations made by the National Audit Office (NAO) and each will be fully implemented by not later than the end of 2020.*

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<sup>3</sup> The provision for bad debts was increased to €176,801 for financial year 2018.

### ***Insufficient Monitoring of dues from Foreign Students***

A thorough exercise was carried out by the Finance Office at MCAST, in liaison with the Registrar and the MG2i between March and April 2018, to determine whether the foreign students, who as at 19 April 2018 had pending amounts, should be followed up for settlement or eventually write off the respective amounts.

In total, as at 16 November 2018, there were 33 cases having aggregate pending amounts of €211,742. Twenty one of these cases, amounting to €124,766, were deemed very difficult to pursue; some of which pertained to 2012<sup>4</sup>. The remaining 12 cases were not supported by sufficient documentation to be analysed.

The NAO was informed that in 2018, stricter measures were adopted in respect of non-EU students with pending dues, including a final notification leading to expulsion, if ignored. Additionally, there was increased liaison between the Registrar and the MG2i, to prevent issuing certificates to students, unless fees are settled. This stance reaped positive results.

#### **Recommendation**

Whilst the NAO commends the efforts taken by the Finance Office to follow-up dues from foreign students, similar action is to be taken in respect of amounts owed by local students, as well as entities.

#### **Management Comment**

*Action is to be taken by Management and will be fully implemented by the first quarter of 2020.*

### ***Untimely Management Accounts***

The objective of the management accounts is to provide timely key financial information, which senior management may use to make day-to-day and short-term decisions. However, from the respective agenda for the Board of Governors' 2018 meetings, it transpired that management accounts were not being presented to the Board at regular intervals.

#### **Recommendation**

Presenting the management accounts on an irregular basis diminishes their usefulness. Accurate and timely accounts are fundamental for Management, as delays in receiving this information means that it becomes less relevant.

#### **Management Comment**

*Management has accepted the recommendation made by the NAO and will rectify the matter by the second quarter of 2019.*

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<sup>4</sup> Nine students in aggregate owed €58,500.

***Inconsistent Recharge Methodology without proper justification***

Income received from the MG2i, for the use of MCAST premises and lecturing resources, is regulated by an agreement between both parties. The respective provision was changed a number of times during the last five years following MCAST's Board resolution<sup>5</sup>. As from financial year 2016, the recharge has been based on a variable amount depending on the level of revenue that is generated by the MG2i.

**Recommendations**

The method adopted in recharging the MG2i is to be clearly documented and formally accepted by both parties. The policy agreed upon is to be applied in a consistent manner in order to derive meaningful conclusions about the entity's financial performance. This could be based as a fixed percentage of the amount of revenue generated during the respective years.

**Management Comment**

*The recommendation made by the NAO has been accepted and will be implemented by the third quarter of 2019.*

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<sup>5</sup> No Board resolution was found for financial year 2017 but only a note in the audited Financial Statements.

# Malta Libraries

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## Expenditure

The value of non-current assets acquired in previous years will not be reflected in the accounting records of **Malta Libraries**, thus resulting in an understated balance. Other shortcomings included the procurement of services through expired contracts.

### Background

The Malta Libraries (ML) was established by virtue of the Malta Libraries Act (Act VII of 2011), replacing the former Libraries Department. It is entrusted with ensuring the collection and conservation of Malta's documentary heritage for present and future generations, maintaining and developing the libraries regulated under the aforementioned Act, encouraging reading for study, research, leisure, self-development and lifelong learning information.

The entity is responsible for the National Libraries and the Central Public Libraries in Malta and Gozo, all Regional and Branch Libraries in the Maltese Islands, as well as the National Bibliographic Office. The ML is headed by a National Librarian, who also acts as the Chief Executive Officer, and two Deputy Librarians; one in charge of the National Library and the other responsible for the Central Public Library.

As from financial year 2018, the ML started maintaining its financial records on a new accounting software, and hence, no longer on the Departmental Accounting System. An accountant was engaged to finalise the accounts and provide support as necessary. The Malta Libraries Act requires the ML's financial statements to be audited by an external auditor.

During 2018, a total of €2,950,000 was transferred to the ML from the Consolidated Fund, from the approved budget allocation for the Ministry for Education and Employment, under Recurrent Vote No. 13, Line Item 6802. An amount of €100,000 was also allocated to the entity through the Ministry's Capital Vote VI, Item 7032. At the time of audit, the ML's official financial statements for 2018 were not yet available<sup>1</sup>.

### Audit Scope and Methodology

The main scope of the audit was to determine the level of existing internal controls over procurement, and that payments for expenditure in general, including allowances paid to employees, were in line with pertinent regulations and circulars. The audit also sought to establish whether Government resources were used prudently and in a judicious manner.

Additionally, opening balances recorded in the newly accounting system were to be verified, to ensure that these were correct, accurate and comply with established accounting policies.

Meetings were held with a number of senior officials, to discuss the audit objectives and the relevant procedures adopted. Subsequent discussions were then held with other key personnel on issues encountered during the audit.

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<sup>1</sup> A draft Statement of Comprehensive Income for the year ended 31 December 2018, forwarded to the National Audit Office on 15 October 2019, showed a profit of €102,505.

Transactions recorded in the nominal ledger forwarded to the National Audit Office (NAO) were analysed and the major service providers determined. The respective procurement process was reviewed to ensure that these were in line with the provisions of the Public Procurement Regulations. Amounts charged by the respective contractors during 2018 were also verified.

Furthermore, payroll details for the year under review were obtained. Allowances paid to a sample of eight officers were chosen on the basis of materiality, to verify that the amounts paid were in line with their respective posts.

### Limitation on Scope of Audit

The first audited accounts of the ML were not yet available by conclusion of audit testing in October 2019. Moreover, opening balances were not yet reflected in the entity's books of accounts. Hence, information reported in the Statement of Financial Position forwarded to the NAO was not complete and other figures were subject to change.

In view of the above, this Office did not have the comfort that the financial data as at 31 December 2018 provided for audit purposes was reliable.

### Key Issue

#### *Non-current Assets not recognised*

The NAO was informed that no inventory records were maintained by the ML. Moreover, the opening balance of the net book value of these assets "... will be ignored with a note entered in the Notes to the Accounts reflecting such position"<sup>2</sup>.

This approach will definitely result in an understated value for non-current assets in the financial statements for the year ended 31 December 2018 and thereafter.

### Recommendation

According to International Financial Reporting Standard 3 – 'Business Combinations', in such circumstances, assets acquired are to be measured at fair value. In line with best practice, a register of assets held by the ML is to be compiled and each item valued accordingly. This will ensure better control over the assets owned by the entity.

### Management Comments

*The Inventory Module which forms part of the Accounting suite is not intended to be an Inventory (Fixed Asset Register) module as it is understood within Government departments, but more as a Stocks (Goods) for Sale module. In fact, the ML does not have a fixed asset register. Purchases of assets are being recorded as a purchase invoice with a list that will be kept separately on a basic separate database as being suggested in the Report. The ML intends to start using the Inventory (Stocks) module as from 2020 but purely for the purchase and sale of publications.*

*At present the Entity holds a fixed asset up-to-date register of all information technology related equipment. Following last year's shift to a private accounting system, the entity is now working to purchase its own inventory software and recruit an inventory officer to manage the entity's whole inventory and keep it updated. Request for this officer has also been included in the Entity's Human Resources Plans submitted for 2020.*

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<sup>2</sup> It was stated that "it is basically impractical to go over records which are 10 years old to retrieve information which is of very little use and it is very difficult if not almost impossible to retrieve such information with a certain level of accuracy".

## Control Issues

### *Procurement of Cleaning and Security Services through Expired Contracts*

- a. Two contracts for cleaning services, both valid for a period of one year, were entered into in October 2016. However, following expiry of the contract period, up to time of audit, i.e. two years later, the ML had already procured services totalling to €59,213 from these two contractors on the basis of these agreements<sup>3</sup>.

Moreover, although the services were still ongoing, no performance guarantees were provided from the respective contractors to cover the period from October 2017 onwards<sup>4</sup>.

- b. In May 2016, the ML published a tender in the Government Gazette for the provision of security services. Although it was originally envisaged that the tender period was to cover a two-year period from August 2016, the contract with the winning bidder was only signed on 15 March 2018, i.e. almost two years after the issue of the tender.

In the meantime, the ML was compelled to extend the services of the previous contractor until 31 March 2018, with an amount of €235,382 being expensed by the ML since the expiry of the contract. However, this extension was not covered by the necessary approval from the Ministry for Finance (MFIN).

### Recommendations

The ML is to ascertain that before expiry of the term of an agreement, a fresh procurement process is initiated by issuing a new call for tenders or by obtaining quotations, as applicable. This will ensure fairness and provide an equal opportunity to all interested parties.

If for valid reasons, which are outlined in the legislation, the service is acquired directly from the open market, the respective procurement has to be approved by MFIN prior to the actual commitment. Such services are also to be backed up by a valid agreement, clearly laying down the terms and conditions agreed between the contracting parties.

The ML is also to ensure that a valid performance guarantee is in hand before the effective date of the contract, to provide adequate safeguard in case of default by the contractor.

### Management Comments

*The new cleaning services tender document is finalised and has been vetted and approved by the Ministerial Procurement Unit within the Ministry for Education and Employment. It is to be published on the electronic Public Procurement System by the Ministry in the coming weeks.*

*With regard to the security services tender, the current contract expires on 15 March 2020. The new tender document is already being prepared and it will be passed on to the Department of Contracts for vetting, approval and publication.*

*Following the recommendations made by the NAO, the ML is strongly committed to follow the Public Procurement Regulations during such processes.*

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<sup>3</sup> According to the ML, the process to publish a new tender for cleaning services started in July 2019, i.e. at the time of audit.

<sup>4</sup> The ML forwarded performance guarantees for both contractors, valid for one year, commencing September and October 2019 respectively, i.e. during the audit.

## Compliance Issues

### **Publication of Direct Orders in the Government Gazette**

Contracts Circular No. 2/2017 – ‘Submission of a List of Contracts by Contracting Authorities’, and Regulation 111(2) of the Public Procurement Regulations, specifically require all Heads of Contracting Authorities to publish in the Government Gazette every six months, a full list of departmental contracts exceeding €5,000 (excluding VAT). However, details for contracts awarded by the ML in 2018 were only published in the Government Gazette on 17 September 2019, upon query by the NAO.

#### Recommendation

For the sake of transparency, the ML is to ensure that it publishes the full list of contracts awarded in the Government Gazette as per standing regulations, within a reasonable time.

#### Management Comments

*No Management comments were forwarded in respect of this issue.*

### **Fiscal Receipts obtained during the Audit**

Fiscal receipts to the value of €126,365, covering 20 of the 48 sampled invoices for cleaning and security services that were paid in 2018, were only obtained in August 2019, i.e. during the audit. This is not in line with the Value Added Tax Act (Cap. 406), which requires a fiscal receipt to be issued “... *immediately after payment has been effected* ...”.

#### Recommendation

The ML is to ascertain that appropriate fiscal documentation is obtained upon making the respective payments for the purchase of goods or services, in line with Value Added Tax legislation.

#### Management Comments

*Presently, the ML tackles such cases by calling the supplier. Following the recommendation made, the ML will be sending an official letter to all defaulters, signed by the Director Library Operations or the Head (Finance and Administration), requesting the supplier to issue and deliver a fiscal receipt.*

# Department of Education

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## Creditors and Accruals

Shortcomings in the collation and reporting of creditors and accruals as at year-end, as well as the proper distinction between payables and accruals were noted at the **Department of Education**. Additionally, creditors' year-end balances were not all in agreement with third party confirmations.

### Background

MF Circular No. 10/2001 – 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors' covers the procedures necessary for the proper management of debtors and creditors within every Ministry and their respective departments. The Treasury Department also issued TR Circular No. 3/2003 – 'Government Accrual Accounting: Procedures for the Management of Prepayments, Accruals and Capital Commitments' to establish the applicable procedures by Ministries and Departments.

In accordance with TR Circular No. 13/2018 – 'Closing of Accounts for Financial Year 2018', the analysis of creditors and accrued expenditure as at 31 December 2018 was to be submitted by 15 January 2019.

### Financial Information

The total creditors reported by the Department of Education as at 31 December 2018 amounted to €368,383, out of which 73% were outstanding for a period of less than 30 days and 5.5% due for over one year. The increase over the prior year was mainly attributable to Line Item 5063 – 'Extension of School Transport Network', which was initiated in 2018 and covered payments related to the non-state school transport system<sup>1</sup>. The amount of €213,936 reported as creditors related to transport at the end of the financial period under review.

Furthermore, the Department accounted for accrued expenditure of nearly €3.2 million, with the major part of that amount, totalling €2,281,323 (71%) pertaining to Personal Emoluments, covering outstanding remuneration for breakfast, midday break, onboard and transport supervision.

### Audit Scope and Methodology

The main scope of this audit was to assess the Department of Education's compliance with the pertinent circulars in presenting adequate and timely reports, and to provide reasonable assurance on the effectiveness of the financial management and controls applied on creditors. This also included a review of the figures as submitted by the Department.

The observations and recommendations thereto also seek to instigate the Department to make the necessary changes and get in line for the eventual adoption of accrual accounting.

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<sup>1</sup> The original allocation of this line item was €70,000; however, during the year, as the system was implemented, the Ministry for Finance substantially revised the budget of this line item to €3,424,271.

A sample of 14 creditors, amounting to €280,236 (76%) of the total creditors reported as at year-end, was selected for testing based on materiality and the nature of transaction. The sampled creditors were requested to confirm the balances due to them by the Department of Education, by means of direct communication to this Office.

A verification exercise was carried out, ensuring that all payments made during 2019 as per the Departmental Accounting System (DAS)<sup>2</sup>, in respect of 2018 invoices, or earlier, were duly recorded as still payable at end of year.

Additional testing was conducted by extracting a list of all 2019 commitments included in DAS<sup>2</sup> and identifying those expenses pertaining to the financial year 2018. A number of these commitments was then selected in order to assess whether the expenses were in fact related to 2018 and included in the appropriate returns, where applicable.

A sample of accruals, amounting to €3,008,816 (94%), was also selected by the National Audit Office (NAO) to assess whether balances were correctly included in the Accruals' Return as at 31 December 2018 and also to ensure that the figures in the return were duly backed up.

### Limitation on Scope of Audit

The NAO could not confirm the existence of eight creditors' balances out of the fourteen sampled, since the respective suppliers did not submit their response confirming the respective outstanding balance.

### Key Issue

#### *Outstanding Amounts at Year-end not reported*

The compilation of the Creditors' and Accruals' Return was based exclusively on the information received from the different sections within the Department of Education. Testing revealed that an amount of €576,700, related to invoices dated in 2018 or prior but paid during 2019, was neither included in the Creditors' Return nor provided for in the Accruals' Return.

Furthermore, in reviewing a sample of invoices, it was noted that not all of them were rubber stamped with the date of receipt. Consequently, the Department was not in a position to establish the exact date when the pending invoices were actually received at their end for an adequate cut-off assertion.

### Recommendations

All the relevant sections within the Ministry for Education and Employment (MEDE), as well as the schools falling within their remit, are to be notified, by means of an official letter issued by the Department, that information related to pending payments is to be forwarded to the Finance Department prior to the submission deadlines of each quarter.

Furthermore, considering the materiality of the amounts omitted, and keeping in mind Government's plan to adopt the accrual accounting of which creditors' and accruals' balances are an integral part, the Department of Education is to ascertain that all unpaid invoices as at year-end are appropriately recorded as payables and a distinction is made between creditors and accruals.

### Management Comments

*The Department and the Finance Section within the MEDE will be communicating with a memo with all Departments and Directorates within the MEDE's remit to draw the attention of responsible officials regarding this observation. Furthermore, every quarter, the Finance Section will follow up with all the Departments and Directorates.*

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<sup>2</sup> Report from DAS was extracted on 13 May 2019.

## Control Issues

### **Creditors' Year-end Balances not in Agreement with Third Party Confirmations**

From six confirmations received out of the fourteen sampled creditors, only two of them tallied with the amount as reported by the MEDE as at year-end. The net effect of these discrepancies amounted to an understatement of €532,655. Upon further enquiry by the NAO, the MEDE did not specify the main reasons for these differences.

#### Recommendation

In order to ensure completeness and accuracy of reported figures, the Department is to obtain statements on a regular basis from all suppliers and reconcile the respective balances, especially prior to submitting the Creditors' Return.

#### Management Comments

*The MEDE receives statements regularly from a number of creditors, however not all creditors send such statements. The statements received are reconciled and the Finance Section coordinates between related parties to clear approved pending invoices. There are instances where suppliers are not aware that some invoices are due by an entity under the MEDE's remit which has its own funds and accounting system and hence discrepancies arise.*

*The memo that will be sent to all Departments and Directorates within the MEDE, as mentioned above, will minimise the instances where balances are not accurate. Every quarter, the Finance Section will follow up with all Departments and Directorates.*

### **Erroneous Entries in the Creditors' Lists**

Following a review of a sample of transactions and supporting documents, it transpired that the creditors' list as at end of December 2018 contained three invoices received in 2019, for services rendered in 2018. For proper cut-off purposes, these invoices amounting in total to €22,771 should have been recorded as accrued expenses rather than creditors, thus the importance that all invoices are rubber stamped with the date when the invoice is received at the Department.

#### Recommendations

Adequate checks are to be carried out to ensure that a proper distinction is made between payables and accruals. For the treatment and disclosure of the different categories of expenditure, the Department of Education is to be guided by Annex 2 of TR Circular No. 3/2003.

#### Management Comments

*Clear instructions will be given to all in the memo to be sent to all Departments and Directorates within the MEDE. Every quarter, the Finance Section will follow up with all Departments and Directorates.*

### **Understated or Unsupported Accrued Expenditure**

#### **Onboard Supervision**

The figure for onboard supervision included in the accruals' list, amounting to €84,959, was made up solely of services rendered in October 2018. The Department did not accrue for November and December. The NAO estimated that accrued expenditure is short of around €175,000.

### *Water and Electricity*

The Department's calculation for accrued water and electricity, amounting to €543,692, did not include sufficient details in respect of the invoices covered by this amount. Thus, validation of this calculation by the NAO was not possible.

### *Fuel Own Transport*

The calculation for accrued amount under Fuel Own Transport was €46,426, being the equivalent as that taken for the same period during the preceding year. However, since transport costs were on the increase, this Office is of the opinion that a higher accrual was required.

### *Materials and Supplies*

Notwithstanding that an accrual of €36,331 for books purchased for the 2018-2019 scholastic year was reported in the return, only an invoice of €2,954 was forwarded to the NAO to substantiate the amount in question. No other information was forthcoming relating to the remaining balance of €33,377.

### *Recommendations*

The Department is to ensure that it accrues for the whole period remaining until year-end, notwithstanding that figures may not be absolute and certain. While taking prior year figures could be good indicators for the current year's accrued expenditure figure, the Department is to analyse current trends and identify the need for higher or lower accrued amounts, as the case may be.

The Department's workings have to include all possible details, making it easier for such calculations to be recomputed by the Department itself or by other third parties. A spreadsheet is to be prepared, showing the last invoice readings of water and electricity for all the premises under the responsibility of the Department, and the actual meter readings taken at the end of December for a more accurate accrued amount.

### *Management Comments*

*Necessary action will be taken. A spreadsheet with all the relevant details will be compiled with regard to the water and electricity bills.*

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Ministry for Energy and Water Management

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# Engineering Resources Limited

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## Financial and Compliance

The procedures and internal controls in relation to the areas tested at the **Engineering Resources Limited** were found to be adequate and in sound operation. The salaries reimbursement system between the company and the various entities was also satisfactory.

### Background

The Engineering Resources Limited (ERL) was set up in 2014 with the scope of taking on all the employees of the then defunct Enemalta Corporation. The Company's operations are based on the provision of human resources to Government departments and entities, as well as other companies operating in the energy sector<sup>1</sup>, in their quest to overcome the shortage of staff within their workforce.

In 2018, the ERL was allocated a contribution from the Ministry for Energy and Water Management under Vote 15, Line Item 6818, amounting to €13 million, which was later increased to €16.4 million to make up for the difference following the revision of salaries in line with the respective Collective Agreement. The highest expenditure pertains to salaries, which during the year under review, in aggregate amounted to approximately €48 million, covering over 1,300 employees. The majority of this expenditure was recouped from the respective entities.

### Audit Scope and Methodology

The main scope of the audit was to verify whether expenditure recorded for 2018, which, as indicated in the Background, mainly comprised salaries of employees and the amounts recouped, were free of material misstatement.

Walkthrough tests were carried out to understand the applicable procedures to recharge salaries and related overtime to Enemalta plc, Enemed Co. Ltd, International Energy Service Centre Ltd (IESC) and other Ministries or Departments, as well as the procedures for the ERL to request and receive its Government subvention.

A set of management accounts as at 31 December 2018 was provided by the ERL. On the basis of these figures, the following were analysed:

#### Actual Salaries and their Cost

The sales figure of €30,154,710, representing the amount of salaries recharged to Enemalta plc, Enemed Co. Ltd and the IESC, and the cost of sales figure of €46,594,871, being the actual salaries paid to the respective employees, were analysed by this Office. An exercise to verify whether cost was fully recharged and eventually recovered from the respective entities was also carried out.

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<sup>1</sup> Namely Enemalta plc, Enemed Co. Ltd and International Energy Service Centre Ltd.

Salaries of those employees deployed with various Government Ministries or Departments, whose cost is borne by the ERL was verified. A number of queries, mainly relating to high overtime charges, shift premiums and on-call allowances, were put forward to the ERL and followed-up accordingly.

### Overtime

Overtime worked at Enemalta plc, Enemed Co. Ltd and the IESC is fully recoverable by the ERL. An additional overtime amount of €400,354 was also reported as part of the ERL's turnover. This figure represented overtime worked by the ERL employees seconded within a number of Ministries or Departments which were charged separately. A sampled amount of €60,000 (15%) paid for overtime, selected on the basis of materiality, was analysed in this regard.

### Administrative Charge

A high-level analysis was carried out with respect to a total of €307,649 paid in 2018, covering an administrative charge of €400 levied by the ERL on each employee deployed within Enemalta plc, Enemed Co. Ltd and the IESC.

### Expenditure

The National Audit Office (NAO) identified those expenses which amounts were deemed to be material. Queries were put forward with regard to the Information Technology Support, Insurance and Inheritance Allowance. A thorough understanding of the nature of each expense and its provenance was obtained.

### Conclusion

The NAO was satisfied that the procedures and internal controls in relation to the areas tested were adequate and in sound operation. The recharging system between the ERL and the various entities whereby the related salaries were being recouped was also satisfactory. Additionally, all documentation requested was made available and staff was well versed on their respective areas of work and replied to all queries raised by this Office in a timely manner.

### Management Comments

*Management welcomes the report for having appraised the ERL's operations and financial management as such, and this is because it holds the NAO at high esteem and what it stands for.*

# Ministry for Energy and Water Management

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## Creditors and Accruals

Deficiencies in the creditors' control procedures led to creditors' balances as well as accruals not being reported in full at year-end at the **Ministry for Energy and Water Management**.

### 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. This circular stipulates that creditors' records are to be updated to reflect accurate details of the amounts payable by each Ministry and their respective Departments. 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 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 2018, the Ministry for Energy and Water Management (MEW) reported an amount of outstanding dues of €185. On the other hand, it accounted for accrued expenditure of nearly €20.7 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 2018.

Documentation pertaining to creditors and accruals for the year under review was provided. With regard to the amounts reported, the National Audit Office (NAO) conducted a systems overview of the whole process followed by walkthrough tests.

Additional testing was conducted to assess whether the Creditors' Return submitted as at year-end 2018 was complete. Payments pertaining to 2018 invoices, made by the MEW from January to March 2019, were extracted from the Departmental Accounting System to confirm that the respective amounts were reported in the Creditors' Return for Quarter 4 (2018) and Quarter 1 (2019), as applicable.

A sample of 10 individual amounts, representing 99.9% of the 2018 year-end accrued expenditure balance, was selected for testing based on materiality and nature of transaction. This Office verified whether the respective balances were settled during 2019, whilst ensuring that the amounts were reasonably estimated.

## Control Issues

### *Balances omitted from the Accruals' Return*

Testing revealed an aggregate omission of €32,344 in the Accruals' Return. These related to eight invoices for services procured in 2018.

### Recommendations

A review is to be conducted by the Accounts Sections of all pending commitments dated prior to the year-end. Moreover, the Ministry is to compile a checklist of all known categories of expenditure, on the basis of which it could then estimate the amounts accrued.

### Management Comments

*Effective from April 2019, i.e. Quarter 2 of 2019 accrual reporting, the Ministry is carrying out reviews of all pending commitments during the period being reported. All categories of expenditure have been compiled and are being checked on a regular basis.*

### *Creditors as at Year-end not reported in the respective Return*

A total amount of €12,645, representing 11 different invoices dated 2018, was not reported in the Creditors' Return. A substantial part of this sum related to reimbursements to the Energy and Water Agency, covering staff salaries totalling €8,814<sup>1</sup>.

### Recommendations

The Accounts Section is to coordinate with and send a reminder every quarter to all the units falling within the responsibility of the MEW in order to ensure it is provided with all pending invoices without undue delay. The date of receipt of invoice is to be clearly indicated by using a rubber stamp, to facilitate the compilation of accurate and timely information submitted to the Treasury Department.

Any reimbursements that the MEW is committed to make are to be processed by the same Ministry rather than the Treasury Department. This would enhance the better control and communication within the Ministry and its entities.

### Management Comments

*Based on the NAO's recommendations, the MEW is issuing reminders to all directorates, entities and sections within the Ministry's remit for the submission of any pending commitments and/or invoices. The date of receipt is being inserted and endorsed by the receiving officer on each invoice. Moreover, the MEW is requesting statements from contractors, as well as any accrued expenses, such as fuel consumption, newspapers and utilities, from the respective staff in charge.*

*With regard to the reimbursements being processed directly by the Treasury Department, the MEW instructed the Energy and Water Agency to start copying them in any email correspondence in relation to these payments. However, recently it transpired that payments will start being settled directly by the Ministry in view of that the European Union Funds Management Directorate will no longer remain operational. Therefore, the Ministry considers this recommendation as sorted and implemented as well.*

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<sup>1</sup> These were settled by the Treasury Department on behalf of the Energy and Water Agency which falls under the MEW.



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Ministry for European Affairs  
and Equality

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# Occupational Health and Safety Authority

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## Expenditure

The procurement of accountancy services for the last seven years at the **Occupational Health and Safety Authority** was not in line with regulations. Inaccurate amounts in the Authority's audited financial statements were also noted.

### Background

Established by virtue of the Occupational Health and Safety Authority Act (Cap. 424 of the Laws of Malta), the Authority is responsible for ensuring that the physical, psychological and social wellbeing of workers in all work places are promoted. It is also the duty of the Occupational Health and Safety Authority (OHSA) to see that the levels of occupational health and safety protection established by the Act are maintained, and that workers are duly safeguarded.

The approved 2018 budget allocation for Line Item 6282 – Occupational Health and Safety Authority, falling under the Ministry for European Affairs and Equality, Vote 16, amounted to €1,220,000. According to its financial statements for 2018, the OHSA also reported the amount of €218,894 as miscellaneous income, as well as a Government capital grant amounting to €25,644.

### Audit Scope and Methodology

The main scope of the audit was to ascertain the adequacy of internal controls, as well as to ensure the accuracy and validity of salary payments, being the Authority's most material expense. Payments to eight employees, out of a total of 36 officers on the OHSA's payroll, were selected for verification.

Moreover, the National Audit Office (NAO) sought to verify whether procurement procedures adopted by the OHSA complied with the Public Procurement Regulations (PPR). Testing focused on the procurement of accountancy and payroll services<sup>1</sup>.

The effectiveness of internal control measures over the collection of administrative fines, which totalled €194,690 during 2018, was also verified. A sample of 10 fines<sup>2</sup> was randomly selected for audit testing, five of which related to unsettled penalties, thus leading the Authority to commence criminal proceedings<sup>3</sup>.

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<sup>1</sup> At time of audit, the Authority's accountancy and payroll function was outsourced.

<sup>2</sup> When an OHSA officer identifies an infringement during an inspection, a registered letter of intimation is sent to the offender, informing the latter of the administrative fine due. The penalty is issued in terms of the S.L. 424.33, Occupational Health and Safety (Payment of Penalties) Regulations.

<sup>3</sup> If an offender committing the infringement fails to pay the fine within 15 working days from the receipt of the letter of intimation, the OHSA commences criminal proceedings against the former.

## Key Issue

### Shortcomings in the Procurement of Accounting Services

- a. In 2011, the OHSA issued a call for quotations for the provision of accounting services, including the four-weekly payroll, in the Government Gazette. Quotations from eight different service providers were submitted, and following an analysis of the submissions received, one of the highest offers was identified as the most suitable<sup>4</sup>. The selected bidder continued providing accounting services until the year under review and was paid an aggregate of €157,980. The following shortcomings relate:
- **Cheaper quotation not selected** – In the Evaluation Report, the OHSA identified quotations from two different accountancy firms as the most compliant offers, at €30 per hour. However, according to the breakdown of offers, the bid submitted by another company was the cheapest, at €28 per hour. The evaluation team did not comment on this bid and failed to present the reasons why it was not considered.
  - **Accounting services not procured in line with the regulations** – The engagement of the service provider in 2011 was intended as a temporary solution. In 2012, the OHSA issued a tender for the provision of accountancy services, but this was cancelled since the offers were not technically compliant. Despite the intention to reissue a new tender, this only materialised late in 2018. Consequently, the services were still being obtained from the same service provider until December 2018. Thus, the engagement actually covered a period of over seven years, for an aggregate cost of €157,980, out of which €24,833 pertained to the year under review.
  - **Indefinite engagement period** – The letter of engagement with the selected service provider did not indicate the termination date of the agreement, thus making the engagement period an indefinite one.
- b. In November 2018, the OHSA issued a call for tenders for the procurement of accountancy and payroll services. The contract, starting on 1 December 2018, was awarded to a new service provider for six months<sup>5</sup> for a maximum of €10,000 excluding Value Added Tax. However, the agreement was signed retrospectively, two months after the commencement date.

### Recommendations

In line with the PPR, where the estimated value of goods and services exceeds €10,000 excluding Value Added Tax, these may be procured after a departmental call for tenders. The terms of engagement, as well as the duration of the required services, are also to be clearly indicated in the respective call.

All submitted bids are to be evaluated in terms of administrative, financial and technical compliance, prior to selection. Justified reasons are to be given when the cheapest offer is not selected.

Furthermore, contracts are to be signed prior to the initiation of service, to ascertain the parties' agreement to the terms and conditions, obligations and payment terms. Management is to refrain from extending agreements indeterminately, so as to ensure efficient allocation of resources.

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<sup>4</sup> As stated in the Evaluation Report, despite being one of the highest bidders, the selected service provider presented the best eligible and unconditional offer and was awarded this temporary task to accommodate immediately the OHSA requirements in view of the backlog left by various accountants.

<sup>5</sup> Up to end August 2019, the accounting services were still being procured from the same service provider.

## Management Comments

a. *The below information refers:*

- *Closer scrutiny of the submission revealed that despite being a cheaper bid, the firm's submission failed to acknowledge a number of deliverables required from this assignment, as published in the Government Gazette<sup>6</sup>.*

*It is correct to say that in the text of the Evaluation Report the cheapest offer was omitted. In retrospect this could be the result of oversight by the evaluation panel. Since the assignment was to be of a temporary nature, the decision to award the task to one of the bidders charging at €30 per hour was based on top management's perception that this bidder was the best contender to pick up the pieces left by the outgoing provider and deliver payroll and accountancy services until a fully-fledged tender was drafted, issued and awarded.*

- *Lack of internal expertise and limited resources rendered issuing a tender very difficult throughout the years. The OHSa was also considering recruitment to fill in the gap in procurement, finance and administration. As a temporary measure, a public officer detailed to the OHSa is undertaking procurement duties at tendering level. It is anticipated that through this measure, the OHSa's procurement programme at this level would be on track by the end of the year.*
- *It is correct to say that the letter of acceptance did not indicate a termination date.*

b. *Work by the selected service provider commenced just before the Christmas period and due to unavailability of the signatories, a draft was timely handed to the service provider until the formal signing. The provider's term was extended via an addendum. In the meantime, the OHSa issued a call for quotes for temporary services until December when the Tender for the Provision of Accountancy and Payroll Services, currently at bidding stage, is expected to be awarded.*

## Control Issues

### *Inaccurate Amounts in the Audited Financial Statements*

- a. **Overstated Government subvention** – The Government recurrent grant in the Authority's audited financial statements as at end December 2018 was overstated by €101,667<sup>7</sup>. The OHSa intends to compensate for this error by understating the income in the financial statements for 2019 by this difference and including an explanatory note.
- b. **Expenditure not accrued for** – The audited financial statements also included an understatement of accrued expenditure amounting to €1,298 covering accounting and payroll services provided during December 2018.

## Recommendation

Information presented in the audited financial statements is to be accurate and in accordance with the requirements of the International Financial Reporting Standards.

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<sup>6</sup> During audit fieldwork, the NAO was only provided with excerpts of the company's submission.

<sup>7</sup> The Authority's audited financial statements for the year ended 31 December 2018 indicated a Government recurrent grant of €1,321,667, as opposed to the actual funds received of €1,220,000.

## Management Comments

*Both a) and b) were errors by the new service provider. One must consider the circumstances at the time, being the change in service provider (hence the learning curve) and the tight deadlines for delivery of auditing financial statements for publication.*

### **System for recording Administrative Fines prone to errors**

Once a letter of intimation is sent to offenders, the OHSA records the fines due on a spreadsheet, which also includes details on whether the respective amounts were settled in full, partly paid, cancelled, or not due following the initiation of criminal proceedings against the offender. This method of keeping track of income payable to the Authority is considered as unreliable, since information can be easily omitted, erroneously or intentionally, from the spreadsheet.

## Recommendation

Management is encouraged to keep record of the administrative fines and respective income received by means of a database which comprises a full audit trail. Such system would facilitate the collation of information required both for accounting, as well as for internal control purposes. A reconciliation exercise will also reduce the risk of data tampering.

## Management Comments

*The OHSA is aware of this fact. It has issued a call for the drawing up of technical specifications for the development of a management information system, which will also encompass such transactions. This notwithstanding, reconciliation between the number of fines issued and the payments received has never revealed any errors. The management information system will be implemented once funds are made available.*

### **General Management Comments**

*To enhance its internal control and support functions, the OHSA has been including the recruitment of a Finance and Administration officer and a Procurement officer in its Human Resources plans. However, recruitment at the OHSA remains on hold following a Board decision to wait until the carrying out of a comprehensive business plan, thus avoiding any piecemeal approaches to recruitment. The need for such expertise within the OHSA was also included in a preliminary technical report drawn up by independent experts.*



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Ministry for Finance

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# Direct Orders and Negotiated Procedures without prior Publication

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## Analysis

Statistics on purchases made through **Negotiated Procedures without prior Publication** during the year under review was not readily available at the Department of Contracts. In this respect, the planned analysis was hindered. A review of purchases totalling approximately €86 million, made by **Direct Order** following approval from the Ministry for Finance during 2018, revealed that nearly 9% of such procurement was made by the Central Procurement and Supplies Unit within the Ministry for Health.

## Background

As prescribed by Article 103 of the Public Procurement Regulations 2016, the Direct Orders (DO) Office within the Ministry for Finance (MFIN) is responsible for the granting of approvals for direct contracts whose value is in excess of €10,000 and not more than €144,000<sup>1</sup>. Figures provided by the DO Office during the audit show that related approvals in 2018 totalled €85,813,510<sup>2</sup>.

For contracts in excess of this threshold, the Contracting Authority (CA) would have to resort to the Department of Contracts (DC). One of the options available for such procurement, where specific conditions are met, is the use of the Negotiated Procedure without prior publication. In such cases, the CA is allowed to consult the economic operator of its choice and negotiate directly the terms of the respective contract.

## Audit Scope and Methodology

The main scope of this assignment was to conduct a high level analysis in relation to the granting of DO, within the threshold referred to above, as well as procurement through Negotiated Procedures without prior publication.

An analytical exercise into the amounts approved by the DO Office during the three-year period 2016 to 2018<sup>3</sup> was undertaken.

## Limitation on Scope of Audit

The DC's involvement with regard to procurement through Negotiated Procedure without prior publication for goods and services above the threshold of €144,000 is solely limited to its approval for the CA to go ahead with this approach. It is then the latter that negotiates with the chosen supplier and signs the related contracts. Eventually

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<sup>1</sup> A higher threshold of €443,000 applies in the case of the Water, Energy, Transport and Postal Services Sectors.

<sup>2</sup> According to the MFIN, this approximates to 3.8% of Government Expenditure (excluding interest payment, personal emoluments and social security benefits). Furthermore, as at 1 October 2019, this figure was revised to €85,783,552.

<sup>3</sup> During the fieldwork, data with respect to 2018 was only available until September.

the DC gives the final approval on the amount contracted. However, the latter does not have readily available statistics with regard to such approvals for any given period, since this information is not compiled in a manner that facilitates its retrieval. Thus, regrettably, this Office was not in a position to carry out the planned analysis in this respect. Indeed, the DC is expected to start compiling this important information.

#### Management Comments – Department of Contracts

*A database through which statistical data on Negotiated Procedure approvals granted to the CA can be captured, has been set up and is being populated, in a timely manner, with real time information. This database is currently covering data related to Negotiated Procedures approved as from 1 January 2018 onwards.*

#### Data Analysis – Direct Orders Office, Ministry for Finance

Chart 1<sup>4</sup> shows the requests for DO by each Ministry from January to September 2018 and distinguishes between the source of these requests, be it either from the public service or from public entities.

As can be seen from Chart 1, the Ministry for Health (MFH) had the highest volume of DO requests. Its main contributor was the Central Procurement and Supplies Unit (CPSU) with an aggregate DO amount of €7.7 million, mainly covering medicines and medical items<sup>5</sup>. Over €765,000 related to Financial and Legal services, Consultancy, Support and Management services, as well as one year supply of meat, three years supply of disposable curtains, and the provision of interfold hand towels procured by the MFH.

It was also noted that repeat procurement from a number of companies was effected by DO by the CPSU. Amongst others, purchases in this manner, amounting to around €486,000, were made from a particular private company in nine months.

According to the nine-month data provided to the National Audit Office (NAO) for 2018, the Ministry for Home Affairs and National Security (MHAS) and the Ministry for Education and Employment (MEDE) ranked next in the aggregate number of DO within the Public Service, amounting to approximately €2.6 million and €2.3 million, respectively. The Armed Forces of Malta, within the MHAS, exceeded €1.87 million in approvals for DO during the same period. Requests by the latter ranged from the provision of a one-year service plan on the aircrafts' imaging sensors, to pilot courses, and also included a large number of spare parts.

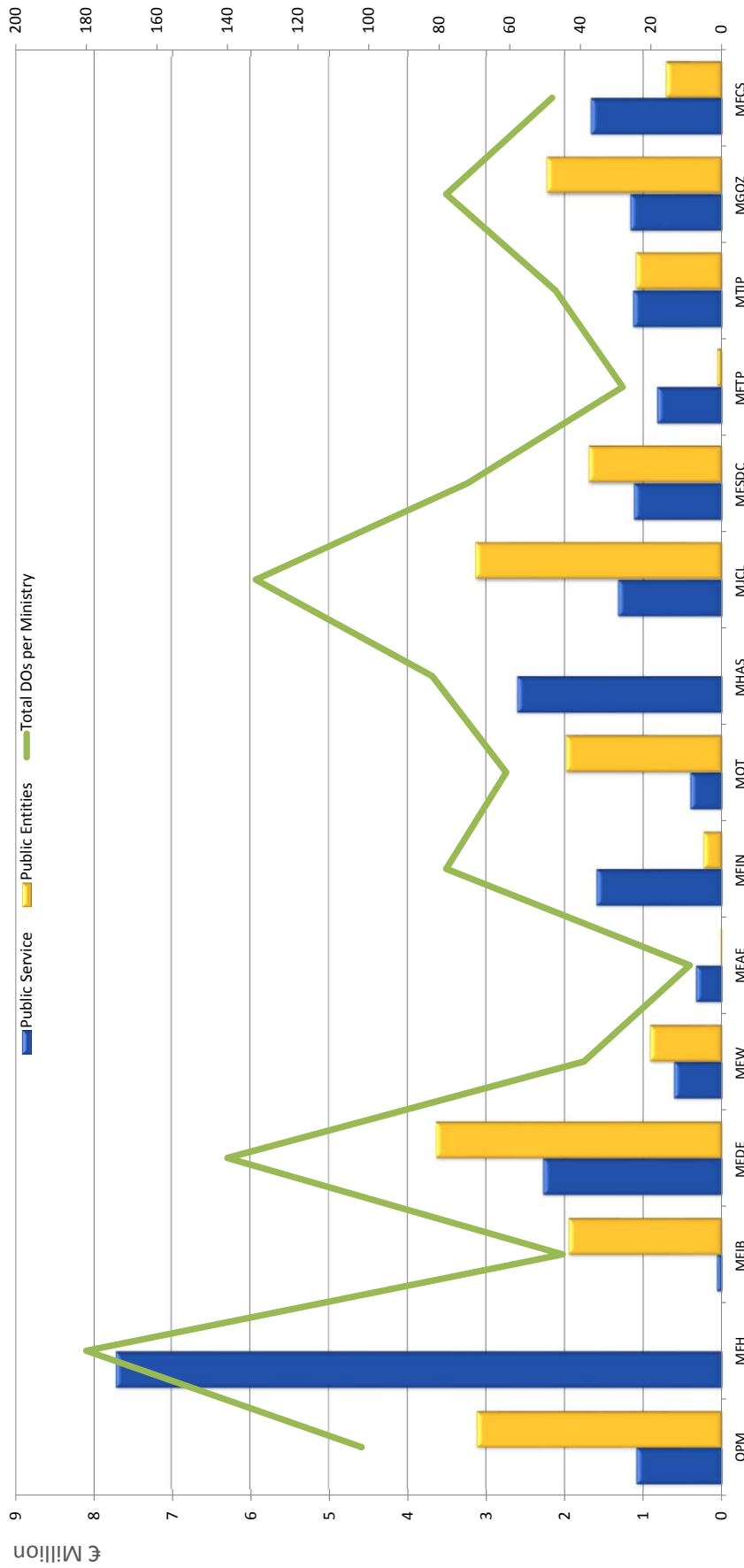
With €3.6 million in DO requests, the MEDE was also top ranking for the Government Entities category. Almost 85% of these requests related to the Foundation for Tomorrow's Schools and the University of Malta. These included contracts for services of architectural nature, as well as construction, which according to MFIN are both areas constrained by limited supply.

Taking into consideration the previous two years, i.e. from January 2016 to December 2017, the outcome was more or less consistent with that for 2018. The MFH ranked first for DO requested by the public service, with the CPSU submitting the highest number of requests (935), amounting to around €37 million. Over the three-year period, public entities within the MEDE were those that requested the most DO approvals from the MFIN. Charts 2 and 3 refer.

<sup>4</sup> The value of the DO in monetary terms is shown on the left hand side Y-axis, while the number of DO requests per Ministry is indicated on the right hand side Y-axis.

<sup>5</sup> According to the MFIN, total expenditure for the year on these items was of €104.4 million.

Chart 1 – 2018 Direct Orders Analysis



The Ministries referred to in the Charts are as follows: Office of the Prime Minister (OPM), Ministry for Health (MFH), Ministry for the Economy, Investment and Small Businesses (MEIB), Ministry for Education and Employment (MEDE), Ministry for Energy and Water Management (MEW), Ministry for European Affairs and Equality (MEAE), Ministry for Finance (MFIN), Ministry for Tourism (MOT), Ministry for Home Affairs and National Security (MHAS), Ministry for Justice, Culture and Local Government (MJCL), Ministry for the Environment, Sustainable Development and Climate Change (MESDC), Ministry for Foreign Affairs and Trade Promotion (MFTP), Ministry for Transport, Infrastructure and Capital Projects (MTIP), Ministry for Gozo (MGOZ) and Ministry for the Family, Children's Rights and Social Solidarity (MFCs).

Chart 2 – Analysis of Direct Orders by Ministry (Public Service) 2016 – 2018

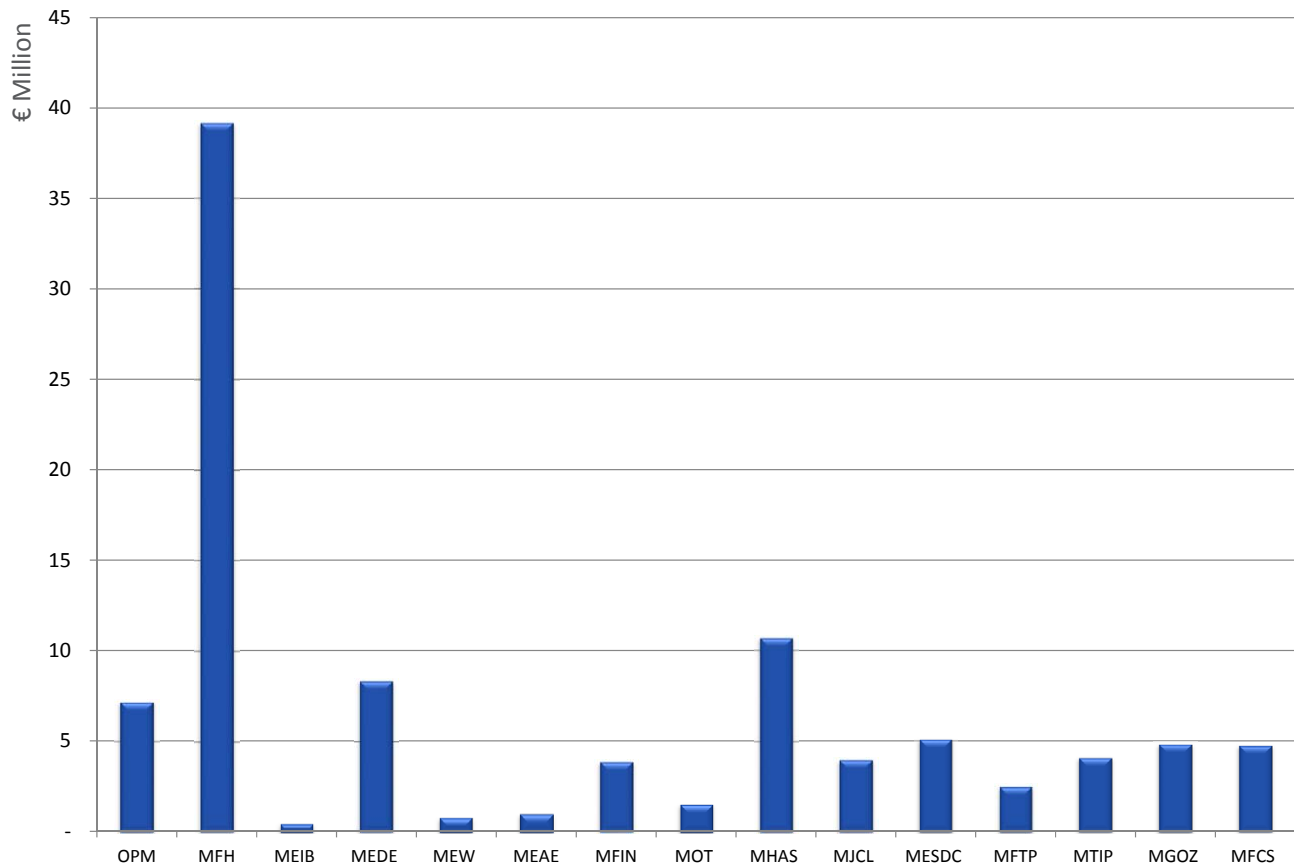
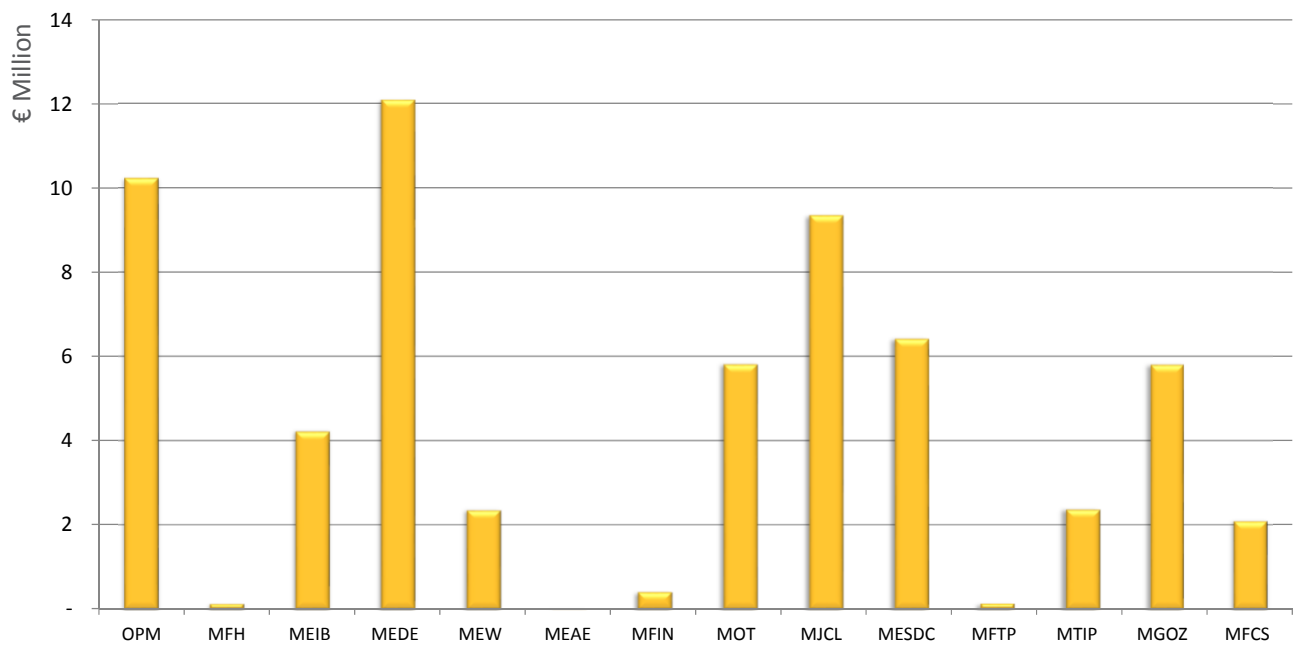


Chart 3 – Analysis of Direct Orders by Ministry (Public Entities) 2016 – 2018



## Direct Order Refusals

An analysis was also conducted on the requests for DO that were refused. From the information provided, it transpired that over the period January to September 2018, there were 17 DOs, whose value in aggregate exceeded one million euro<sup>6</sup>, which were refused on the basis that the request was made retrospectively by the CA. These related to works that had already been commissioned, hence resulting in such requests being directly in breach of the provision of the Public Procurement Regulations and the requirements of the MFIN Circular No. 3/2013 – ‘Public Procurement Regulations – Direct Orders’, specifically on the DOs.

In certain cases of refusals, an approval to pay is granted once the respective services satisfy the CA’s requirements, are properly accounted for and verified, and provided that funds are available<sup>7</sup>. The NAO strongly feels that in such cases, apart from referring to payment (which, in any case, would need to be made given that the required works or services would have been duly provided), a more serious approach should be taken towards officers commissioning works or services without obtaining prior approval in line with the procurement regulations.

A number of other DO refusals were mainly because the request fell outside the remit of the DO Office. This indicates lack of knowledge of the applicable regulations by the departments and entities concerned.

## Control Issue

### *Data Recording*

Whilst acknowledging the work overload within this Section, the NAO also noted that the DO Office lacked a proper system to record requests for DOs. Although the details in respect of the DO approvals and refusals were kept in spreadsheet format, the relevant data was not always inputted in a consistent manner and often resulted in errors. This made it very difficult for the NAO to analyse the relative information for this assignment. Moreover, records did not contain the basis on which the DOs were granted or refused. The relevant details were retained separately in manual files.

### Recommendations

Not only is the manual input of data into a spreadsheet a laborious process, but is possibly conducive to backlogs and error. It is therefore strongly recommended that the DO Office considers the introduction of a system that caters for the repetitive nature of the information being handled. Facilities, such as a pre-established list of Ministries, Departments, Entities, and reasons for which a request could be approved or refused, would be very helpful in having data which is complete and useful for analysis purposes. The DO Office itself could make use of this data for analytical reviews and in identifying, for instance, which Ministries are requesting the most DOs approvals and the respective justification.

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<sup>6</sup> Total for 16 DOs amounted to €1,032,903 while the value of the remaining one was not specified.

<sup>7</sup> In its refusals, the DO Office always stresses that its advice cannot be construed in any way as a DO approval.

## Management Comments – Ministry for Finance

*Starting January 2019, the database at the DO Office was reviewed to feature a pre-established list of Ministries, Departments, Entities, and the nature of justification supporting requests for the DOs. This will facilitate better analysis of sources and justification supporting requests. A standard template was introduced in the last quarter of 2018 wherein all relevant details of a request are to be included. This template includes the name and position of the officer raising the initial request for the procurement, for a better audit trail.*

*The procurements by the CPSU within the MFH were fully justified and followed procurement regulations and procedures.*

*The DO Office highlights instances when procurement regulations and procedures may have been breached or when a request seems to be inconsistent. It is the duty of the CAs to follow any irregularities noted.*



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Ministry for Tourism

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# Malta Tourism Authority

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## Expenditure

An audit at the **Malta Tourism Authority** revealed concerns, particularly in relation to marketing expenditure, as well as the organisation of events.

### Background

The Malta Tourism Authority (MTA) falls under the responsibility of the Ministry for Tourism and was formally set up by the Malta Travel and Tourism Services Act (1999).

The objectives of the MTA are as follows:

- To promote and advance Malta as a tourism destination.
- To advise Government on tourism operations and to issue licenses under the Act.
- To contribute toward the improvement of the level of human resources in the tourism industry.
- To advise Government on the planning and development of the tourism industry, as well as on the infrastructure supporting the industry.
- To assist and advise on any tourism related issues and to undertake activities and projects to fulfil its role.

The approved budget allocation for 2018 under Vote No. 26, Line Item 6794 – Malta Tourism Authority, amounted to €55 million but was subsequently revised to €62 million. The Authority also received funding from other sources. The MTA's total income for the year under review amounted to €72,168,249. On the other hand, total expenditure amounted to €73,200,686<sup>1</sup>, resulting in a deficit in 2018 of €1,032,437. The MTA's financial statements for the year under review were audited by a private audit firm in line with the requirements of the Act.

### Audit Scope and Methodology

The main scope of the audit was to evaluate the level of existing internal controls over the recurrent expenditure incurred by the MTA during the year 2018. The audit also aimed to ascertain the prudent use of Government resources and efficient use of public funds.

An introductory meeting was held with Management to discuss the audit objectives and obtain a general understanding of the relevant procedures adopted by the Authority. Following a statistical analysis of the data provided, the National Audit Office (NAO) selected a qualitative sample of transactions based on risk and materiality from three different line items falling under Marketing and Operative Expenditure. The selected line items, which represented 65% of the expenditure in question, amounted to more than €43 million. All documentation made available, pertaining to the sample selected for testing, was verified by the NAO to ensure that effective procedures on the related expenditure were in place and adhered to.

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<sup>1</sup> Net of investment income and losses on foreign exchange transactions.

## Limitation on Scope of Audit

The MTA did not have a systematic method of filing, as explained later on under the respective observation. This limited the scope of the audit since a complete audit trail could not be ascertained.

## Key Issues

### *Route Development Payments*

#### Background

The MTA strives to achieve a healthy, sustainable and equitable tourism sector for the Maltese Islands, attracting regular inflows of quality visitors throughout the year from a diverse range of source markets.

The promotion of Malta is done through various tools, primarily through advertising campaigns in all its main core and secondary markets. The advertising is undertaken in co-operation with trade partners, including airlines and tour operators.

Whilst positively acknowledging the increasing annual number of tourist arrivals over the years, the following concerns were noted:

#### *Agreements with Airline Companies*

- The MTA's core operation includes domestic and international marketing of Malta as a tourist and business destination. Thus, it invests significantly in local and international advertising, through both individual and joint marketing campaigns, with the objective of creating opportunities in specific tourism sectors which are commercially viable and leave the desired financial return. According to the MTA, a very effective means of achieving this is through advertising on airline and travel-related websites, as well as on other aviation-related media. In fact, the MTA regularly enters into agreements with airline companies as deemed most opportune, depending on market trends, availability of aircraft, research and past experience. More so, given that the MTA's objectives are heavily dependent on the operation of the routes between Malta and other airports, it is considered beneficial to incentivise air transport between Malta and various destinations. To this effect, the MTA, enters into agreements with certain air services operators to increase passenger flows to and from Malta in line with Government's policy of enhancing connectivity and market diversification. These contracts, with expenditure that varies according to different business plans, were assessed for compliance. However, the NAO was not in a position to fully confirm the bases on which the amounts disbursed were determined.
- The Authority maintained that due to the nature of the service given by the airlines, the expected benefits can only be provided by particular economic operators in possession of exclusive intellectual property rights. Thus, in such cases, once competition is not possible, it resorts to the use of negotiated procedure, without prior publication, with selected airline companies. Although the Office appreciates the extremely sensitive commercial context within which the MTA operates, the NAO noted that the required authorisation from the Director Contracts to resort to this procedure, as per Article 150 of the Public Procurement Regulations, was not obtained.

### Recommendation

Given the nature of such agreements and the importance of the tourism industry, it is recommended that the MTA enters into discussion with the Department of Contracts in order to identify opportunities for possible improvements in the relative procurement procedure.

### Management Comments

*The basis on which amounts disbursed were established was direct negotiation with the airline concerned. Negotiation takes place jointly with the Malta International Airport to ensure that a single package is granted rather than allow the airline to negotiate two separate agreements to its advantage. Some airlines request amounts higher than others and we try to seek a balance between the amount invested and the potential return depending on the strategic importance and growth potential of the airline concerned.*

*The observation made by the NAO regarding authorisation-seeking from Director Contracts with respect to Article 150 of Public Procurement Regulations is valid and discussions will be entered into to seek it for future agreements.*

### *Contract signed retrospectively*

The MTA signed a retrospective marketing services agreement with a particular airline on 17 May 2018. Through another agreement signed on the same date, the MTA agreed to pay the operator an incentive of a marketing contribution per passenger departing from the Malta International Airport. Agreements are both valid for five years, commencing on 1 April 2017.

### Recommendation

Agreements are to be duly signed prior to their effective date to ensure comprehensive coverage and full legality.

### Management Comments

*This is confirmed. However, care will be taken to avoid retrospectively signed contracts in future.*

### *Payments in excess to Agreement*

An agreement was entered into in March 2010 with a company which had the exclusive license to offer tourism-related marketing services on behalf of another airline. This agreement was valid for five years and extended for a further period of five years in line with the provisions of the same agreement.

Two years later, the MTA entered into another agreement with the same company, to determine the conditions under which the latter was to provide marketing services to promote various tourists and business attractions in Malta. The agreement was valid for five years, commencing as from 1 May 2012 and extended for a further period of five years as provided for in the contract.

The NAO noted that during the year under review, the total amount paid to the service provider with respect to the foregoing services exceeded the pre-established amount. Upon enquiry, the MTA claimed that the working relationship with this particular service provider was based on a growth model, which encouraged seat capacity to and from Malta through a combination of extended seasons, additional frequencies on existing routes and the introduction of new routes. However, no documentation was provided by the MTA to support this additional payment, except for statistical data backing up the increase in passengers during the year under review.

## Recommendation

Any amendments to the agreements are to be clearly agreed upon in writing by both parties. This will ensure fairness and clarity of all clauses.

## Management Comments

*The contracts with this airline which has a proven track record of annual growth are based on a double premise: a) that the support given per passenger also applies to new routes which are introduced after the contract's signing and b) there is no change in per capita support irrespective of incremental volumes carried. The fact that the amount disbursed during 2018 was in excess of the amount listed in the contracts highlighted by the NAO is merely due to the fact that the airline introduced new routes or added frequencies or extended seasons on existing ones. The objective of the contract is to establish support conditions rather than limit growth. Increases are merely the per capita support multiplied by incremental passengers, which passenger data is supplied officially to the MTA by the Malta International Airport.*

## *Approval of Marketing Activity not evidenced*

In the case of three out of nine airlines sampled, no evidence was available to confirm that the marketing activities undertaken were approved by the MTA or determined in collaboration with the Authority, notwithstanding that this was required in line with the respective agreements.

According to the MTA, there is informal continuous coordination with the airlines. It was also stated that different opportunities are taken to meet up and discuss matters with the service providers.

## Recommendation

Action taken to satisfy requirements emanating from the agreements needs to be evidenced.

## Management Comments

*The point here is taken. Although the MTA reiterates that continual discussions and meeting updates have adequately covered the required approval, in future, commitments established in contracts will be adhered to, including written authorisations for received proposals.*

## *Passenger Target Concerns*

In April 2018, the MTA entered into an agreement with a ferry services company, wherein the latter could claim marketing support in relation to the year 2018 by the end of the year. Besides other conditions, the contract specified that the number of passengers transported by this company to the Maltese Islands had to meet or exceed a specified passenger target. However, the following concerns were noted:

- No information was available regarding the establishment of the quoted target, but the NAO was verbally informed that it was determined following discussion between the MTA and the service provider.
- The contract referred to a 'passenger' not 'tourist' target. Upon enquiry, the MTA claimed that the company could not distinguish between the different categories, so it was assumed that the single largest component of these passengers comprised tourism flows to Malta.

## Recommendations

In order to assess the value added by its marketing contribution to the tourism industry, the Authority is encouraged to request better profiling of the company's customers. Thus, in view of the MTA's role, the targets included in future agreements are to relate specifically to the number of tourists, not passengers, travelling to the Maltese Islands.

## Management Comments

*Factors taken into account to reach this passenger target include: the company's operations schedule and seat capacity being offered during the year, market conditions, competition on the route as well as a target for achievable growth on the previous year. The marketing support extended to the company while taking consideration the targets set, is not per capita, but a budget towards a joint marketing plan in which the company at least matches and often surpasses the MTA's allocation.*

*A head count of passenger arrivals is an industry norm. Profiling by specifying tourists not passengers is not possible. While passenger numbers are verifiable, tourist numbers can only be estimated at best. It is not practical to try to adopt this methodology to every single route as each route has its own ratio of incoming tourists: outbound tourists: non-tourist traffic.*

## Control Issues

### ***Absence of a Document Management System***

The MTA does not have a systematic method of filing, whether manual or otherwise, to ensure that documents are managed and stored efficiently and effectively for ease of traceability. As a result, the auditors could not obtain reasonable assurance that information made available for review was complete.

## Recommendation

The absence of a proper document management system weakens continuity, internal control and accountability. Consequently, the MTA is to take prompt action in this respect, in order to improve transparency across its administrative and management functions.

## Management Comments

*Given the vast and diverse portfolio of the various projects and initiatives undertaken by the Authority within the structure of its various directorates, all documents relating to a particular project, initiative or expenditure are filed within that same directorate managing the expense. The Authority has always implemented this system of departmental filing, rather than a centralised registry. Whilst understanding that the filing system may vary from one directorate to another, it is not aware that any form of documentation has ever been misplaced or gone missing.*

### ***Annual Summer Concert***

The MTA entered into an agreement with an event company to make a contribution towards an annual summer concert. This Office was verbally informed that this concert has been held for the last 11 years and in 2018 they managed to reduce the MTA's annual contribution to this event by around €450,000. The following shortcomings were noted:

- Prior event budget forecast and documentation regarding sponsorship arrangements were not made available to the NAO for audit purposes.

- The contract specified that destination marketing strategies were to be devised and implemented by the company in conjunction with the MTA; however, a copy of the strategy and plan, which were to be concluded by more than two months before the event, were also not made available.
- Although one of the signatures on the contract bore a date of eight days before the event, the formal contract was entered into retrospectively. No explanation to this effect was forthcoming.

As a general comment, Management stated that while it was doing its utmost to reap as many benefits as possible from the concert by announcing it from a year before to help tourists plan their stay in Malta and also by imposing the date, little else could be done.

### Recommendation

Every effort is to be made in order to conclude agreements in due time, thus enabling the MTA to enforce the regulating provisions.

### Management Comments

*Management agrees that every effort is to be made in order to conclude agreements in due time, thus enabling the MTA to enforce the regulating provisions. However, as also stated as a general comment by the NAO, the Authority is doing its utmost to maximise on this particular event, however there are things beyond its control.*

### International Radio Festival

#### *Committee approval partially obtained*

An agreement was entered into on 25 April 2018, between the MTA and an international radio station, for the latter to host the International Radio Festival (IRF) from Malta, between 29 October and 4 November 2018. During the main months leading up to and including the festival days, the IRF broadcasted to over one hundred million listeners worldwide, thus promoting Malta during this advert. To this effect, the MTA contributed the amount of €394,000 and bound itself to cover other related costs estimated at €214,250. Although the total financial outlay for the event amounted to €609,177, testing revealed that only the contribution of €400,000 was approved by the MTA Committee<sup>2</sup>, although the relative documents did not bear the signature of two Committee members who were present for the meeting.

According to the MTA, the Executive Chairman and Head of Events, who both signed the agreement, would have been verbally informed of the budget when the agreement was drafted.

#### *Flight and Accommodation Expenditure*

The MTA was also bound to pay local hotel accommodation costs for 80 guests (who were mainly foreigners), in accordance with the IRF agreement. However, the Authority confirmed that it had also accepted to pay for the extra 24 rooms<sup>3</sup>, notwithstanding that the IRF was to bear the additional costs.

The same invoice included a cancellation charge for a total of 52 nights, in aggregate amounting to €6,371; the reason for 'no show' was not given.

The air tickets for the individuals who did not turn up were also paid for by the MTA in accordance with the agreement. The total cost of these tickets could not be established due to lack of information.

<sup>2</sup> Comprising the Executive Chairman and four members, amongst which there was a representative from the Ministry for Tourism.

<sup>3</sup> Approximate cost is €14,000. Exact cost could not be established due to lack of details.

### Recommendations

Allocation of funds by way of sponsorship, contribution or any other means is to be invariably approved by the MTA Committee. This will also ensure the completeness of the process and provide sufficient audit trail.

The NAO acknowledges that it is extremely difficult for the MTA to have full control over entertainment related events; however, as far as possible, precautions are expected to be taken in order to duly safeguard public funds. Article 2(d) of the agreement specified that the final contribution payment was subject to the outcome of a post-mortem. Thus, for future similar events, it is advisable to stipulate that the established amount may be subject to deductions, if any expenditure is deemed unnecessary or is not justified. Additionally, in order to enhance accountability, details of no shows are to be held in an organised manner and be readily available for audit purposes.

### Management Comments

*The IRF sponsorship was approved by the MTA Committee by a quorum. With regard to the 'no shows', as you have already pointed out, it is extremely difficult for us to have control over entertainment related events, this includes not having control over who shows up and who cancels last minute. Every booking made with hotels goes against a contract which includes cancellation fees. This is normal practice done by hotels internationally, however it is agreed that 'no shows' are not what we are after and some things are beyond our control.*

# Projects Malta Limited

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## Expenditure

The Public Procurement Regulations were occasionally being bypassed by **Projects Malta Limited**. There were instances when services procured by Direct Order were not backed up by formal agreements.

### Background

Projects Malta Limited (PML) was incorporated on 21 April 2014, with the aim of co-ordinating and facilitating Public Private Partnerships between Ministries and the Private Sector. It is owned 99.99% by Malta Government Investments Ltd, with the ultimate controlling party being the Government of Malta.

During 2018, a total of €2.2 million was transferred to the PML from the Consolidated Fund, as per approved budget allocation for the Ministry for Tourism, under Recurrent Vote 26, Line Item 6826. Project costs incurred up to 31 December 2018, amounted to €888,650.

### Audit Scope and Methodology

The main scope of the audit was to ensure that project costs incurred by the PML during 2018 were in line with the Public Procurement Regulations (PPR) 2016 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.

Transactions in the PML's accounting records were analysed according to the different projects and suppliers. Subsequently, a sample totalling €493,088, and representing 55% of the expenditure in question for 2018, was selected.

### Control Issues

#### *Bypassing of Public Procurement Regulations*

All individual transactions above the €10,000 threshold that were tested, were procured by the PML through Direct Order (DO)<sup>1</sup>, approved by the Ministry for Finance (MFIN) on the basis of urgency. However, in a number of instances relating to one of the projects tested, namely the Għadira project, procurement from two particular service providers, relating to professional services, were split into multiple purchase orders bearing the same date of issue, each individually not exceeding the €10,000 threshold laid down in the PPR. In such cases, the MFIN approval was not sought.

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<sup>1</sup> Includes an acquisition through a Negotiated Procedure, amounting to €200,000.

### Recommendations

Although the MFIN Circular No. 3/2013 – ‘Public Procurement Regulations – Direct Orders’ provides five circumstances under which requests for the DOs are justified, Management is encouraged to ensure that services and/or supplies are procured following a competitive procurement procedure, for a fair and transparent selection process. DOs should only be resorted to if duly justified. Moreover, fragmented purchases to bypass procurement regulations are not allowed.

### Management Comments

*It is true that the mentioned jobs were ordered on the same days and relate to the same project, but these consisted of different and separate tasks which led to the production of different reports.*

*As per the MFIN Circular No. 3/2013 (circumstance d), the PML had to recur to procure these services directly, due to extreme urgency, since completion of the planned works had to be carried out prior summer 2018. In order to carry out such works, these elaborate studies had to be completed so that the relevant authorities’ permits could be issued in time.*

### **Services not backed-up by a Formal Agreement**

The professional services referred to above, as well as a study exercise charged through another invoice in relation to the same project, were not supported by a formal agreement to show the terms and conditions, as well as the applicable chargeable rates. Consequently, eight sampled invoices, for the total value of €86,612, could not be validated. It is also pertinent to point out that one of the foregoing service providers did not issue an appropriate fiscal document.

### Recommendations

Terms and conditions agreed upon with suppliers or service providers, including work to be carried out and relative costs, are to be clearly documented in an agreement signed by both parties and filed accordingly. This should also serve as the basis against which invoices are verified before processed for payment.

### Management Comments

*The chargeable amounts in question had been agreed upon during meetings related to the project at our offices. This can be verified by the minutes taken during these meetings. It is the PML’s practice to enter into a purchase agreement through either a Letter of Engagement or a Sales Proposal or a Purchase Order. In these cases, the PML did provide the service providers with purchase orders in connection to the services being procured.*

*Having said that, we will take on board your very valid recommendation and we have amended our procurement process whereby we will start requesting a signed Letter of Engagement or Sales Proposal that include the agreed Terms & Conditions and Costings from all suppliers for all procurement above €5,000 excluding Value Added Tax (VAT).*

## Compliance Issue

### *Publication of Direct Orders in the Government Gazette*

Contracts Circular No. 2/2017 – ‘Submission of a List of Contracts by Contracting Authorities’, and Regulation 111(2) of the PPR, specifically require all Heads of Contracting Authorities to publish in the Government Gazette a full list of departmental contracts exceeding €5,000 every six months. However, by the end of January 2019, no such details were published for the DOs awarded in the preceding year<sup>2</sup>.

### Recommendations

For the sake of transparency, the PML is to ensure that it publishes the full list of contracts awarded in the Government Gazette as per standing regulations, within a reasonable time. Correctness of the information published is also to be ascertained.

### Management Comment

*We are currently working on the publishing of the full list of the DOs awarded in 2018.*

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<sup>2</sup> A DO awarded to a particular service provider following the MFIN approval, for a total cost of €50,000 (VAT excl.), was omitted from the 'Draft Notice' prepared by the PML for publication of contracts awarded during the first six months of 2018. Furthermore, another DO awarded to the same service provider in 2017, was published in the following year in the Government Gazette, bearing a value of €6,000 (VAT excl.). However, the corresponding Letter of Engagement forwarded for audit purposes quoted maximum fees payable of €9,800 while the actual payment amounted to €9,750 (VAT excl.). The Department confirmed that this was an oversight from its end.



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Ministry for Home Affairs and  
National Security

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# Malta Police General Fund

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## Expenditure

The National Audit Office acknowledges that the 2018 Final Accounts of the **Malta Police General Fund** have been prepared on the accrual basis of accounting. However, no provision was made for a substantial liability; thus, resulting in the financial statements not giving a true and fair view. Furthermore, several contributions due between 2015 and 2017 were still pending.

### Background

The Malta Police General Fund (MPGF) was set-up in November 1919. In accordance with Article 12 of the Malta Police Regulations, all members who join the Malta Police Force (MPF) are required to make a contribution every three months, which amount varies as per grade.

The principal aim of the MPGF, as stipulated in Internal Circular No. 79 of 1980 is the welfare of officials who, for some reason or other, pass through hard times and require assistance, as well as for other activities for the benefit of the Force, such as the learning of foreign languages.

The financial records of the MPGF for 2018 were drawn up for the first time on accrual basis.

During 2018, the total amount of contributions collected from serving police officers amounted to €133,581, of which €21,368 were contributions paid in arrears. A further €2,308 were received from retired police officers in arrears. As from 2018, retired members were no longer to contribute towards the Mutual Help Fund which forms part of the MPGF.

Total expenditure paid during the year under review amounted to €92,976. Outstanding expenditure as at end 2018 amounted to a further €128,513, with more than half of this amount relating to social activities.

### Audit Scope and Methodology

The aim of the audit was to ascertain that:

- a. the Statement of Comprehensive Income and Statement of Financial Position represent a true and fair view of the financial position of the MPGF as at 31 December 2018, and of its operations for the year then ended; and
- b. adequate internal controls exist for the detection and prevention of material misstatements and safeguarding of assets.

This review involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

## Key Issue

### *Substantial Liability not provided for*

The MPF Ad Hoc Committee committed itself to refund all contributions made by the retired members. This decision created an obligation to take a provision for an estimated liability of €661,800 in the accounts, representing such refunds. However, no provision for the amount in question was made.

To this effect, only a disclosure was made in the accounts stating that an action plan for the repayment of this liability has been prepared and that “... *gradual refunds to settle this debt will have an adverse but reasonable impact on the Fund in the coming years*”. It was also claimed that “... *its sudden introduction would have had a devastating effect*”.

### Recommendation

In accordance with IPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets, a provision is to be made, if:

- a past event has created a present legal or constructive obligation;
- an outflow of resources embodying economic benefits or service potential is required to settle the obligation is probable; and
- the amount of the obligation can be estimated reliably.

As a result, the amount in question has to be included as a provision in the accounts to show a true and fair view.

### Management Comments

*No comments submitted.*

## Control Issues

### *Pending Contributions*

Although all members of the MPF are required by law to make a contribution every three months to the MPGF, an aggregate amount of €46,441<sup>1</sup> is still due with respect to contributions from 2015 to 2017.

### Recommendation

The MPF is to step-up action to recoup these outstanding contributions.

### Management Comments

*Recommendation will be taken into consideration by the Ad Hoc Committee and legal advice will be sought regarding the prescription issue.*

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<sup>1</sup> This amount does not include a total of €1,706 relating to dues prior to 2015, which the MPF considered as time-barred by law.

### **Christmas and Police Day Social Activities**

The four transactions that were reviewed, pertaining to the Christmas and Police Day 2018 Social Activities, amounting to €17,525, were neither endorsed (no evidence of verification prior to payment), nor supported by a signed delivery note. In two instances, details of the related activity were also not given. Furthermore, a fiscal receipt was not provided for one of the four invoices reviewed, amounting to €7,954.

#### **Recommendation**

All invoices are to be supported by a delivery note endorsed at the receiving end and thoroughly checked so as to ensure their correctness prior to the respective payment. The MPF is also expected to endorse the invoices, evidencing verifications carried out. Every payment is also to be invariably supported by a fiscal receipt.

#### **Management Comments**

*For the year 2019 a delivery note system was introduced. Hence such recommendation was implemented.*

### **Malta Police Association**

According to the Ad Hoc Committee meeting of 4 July 2019, the contribution due since 2014 to the Malta Police Association was waived since the latter agreed to relinquish its claim for the amount of €19,174 against the MPGF, provided the debt was used to finance a project beneficial to the members of the MPF. The Committee agreed to purchase equipment for the gymnasium at Ta' Kandja. However, no action was taken up to the date of this publication.

#### **Recommendation**

Considering that this material amount has long been due and was relinquished on the premise that the MPF financed a project beneficial to the police, an action plan needs to be drawn up and the project financed accordingly.

#### **Management Comments**

*Mentioned amount was never waived off but as indicated in the observations to this issue it was decided to be used to finance a project beneficial to the members of the MPF. Such exercise already started and quotations to purchase such gym equipment was requested. Action plan will be taken further into consideration by the Ad Hoc Committee.*

# Office of the Refugee Commissioner

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## Expenditure

The National Audit Office was satisfied that overall, the procedures and internal controls in relation to the areas tested at the **Office of the Refugee Commissioner** were adequate and in sound operation.

### Background

The Office of the Refugee Commissioner (ORC) within the Ministry for Home Affairs and National Security (MHAS) is responsible to receive, process and determine applications for international protection in Malta, as stipulated by the Refugees Act, Chapter 420 of the Laws of Malta and its subsidiary legislation.

The Financial Estimates for the Line Item under review, namely 6027 – Commissioner for Refugees Office, under Vote 27, showed an approved budget of €1 million for financial year 2018, while actual payments as recorded in the Departmental Accounting System (DAS) amounted to €1,047,543. Most of this expenditure, totalling €788,004, consisted of personal emoluments paid out to an average of 32 employees during the year.

### Audit Scope and Methodology

The main scope of this audit was to determine the level of existing internal controls over the payment of overtime and allowances. It also sought to verify that the method of engagement and payments made to freelance interpreters, as well as other contractual service providers, were duly authorised and properly accounted for, in accordance with the General Financial Regulations and other pertinent regulations and circulars. Furthermore, the audit aimed to provide reasonable assurance on the effective controls employed by the Office with respect to inventory management and visits abroad.

Two meetings were held with the MHAS officials and the ORC senior management to discuss the audit objectives, as well as to obtain a high-level understanding of the relevant internal controls within the ORC.

Walkthrough tests were carried out to better understand the procedures in place for the payment of overtime and allowances, as well as for the procurement of the main contractual services (comprising translations, cleaning and rent) and the payment thereof. Inventory management and expenditure on visits abroad were also reviewed. Following a risk assessment exercise, the National Audit Office (NAO) identified the payments for translation services and inventory management as areas for further testing.

### Translation Services

A sample of 10 payments relating to different translation service providers was selected from DAS for audit testing based on materiality. The method of engagement and the respective payment process were reviewed.

## Inventory Management

Another sample of 10 items based on materiality and nature of inventory was selected, to identify whether the principles of MF Circular No. 14/99 – ‘Government Accrual Accounting: Revised Inventory Control Regulations’, were being adopted. A physical inspection was carried out at the ORC to ascertain the existence and condition of assets recorded in the inventory database. Moreover, the NAO verified the records’ reliability by randomly choosing another 10 inventory items physically held at the Office’s premises and traced them to the database. These included the three items of inventory purchased in 2018.

## Control Issues

### *Expired Agreement*

The agreement entered into by the MHAS with a service provider, for a period of two years in respect of cleaning services, was renewed up to 1 March 2018, in line with the provisions of the original tender. However, after the expiration of the extended contract, the MHAS only issued a new call for quotations on 21 January 2019. Records obtained from DAS show that following the expiry of the agreement, the foregoing service provider was paid a total of €9,969 for cleaning services rendered during the period between 2 March 2018 and 28 February 2019<sup>1</sup>.

### Recommendations

The MHAS is to ascertain that contracts are not extended beyond the prescribed timeframes. Before expiry of the term of agreement, a fresh procurement process is to be initiated on time by issuing a new call for tenders or by obtaining quotations, as applicable. This will ensure fairness and provide an equal opportunity to all interested parties.

All services purchased are also to be duly backed up by a valid agreement, clearly laying down the terms and conditions agreed between the contracting parties.

### Management Comments

*The NAO’s recommendation has been noted. The issue of the expiry of the agreement with this service provider was an exception and not the rule. Nonetheless, an internal mechanism is now in place to ensure new tenders are issued well in advance of the expiry of date of contracts, so as to ascertain that procurement of goods and services are always covered by a valid agreement. This internal flagging mechanism is already in place.*

### **Shortcomings related to Inventory Management**

During testing of inventory, the NAO noted that items were not physically marked with an identification number, as required by the relative inventory circular.

Most of the assets included in the inventory database also lacked their valuation. An updated list showing valuation was forwarded following the NAO’s recommendation.

### Recommendations

For inventory control purposes, the ORC is to ensure that identification numbers are affixed to all assets falling within its responsibility. Moreover, regular inspections are to be carried out to ascertain that the regulations established to safeguard Government’s assets are rigidly adhered to.

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<sup>1</sup> On 1 March 2019, the MHAS entered into an agreement with another service provider following evaluation of the bids received.

## Management Comments

*Recommendation accepted. An exercise will be carried out to affix all assets under the ORC inventory with an identification number to ensure better control and adherence to section 8.3 of MF Circular No. 14/99. Identification numbers will be affixed by the end of 2019.*

## Conclusion

Except for the aforementioned issues, the NAO was satisfied that the procedures and internal controls in relation to the areas tested were adequate and in sound operation.



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Ministry for Justice, Culture  
and Local Government

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# Courts of Justice

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## Revenue

Various weaknesses were encountered in so far as the collection of revenue from fines due to the **Courts of Justice** is concerned. This is mainly due to the omission of fines recorded in the system. Inaccurate conversions of outstanding fines also resulted in incorrect number of days of confinement.

## Background

The Courts of Justice comprise three registrars, namely the Malta Civil Courts and Tribunals, the Malta Criminal Courts and Tribunals, and the Gozo Courts and Tribunals, as well as the Support Services Directorate. The registrars of the courts are responsible for the registries, the officers attached to them, the filing and service of judicial acts, registration of sitting minutes, execution of executive titles, such as judgments and warrants through court appointed marshals, judicial sales by auction, trials by jury and other criminal court procedures.

Revenue of the Courts of Justice is mainly generated from the collection of fines<sup>1</sup> and fees. The area audited was revenue from fines imposed by the Malta<sup>2</sup> Civil and Criminal Courts. Fines inflicted by the latter can be classified in the following four types:

- contempt of court, wherein one's actions are considered as being disrespectful towards the court, for example the accused does not show at court;
- fines imposed by the judiciary as part of a ruling;
- refund of expenses incurred in the payment of court experts nominated by the court; and
- personal guarantee, when the accused has not abided by the conditions imposed by the court when granting bail while the case is still ongoing.

On the other hand, only fines in relation to contempt and court of revision of notarial acts can originate from the Civil Courts.

All types of fines are posted by the deputy registrars in the Legal Case Management (LECAM) system, which was introduced towards the middle of the year 2000. Payments of fines can be settled at the cash office or the one-stop-shop, as well as online through the eCourts website.

## Financial Information

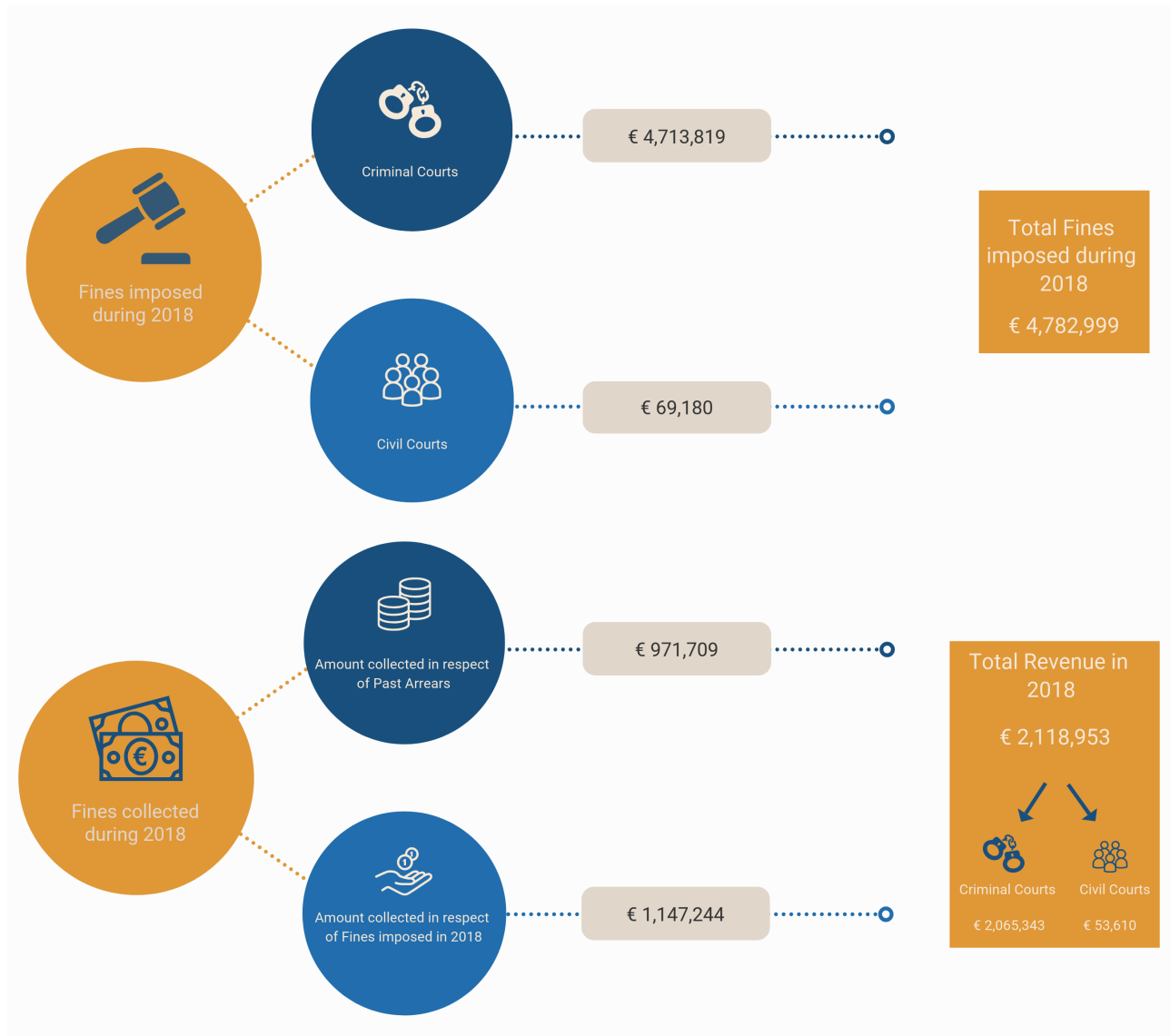
Figure 1 depicts relevant financial information for the year 2018 with respect to imposition and collection of fines by the Malta Courts.

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<sup>1</sup> Unless otherwise stated, the word fine covers both ammenda and multa, since the English word fine is used interchangeably.

<sup>2</sup> The Gozo Courts and Tribunals were out of the scope of the audit.

Figure 1: Data on the Imposition and Collection of Fines



### Audit Scope and Methodology

The main scope of the audit was to verify that during 2018 there were the necessary internal controls over revenue generated from fines imposed by the Malta Courts and that collection thereof was being maximised.

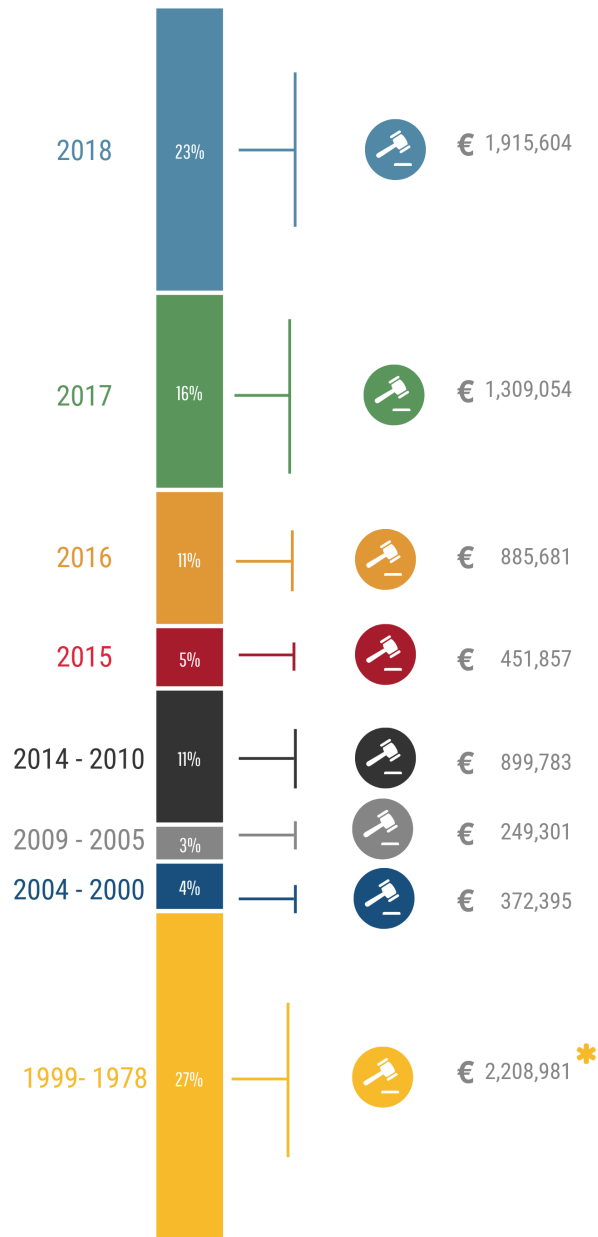
Meetings were held with both the Directors of Criminal and Civil Courts, as well as with the Assistant Director at Support Services Directorate. The National Audit Office (NAO) held walkthrough tests, both at the cash office and the one-stop-shop at the Malta Courts, in order to obtain an overview vis-à-vis the procedure in place for collection and recording of fines. Considering that substantial amount of money in respect of fines is received daily at the one-stop-shop, a surprise cash inspection was carried out.

## Key Issues

### Limited Collection Effort

The gross outstanding arrears for fines due to the Criminal and Civil Courts as at end 2018 stood at €8,215,241 and €77,415 respectively. The ageing of the aggregate outstanding amount of €8,292,656 is shown in figure 2.

Figure 2: Ageing of Debtors



\* 85% of which (€ 1,879,479) has been due since 1998, comprising three fines of € 626,493 each, imposed by the Criminal Courts

Most of the amounts falling in arrears were mainly due to the following weaknesses, as also highlighted further down in the Report under the pertinent observations:

- Collection effort by the Criminal Courts made on an irregular basis.
- Limited staff in charge of pursuing fines related to the Criminal Courts.
- A number of limitations in the LECAM system.

### Recommendation

An extensive exercise is necessary to ensure that there is an effective approach that maximises the collection of fines.

### Management Comments

*We are addressing shortcomings related to revenue collection and thus we hope this situation will improve in the near future. We try to follow up pending dues on a regular basis but presently we cannot do so in a systematic manner. Even though the system per se does not produce any alert when a fine is overdue, with the Standard Operating Procedures (SOPs) that we now have in place, we are in a better position to control and check when the fines are actually overdue. This renders revenue collection more effective and efficient.*

*With regard to the conviction tickets issued by the Criminal Courts, these are done regularly. We cannot follow up such tickets from our end because now it is up to the Police to follow up such tickets. In fact, in order to have this reflected in our Return of Arrears we have now enhanced the LECAM system to shift these converted fines under the column of provision for bad debts because in actual fact these are bad debts and cannot be considered as arrears. Thus, we are presenting a more realistic picture of the amount which is collectible.*

### Fines not recorded in the System

The deputy registrar assigned to each magistrate or judge at the Criminal Courts is responsible to input details of fines in the LECAM system. However, since this task is performed solely by the deputy registrar of the respective member of the judiciary and independent checking of the sentence delivered in the courtroom is not performed, verification of completeness and accuracy of amounts and details recorded in the LECAM system is lacking.

From a list of pending payments obtained during the audit, it was noted that a total of 386 payments that were made since 2004, amounting to €81,694<sup>3</sup> could not be traced in the LECAM system. Of these, 41 payments to the tune of €10,517 were collected during the year under review. This list is not exhaustive since it does not include unrecorded fines of those individuals who did not turn up to pay their dues.

### Recommendations

Reconciliations between fines reported in the court sentence delivered and those entered in the LECAM system are to be performed on a regular basis to ensure that records are complete, accurate, and any pending amounts are included in the Arrears of Revenue Return.

Fines that did not feature in the LECAM system are to be duly recorded so that the respective payments are set off accordingly.

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<sup>3</sup> Up to 26 June 2019, when the report was extracted from the system by the Malta Information Technology Agency.

## Management Comments

*One has to note that for the year in question, that is 2018, over 4,000 fines were inserted in the LECAM system. The deputy registrar invariably rechecks her work in order to verify that all fines are duly inserted. Occasionally, the person found guilty is informed of the amount due on the date of the sitting; in the eventuality it is paid, it is not included in the list of pending dues. Thus, in the case of un-reconciled payments at the one-stop-shop, the deputy registrar concerned is informed to take the necessary action in this regard. Reference is also made to the Electronic Court Citation Management System, which is being used for district cases. With this system, when a case is decided and a fine is charged, the deputy registrar has to select the fine and insert the corresponding amount. If this procedure is not followed, the system does not allow you to continue; so this serves as a safeguard that all fines are inserted. We are also in the process of introducing this system in other halls.*

### **Incorrect Conversion of Fines in Confinement**

In the case of dues where collection efforts by court officials prove futile, conviction tickets are issued to individuals to encourage payments, before the fine is converted into confinement. In 2018, a total of 923 conviction tickets were issued.

The NAO encountered at least six instances<sup>4</sup> where the fines were not accurately converted by the Criminal Courts resulting in over or understated days in confinement. In four of these cases, the number of days were overstated. Furthermore, in three different conviction tickets, the words and figures of the number of conviction days did not match. According to court officials, a corrected ticket can only be issued where the conversion is not yet executed.

## Recommendation

Considering the repercussions of such inaccuracies, the calculation of conviction days and recording thereof is expected to be independently counterchecked.

## Management Comments

*The possibility of converting fines into confinement is not provided in order to encourage payment, even though sometimes it results as such. We convert the fine into imprisonment according to law, precisely as stipulated in Article 11(3) of Chapter 9 of the Laws of Malta which states that in default of payment such fine shall be converted into imprisonment.*

*When a conviction ticket is issued, the correctional facility's officers recheck our conversions and they would alert us immediately if they discover a ticket which has not been converted properly. We would then adjust the ticket accordingly so that the accused serves the exact time which is due.*

*With regard to the recommendation under this point, as already explained, we liaise with the correctional facility's officers continuously to ensure that the conversion has been worked out correctly.*

## Control Issues

### **Unsystematic Collection Effort**

Notwithstanding that the net collectable arrears for the Criminal Courts stood at nearly €8 million as at 31 December 2018, collection effort in this regard was not systematic. Notices to the individuals with outstanding fines are only issued randomly by the Criminal Courts. Furthermore, conviction tickets were only issued subject to time availability and not in any particular order.

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<sup>4</sup> Since the type of fine was not always indicated in the information submitted, as highlighted under observation 'Inaccurate Records related to Conviction Tickets', not all tickets could be verified.

## Recommendation

Every effort is to be made in order to increase the amount of revenue collected, by establishing a systematic way of how outstanding fines are followed up.

## Management Comments

*As stated, the introduction of the SOPs has resulted in a more systematic approach to more efficient debt collection. We also have embarked on an exercise in order to give a more realistic estimate of the outstanding amount. As a result of the system's enhancements, all those fines which were converted into conviction tickets are now included under the provision for bad debts. In fact, it is estimated that outstanding revenue amounts to around €1.8 million from the inferior courts and around €2.2 million from the superior courts; this includes the €1,879,479 mentioned in Figure 2: Ageing of Debtors, where action was taken by courts and these were converted to conviction tickets. This means that once a conviction ticket is issued, the court's administration would have exhausted all its possibility to collect such revenue. To this extent, this amount needs to be deducted from the €8 million outstanding as arrears.*

## **Lack of Segregation of Duties**

Notwithstanding the considerable work involved and sometimes complex legal processes to pursue fines, only the Assistant Registrar at the Criminal Courts carries out the related work. Moreover, it was noted that the majority of tasks at the one-stop-shop are carried out by one of the three officers assigned in this area. Thus, effective internal controls and segregation of duties are limited.

## Recommendation

The Courts of Justice is to address the issue of lack of segregation of duties without undue delay while also ensuring continuation of the key process by better utilisation of staff.






## Management Comments

*At the one-stop-shop it is felt that there is no need for any more revenue officers. Indeed presently, apart for the Assistant Registrar, there is a principal officer who is responsible for fines collection and a clerk who deals with the paperwork and the liaison with the correctional facility's officers.*

## **No follow-up on pending Conviction Tickets**

Conviction tickets are issued by the Criminal Courts and are forwarded to the Malta Police Force (MPF) to take action. The latter primarily encourages the payment of the amounts due rather than the use of confinement, which is always considered to be the action of last resort. Figure 3 refers.

Figure 3: Conviction Tickets in 2018

	 Tickets issued in 2018 for conversion in Prison Terms	 Tickets still pending as at end 2018	 Settled
 Number of Tickets	923	584	37%
 Value of outstanding Tickets	€ 1,249,045	€ 1,075,954	14%

Notwithstanding that only 37%<sup>5</sup> of the tickets were settled, both the Director and the Assistant Registrar of the Criminal Courts raised their concern that they were not aware whether pending conviction tickets were actually being followed up by the MPF.

**Recommendations**

Presently, the Criminal Courts are unable to determine whether the ticket was forwarded to the respective individuals by the MPF or not. To this effect, the Criminal Courts are expected to maintain constant liaison with the MPF to ensure that action was taken in this regard.

**Management Comments**

*Following up pending conviction tickets does not fall within our remit. We issue the conviction ticket and then it is up to the MPF to take the necessary action to execute the ticket. We keep continuous liaison with the MPF so that when the accused has actually served his/her time we are informed accordingly. In such cases, we then change the status of the fine as magħluqa. If the MPF tries to execute a conviction ticket and the accused decides that he/she would rather pay then serve time, we will accept the payment and eventually inform the MPF accordingly.*

**Inaccurate Records related to Conviction Tickets**

A spreadsheet for each year was kept by the Criminal Courts to record the number of conviction tickets issued each year. Besides other information, these sheets included the reason for the fine and the duration of the conviction. However, following considerable time spent to analyse this information, it transpired that the spreadsheets were not being regularly updated. Moreover, such information could not be extracted from the LECAM system for audit purposes.

**Recommendation**

Ideally, the LECAM system is to include all required information, which is to be constantly updated and easily retrieved, as deemed necessary.

**Management Comments**

*The spreadsheet is for our personal use and it is not extracted from the LECAM system. Yet, we can discuss with the Malta Information Technology Agency (MITA) in order to be able to enhance the LECAM system in the future.*

<sup>5</sup> This may vary due to the shortcoming titled 'Inaccurate Records related to Conviction Tickets'.

### **Different Rates of Conversion**

In line with the Criminal Code (Cap. 9), a multa is converted at the rate of one day for every €35 while the rest, i.e. ammenda, expenses incurred in the payment of court experts, as well as bails, at one day for every €11.65. However, in actual fact, a multa is imposed for more serious cases than an ammenda. Concerns by senior management at the Criminal Courts were raised during the audit with regard to such conversion so as to make the system fairer.

### **Recommendation**

Discussions are to be held with the Attorney General in order to establish whether it is possible and appropriate to amend the respective legislation as necessary.

### **Management Comments**

*We have already spoken informally with the Office of the Attorney General as regards the different rates of conversion between a fine multa and a fine ammenda. The fact is, however, that Article 13 of Chapter 9 of the Laws of Malta, dealing with ammenda, stipulates that the fines to be awarded under this article are minimal. Therefore, to actually amend the main Act for something so minimal is not deemed necessary.*

### **Limitations of the System**

The current LECAM system has a number of limitations. The following refer:

- In the absence of a bring-up notification system, reminders to effect payment are sent on a sporadic basis depending on the availability of time of the person in charge at the Criminal Courts.
- Fines given by the judge or magistrate, which are to be paid by a stipulated date, must be manually searched, hence it is more likely that fines will remain unsettled.
- Reports issued from the system are not automatically converted in a spreadsheet format for easier manipulation but require the assistance from MITA. This results in inefficiencies in the extraction of information from the system.
- Ageing of the pending conviction tickets is not possible, since year of issue is included only in the remarks and cannot be extracted from the LECAM system.
- According to the Criminal Courts, discussions were underway to write off fines outstanding by foreigners who were deported from Malta. However, relative information could not be obtained from the system.

### **Recommendation**

The Courts are to enhance the current system in order to address the limitations highlighted above.

### **Management Comments**

*In view of discussions, which have to be held with MITA to enhance the LECAM system, we have put in place the SOPs which will cover these limitations as much as possible.*

# Asset Recovery Bureau

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## Expenditure

Review of travel on official duty undertaken by the **Asset Recovery Bureau** staff during 2018 revealed instances of non-compliance with standing regulations. It also transpired that, following the commencement of its operations in August 2018, the Bureau had not yet compiled an inventory database in line with the requirements of the pertinent Finance circular.

### Background

Established under Legal Notice 357 of 2015 – ‘Asset Recovery Bureau Regulations, 2015’<sup>1</sup>, as an autonomous public entity falling under the remit of the Ministry for Justice, Culture and Local Government (MJCL), the Asset Recovery Bureau (ARB) is entrusted with the proper and efficient management of instrumentalities and proceeds of crime which have been seized, frozen or confiscated in terms of the Criminal Code, and to dispose of them in favour of the Government.

The Bureau is governed by a Board of five members, led by a Chairperson, responsible for policy making and a Directorate, headed by a Director, responsible for the implementation of the provisions of the ARB Regulations and the execution of the policies as established by the Board.

The ARB commenced its operations in August 2018 through Legal Notices 283 – ‘Commencement Notice’ and 284 – ‘Asset Recovery Bureau (Amendment) Regulations, 2018’ of the same year, thereby managing all new cases referred for freezing and confiscation from that date onwards.

### Audit Scope and Methodology

The audit was conducted in line with generally accepted auditing standards. Audit procedures were planned and performed to obtain reasonable assurance on whether the internal control structure at the ARB was adequate. To this effect, the main objective of this audit was to ascertain compliance with standing regulations and identify ways and means through which current practices could be improved.

Testing was primarily directed towards ensuring that adequate controls were being exercised by the Bureau over its expenditure which, during the year under review, mainly entailed personal emoluments, Board members remuneration, rent, as well as travel expenses.

A detailed reconciliation was also carried out between the amounts inputted in the Departmental Accounting System as against underlying figures included in the ARB’s nominal ledger for the financial year ending 31 December 2018.

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<sup>1</sup> As amended by Legal Notice 284 of 2018.

The audit also focused on assessing the Bureau's conformity with the Government's inventory management regulations, as stipulated in MF Circular No. 14/99 – 'Government Accrual Accounting: Revised Inventory Control Regulations'.

## Compliance Issues

### *Non-compliance with Standing Travel Regulations*

Review of the overseas travel undertaken during 2018 by the ARB staff, revealed instances of non-compliance with the pertinent regulations. The following relate:

- a. Approval was obtained from the Director Corporate Services, MJCL, for the non-submission of a detailed travel report containing the purpose and benefits achieved from visits abroad on official duty<sup>2</sup>; the Director was instead requested to submit a brief report indicating the salient points of the visit. However, four out of the five visits abroad undertaken during 2018 were still not covered by a report.
- b. At times, correctness of the amount of subsistence allowance advanced to officers travelling on official duty could not be ascertained, mainly due to insufficient documentation.
- c. The statement of expenses was not always submitted by the officers in the stipulated timeframe; that is, within 15 calendar days from their return to Malta. Moreover, in two instances, the Visits Abroad on Official Duties form (GA27), was not endorsed by the Permanent Secretary ahead of the respective travel.

### Recommendations

Substantiating documentation, enabling verification of the relative components of subsistence allowance paid, is to be invariably maintained. Moreover, brief travel reports are also to be compiled by the travelling officers and submitted to the Ministry within one month after the visit, thereby enhancing accountability. It is also imperative to obtain prior approval of the respective Permanent Secretary ahead of incurring expenditure on visits abroad.

### Management Comments

*The MJCL confirmed that the brief one-page report in accordance with the Permanent Secretary's approval was only submitted to the Director Corporate Services in one instance. On the other hand, the ARB declared that all visits abroad are covered by a travel report but, due to the sensitivity and autonomy of its functions, these are not shared outside the ARB.*

### *Shortcomings related to Inventory*

The ARB has not yet compiled an inventory database in line with the requirements of MF Circular No. 14/99. Moreover, the room inventory lists provided for audit purposes did not distinguish between assets which were purchased by the ARB and accordingly belong to it and those which were already located at the premises when these became occupied by the Bureau, hence belonging to the lessor.

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<sup>2</sup> As required by MFEI Circular No. 5/2012 – 'Travel on Official Duty'.

### Recommendations

The compilation of an inventory database in line with the requirements of the pertinent circular is to be given utmost priority by the Bureau. All assets are to be recorded therein with a detailed description, enabling traceability from purchase, as well as to the respective location. Management is also to ensure that, as far as it is practicable, all items are physically marked with a permanent identification number, clearly distinguishing between those owned by the Bureau and items which are being leased along with the Bureau's premises.

Regular updating of the inventory database coupled with periodic physical verifications is also recommended to ensure that inventory records truly reflect the description and location of each item.

### Management Comments

*Given that the ARB was still being setup in 2018, it was not in a position to compile a detailed inventory as required by the pertinent circular. However, efforts are in progress to conclude this exercise by end of June 2019.*

# Manoel Theatre

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## Capital Expenditure

An audit on capital expenditure incurred by the **Manoel Theatre** identified some serious corporate governance issues. These included, amongst others, the fact that audited financial statements for the last five years were not prepared and minutes of the Board Committee meetings were not always maintained. In addition, a fixed asset register was not in place. Shortcomings in relation to procurement were also noted.

### Background

The Manoel Theatre (MT) was built by the Order of the Knights Hospitaller in 1731. It is considered as one of the most important performing arts venues on the island. The operation and running of this Theatre is entrusted with the Manoel Theatre Management Committee<sup>1</sup>, which is responsible to ensure a continuous programme of cultural and artistic events. There is no legislation specifically regulating the running of the MT but this entity is incorporated in Act No. XV of 2015 – ‘Arts Council Malta Act, 2015’, providing for the establishment of the Arts Council Malta.

During financial years 2017 and 2018, various projects were undertaken at the Theatre, whereby climate control and ventilation system, loop system for people with hearing impairment, new parquet in the plateau, as well as new parterre boxes, were introduced amongst other improvements. Renovations were concurrently also being undertaken in the new premises that will eventually host the MT’s administrative offices. As per nominal ledger, the total capital expenditure incurred on the aforementioned projects and renovations during the financial year between 1 September 2017 to 31 August 2018 (the year under review), aggregated to €542,974 excluding Value Added Tax (VAT).

### Audit Scope and Methodology

The main scope of the audit was to determine the level of internal controls over the procurement and use of items of a capital nature, to ensure good governance and the efficient administration of public funds, in line with standing laws, regulations, policies and procedures, and also to make recommendations where warranted.

Other objectives were to assess the reliability and adequacy of information available to the Management Committee for decision-making purposes, and to ascertain that resources were being used judiciously.

To achieve the audit objectives, between January and February 2019, a number of meetings were held with key personnel, in order to obtain an understanding of the relevant policies and procedures in place.

Audit procedures were planned and performed in order to obtain reasonable assurance as to whether the internal control structure at the MT was adequate. To this effect, sample selected was qualitative, thus not designed to gather data on the frequency of error in the population as a whole, but to ensure compliance with standing regulations and to identify ways through which current practices could be improved.

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<sup>1</sup> Appointed by the Minister for Justice, Culture and Local Government.

A sample of 11 service providers based on materiality was selected for audit testing. This resulted in 91 financial transactions, totalling €479,110, (VAT excl.) (i.e. 88% of the entire capital expense) being scrutinised from inception up to the final payment.

## Key Issues

### ***Audited Financial Statements not prepared for the last Five Years***

For the last five years, audited financial statements were not prepared, with the last set available being that covering financial year ending 31 August 2013. This is in breach of Article 29 of the Act No. XV of 2015 stipulating that the auditors' report together with the annual activities report are to be submitted to the Minister by not later than six weeks after the end of each financial year.

### Recommendation

Audited financial statements are an indispensable tool to provide unbiased and objective assessment of whether public resources are managed responsibly and effectively. Thus, for the sake of good governance, Management is expected to comply immediately with the reporting mechanism, by preparing the respective financial statements and formally submit a request for them to be audited.

### Management Comments

*As at 17 July 2019, the audit fieldwork for the years ending 2014 and 2015 has been carried out; however, the audit report has not yet been issued, since external auditors would like to carry out the audits of the 4 years i.e. 2015 [sic]<sup>2</sup>, 2015, 2016 and 2017 and then will issue the reports. The auditors were unavailable during the months of June and July. The audit fieldwork will continue in the second week of August.*

### ***Committee Meetings not held at Regular Intervals***

Copies of minutes provided indicate that only four Committee meetings were held during financial year ended 31 August 2018 and these were not held at regular intervals. The National Audit Office (NAO) was not provided with information as to the number of Committee meetings held in the previous year.

### Recommendation

Management is to acknowledge the importance of holding Board meetings on a more regular basis as this create the opportunity for both executive and non-executive directors to articulate ideas on the entity's strategy, whilst allowing for problem solving in a timely manner. Moreover, minutes are to be duly kept and appropriately filed.

### Management Comments

*Although Board meetings were held regularly, Board minutes were not filed. It will be ascertained that all Board minutes are kept in an appropriate file.*

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<sup>2</sup> Several attempts for clarification from the auditee proved futile.

### **Board of Directors not provided with adequate and timely Management Accounts**

On 17 January 2019, the NAO requested a copy of the last management accounts approved by the Management Committee. However, only a snapshot of the Profit and Loss Account covering September 2017 to April 2018 was provided.

Furthermore, it was noted that budgets were not properly compiled but were based on previous year's actual cost, with the latter taken as a benchmark. Consequently, variances as disclosed in the aforementioned statement were meaningless.

This also implied that Management was not provided with a proper set of management accounts to analyse the variances in a timely manner to be able to plan the implementation of future projects.

### **Recommendation**

It is pertinent that the Management Committee is presented with adequate and timely accounting information that not only assists in the day-to-day operations of the entity, but also in the creation of policies through which targeted goals are achieved.

### **Management Comments**

*The Board of Management used to require only a snapshot of the Profit and Loss Account. The MT will ensure that management accounts are presented to the Board on a quarterly basis.*

### **Non-adherence to Public Procurement Regulations**

From a sample of invoices reviewed, it transpired that the Public Procurement Regulations (PPR) were not always followed:

- a. Approvals from the right level of authority, substantiating procurement in excess of €10,000 acquired through a direct contract, were not traced. At times, quotations were obtained although the amounts expensed merited a departmental call for tenders.
- b. Calls for quotations, in respect of expenditure exceeding €5,000, were neither published on the Government's e-procurement platform, nor published in the Government Gazette, but were requested through email from a number of specific suppliers.
- c. In breach of Article 28(5) of the PPR, one of the sampled purchases costing €12,744, was split into two, thereby bypassing the procurement regulations.
- d. A list of all departmental contracts awarded, as well as variations exceeding contract values by 5%, was not published in the Government Gazette, as required in terms of the PPR Article 111(2).
- e. With the exception of one case, no formal service agreements were entered into with the service providers in the audit sample. Consequently, amounts charged could not be checked for accuracy. Furthermore, hourly records were not maintained by the MT, with respect to professional services acquired; thus, number of hours invoiced could also not be verified.

## Recommendations

The PPR are to be invariably complied with. Any needs for goods and services are to be determined at an early stage, allowing enough time to follow the appropriate procurement procedures.

## Management Comments

*Given the urgency of the procurement, three quotations, with specific deadline to submit the offer, were obtained for contracts under the value of €10,000. However, it will be ensured that procurement from €5,000 to €10,000 will be carried out via the Government's e-procurement platform.*

*Management is aware that approvals for direct orders were not obtained from the right level of authority, due to time constraints to re-open the theatre in December 2017 for Valletta 2018. It will be ensured that for procurement exceeding €10,000 a tender document will be prepared and published on the Government's e-procurement platform.*

*With the exception for works and services provided by a local private entity rendering security and fire solutions, it was not possible to have a contract agreement with the other service providers. However, it will be ensured that a formal agreement will be in place with all suppliers.*

*In addition, the number of hours included in job sheets will be certified correct by the responsible officer, before effecting payment.*

## **Fixed Asset Register not in place**

According to the workings provided by the respective Finance Manager, as at end August 2018 the MT had Property, Plant and Equipment with a Net Book Value (NBV) of €5,159,454<sup>3</sup>. However, a fixed asset register to substantiate this amount was not in place.

## Recommendations

Government property is to be adequately safeguarded. To this effect, adherence to inventory control regulations is recommended. This entails the compilation of a reliable and complete database, identifying all assets falling under the MT's remit, as stipulated in MF Circular No. 14/99 – 'Government Accrual Accounting: Revised Inventory Control Regulations'. It is pertinent that such exercise is carried out without further delay.

## Management Comments

*Management is accepting recommendation to identify all assets falling under its remit. An inventory control is going to be carried out and will be recorded in a database. Since the MT has large and complex premises, it is estimated that such exercise will be completed by the last quarter of 2019.*

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<sup>3</sup> This mainly consists of computer software (NBV €2,324,045), backstage (NBV €1,216,907), climate control (NBV €325,231) as well as tools, light and audiovisual equipment (NBV €317,788).

## Control Issues

### Procurement

#### *Variations not duly approved and not supported by Architect's Certificate*

Out of €73,635 paid to one of the service providers with respect to construction works, the amount of €38,648 constituted variations. Besides that approvals in line with Article 111(1) of the PPR were not provided for audit purposes, architect's statement certifying the respective variations was not traced.

### Recommendations

In line with pertinent regulations, variations are to be duly authorised from the right level of authority. Payments are only to be processed following submission of certification of the works performed.

### Management Comments

*It will be ensured that future payments will not be effected unless a certification of works has been carried out. In addition, the MT would like to note that the variations in question were paid after being verified by the architects and presently these have now been also certified.*

#### *Invoices not certified correct prior to the issuing of Payments*

Notwithstanding that the General Financial Regulations stipulate that payments are not to be issued prior to invoices being certified correct, 19 instances, i.e. over 20% of the transactions tested, bearing a total value of €88,563 (VAT excl.), were encountered whereby such endorsement was not evident, but the respective payment was still effected.

### Recommendation

Strong internal controls are to be adopted and implemented so as to ensure that invoices are thoroughly checked and certified correct prior to the issuance of payments.

### Management Comments

*Management will make sure that all invoices are thoroughly checked, certified correct by the responsible officer and endorsed by the Chief Executive Officer before payment is effected.*

### *Lack of Adequate Planning*

Compiled estimates were very often understated and the respective capital expenditure was made following a call for quotations when this merited a call for tenders. Moreover, in a number of instances, Management missed out on the possibility of tapping on European Union funding and the respective expenditure<sup>4</sup> was entirely financed through local funds.

### Recommendations

Estimates compiled are to incorporate all material and services necessary for the full execution of the project. In the event that variations to projects are unavoidable, prior approval is to be requested and duly obtained from the appropriate level of authority, before works are executed.

Moreover, utilisation of European Union funds at the entity's disposition is to be maximised.

### Management Comments

*The recommendation to follow the PPR is being taken on board. Since the MT is an old theatre, certain works could not be determined in advance, but these were noticed as soon as the excavation works started. Whilst senior officials were always kept informed, given the urgency of works, necessary approvals were not obtained in time. Management is committing itself that such oversight will not be repeated.*

### Accounting Issues

#### *Depreciation Rates not in line with Accounting Standards*

A number of assets, namely equipment at backstage, improvements to façade, standby generator, climate control, as well as improvement of new offices, which were acquired during the last eight years, were not depreciated although this is a requirement in terms of International Accounting Standards. On the other hand, motor vehicles which are usually depreciated over approximately five years were written down over a ten-year period.

### Recommendation

The application of a reasonable depreciation rate is important, so as to reflect a true and fair picture of the value of the assets in line with Accounting Standards.

### Management Comments

*No depreciation was charged on the mentioned items, namely equipment at backstage, improvement to façade, standby generator, climate control as well as improvement to new offices, since they are not in operation or not fully installed.*

#### *Capitalisation of Assets upon payment of Deposit*

A number of sampled items were capitalised in 2018 under Fire Equipment upon the payment of deposit although these were either not in operation or not installed. This is not in line with International Accounting Standard 16 – Property, Plant and Equipment.

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<sup>4</sup> This includes but is not limited to construction variations of €38,648 (VAT excl.) and fire doors for €16,534 (VAT excl.). Requests by the NAO Officers to the Finance Manager for the compilation of a breakdown of the related expenditure, were not acceded to.

## Recommendation

In line with Accounting Standards, fixed assets are only to be capitalised when the respective item is actually received and in a usable condition.

## Management Comments

*Recommendation that fixed assets will only be capitalised when the respective item is received, is agreed with. In fact, these entries were removed from the assets account.*

## Data Fragmentation

Data was not maintained in line with best practice, but rather fragmented, thus hindering audit trail. Quotations sought and related invoices were kept in separate files, making it difficult to trace a transaction from its inception up to final payment. Consequently, the NAO Officers had to request specific documentation, which was forwarded by the auditee in a staggered manner. Such practice did not make it possible to ensure that information in hand was complete.

## Recommendation

For the sake of transparency and efficiency, documentation is to be maintained in an organised and systematic manner so as to ensure completeness and audit trail.

## Management Comment

*Issue not addressed.*

## Compliance Issue

### **Non-compliance with Fiscal Legislation**

Being registered in terms of the provisions of Article 10 of the VAT Act, it is expected that supplies provided to the MT by VAT registered suppliers are covered by a tax invoice in line with the same Article. However, from the selected sample reviewed, it transpired that a proper tax invoice as set out in the Twelfth Schedule to the VAT Act, for an aggregate amount of €330,525, was not submitted to the MT.

## Recommendations

Officer in charge of accounts is to ensure that all suppliers who have received payments, or part thereof, for goods and services provided, adhere to the VAT regulations by providing a proper tax invoice. In the absence of such submission, defaulters are to be reported to the VAT Department.

## Management Comments

*Accounts officers are chasing suppliers to send a proper tax invoice. Suppliers who fail to provide such information will be reported as defaulters. This exercise is estimated to be completed by the end of the third quarter of 2019.*

# Valletta European Capital of Culture 2018 Foundation

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## Expenditure

The **Valletta European Capital of Culture 2018 Foundation** bypassed the Public Procurement Regulations on various occasions. There were also instances where no formal agreements covering services procured were in place.

### Background

The Valletta European Capital of Culture 2018 Foundation<sup>1</sup> (hereafter referred to as Valletta 2018 Foundation) was set up in June 2011 to be responsible for Valletta's journey towards the title of the European Capital of Culture in Malta in 2018. The aim of the Foundation was to enable social, economic and environmental growth that would render Valletta an even more remarkable city. The Foundation took charge of the European Capital of Culture programme in Malta, which was developed with various local and international communities, and consisted of an ambitious programme of over 140 projects and 400 events taking place throughout 2018.

The approved 2018 budget allocation for Line Item 6801 – Valletta European Capital of Culture 2018 Foundation under Vote 32 amounted to €7,850,000. In November 2018, the Foundation's budget was further augmented by €3,274,529, resulting in a total allocation of €11,124,529.

According to the Financial Estimates for 2019, the Valletta 2018 Foundation's budget allocation for the year amounted to €6.2 million.

### Audit Scope and Methodology

The main scope of the audit was to verify whether procurement procedures adopted by the Valletta 2018 Foundation were adequate and in compliance with the pertinent legislation. The National Audit Office (NAO) 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.

Walkthrough testing was carried out on a random sample of 16 transactions, for an aggregate value of €287,962. Furthermore, 40 transactions having a total value of €1,992,347 were selected for detailed substantive testing. The materiality of the expenditure incurred, as well as the method of procurement of the respective goods and services, were taken into consideration for this selection.

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<sup>1</sup> The Foundation closed off its operations on 31 March 2019 and was replaced by the Valletta Cultural Agency.

## Key Issue

### *Weak Internal Controls over Expenditure*

The audit revealed weak internal controls over expenditure incurred by the Valletta 2018 Foundation, leading to lack of accountability. The following shortcomings relate, most of which are also detailed under Control Issues by project or event:

- a. **Public Procurement Regulations not followed** – From the total sampled transactions, which amounted to €2,280,309, it transpired that the Foundation neither issued a Departmental call for tenders nor obtained a Direct Order (DO) approval from the Ministry for Finance (MFIN) for the procurement of services having an aggregate value of €778,385<sup>2</sup>. The nature of these services essentially included the provision of lighting and sound, hire of crane, barge and generators, as well as catering services.

Furthermore, no information was available regarding the procurement of services, namely advertising, insurance, as well as project planning and design, costing €144,430, also included in the audit sample. The Valletta 2018 Foundation claimed that the services were procured by the former Executive Director and that it was not in possession of supporting documentation relating to the respective method of procurement. Due to this lack of audit trail, the NAO could not establish whether the pertinent regulations were followed.

- b. **No contracts for service** – Expenditure falling within the audit sample, totalling €571,848, was not covered by agreements between the Foundation and the respective contractors, to legally bind the latter with the applicable contractual obligations. Out of this amount, invoices totalling €338,735<sup>3</sup> were not supported by tenders or quotations. In such circumstances, audit trail was completely lost. Moreover, it was unclear how, in the circumstances, the amounts invoiced by the suppliers could have possibly been verified for accuracy before processed for payment.
- c. **Lack of fiscal documentation** – From the audit sample of 56 transactions, 10 amounting to €294,980, were not supported by the appropriate fiscal documentation.
- d. **Absence of publication of contracts awarded** – By mid-March 2019, when the audit was in progress, no evidence was made available to the NAO confirming that contracts and the DOs awarded during 2018 were duly published in the Government Gazette as per standing regulations.

### Recommendations

The Public Procurement Regulations (PPR) 2016 stipulate that, where the estimated value of goods and services exceeds €10,000, these may be procured after a Departmental call for tenders. In exceptional cases, provided adequate justification exists, procurement may be made through a direct contract, after obtaining written approval from MFIN. These regulations are to be invariably adhered to in order to ensure transparency, accountability and equal opportunities to all interested parties. As far as possible, procurement through DOs is to be resorted to only in exceptional circumstances.

Furthermore, commitments with service providers are only to be entered into once all the necessary authorisations are in place. Entities are to ensure that services procured, especially those of a substantial value, are 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 the agreement is to be filed for future reference.

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<sup>2</sup> Although the Foundation requested DO approvals in a number of these instances, MFIN did not accede to the requests as these were deemed retrospective.

<sup>3</sup> With the exception of €42,000, the remaining amount is included also in the €778,385, mentioned in the above observation.

Entities are also to ensure that fiscal documentation obtained for every purchase of goods or services is in line with standing Value Added Tax regulations, while defaulters are to be reported to the pertinent authorities. Furthermore, for the sake of transparency, the list of Departmental contracts and the DOs awarded is to be published as per standing regulations.

### Management Comments

*Whilst the Foundation appreciates and agrees with the spirit of the observation, one must note that this was being carried out whilst an intense, highly demanding, artistic programme was being implemented by the same Foundation which at last count had 419 events just in 2018. Nonetheless, Management takes note and agrees with the recommendations by the NAO and the recently established Valletta Cultural Agency (VCA) is working to ensure that these are entrenched within its working culture from its earliest days.*

*In the last two years the Foundation sought to the best of its ability to respect and abide by the regulations of the PPR and to train its staff in its execution but prior legal commitments made in the name of the Foundation had to be respected. All necessary policies and frameworks to make sure that the PPR is respected to the letter are now being created for the VCA to achieve optimal internal controls over expenditure from the very start.*

*Whilst Management agrees that such services should have been tied down with a contract, one needs to appreciate that such oversights may occur when working within a flexible and very tense and fluctuating environment such as the one the Foundation had to operate in. The Foundation did however take the necessary care in certifying all costs prior to making any payments. The VCA commits itself not to repeat such oversights so that any warranted measures are taken to regulate the relationship between the Agency and service providers.*

*As regards the lack of fiscal documentation, Management agrees with the assessment of the NAO and it will continue with its regular and insistent efforts into obtaining the necessary receipts, the lack of which will result in the supplier being reported to the relevant authorities. On the other hand, the responsibility for the publication of the list in the Government Gazette lies with the Ministerial Procurement Unit, not the Foundation<sup>4</sup>.*

### Control Issues

#### **'Hekk Jgħid il-Malti'**

- a. Prior to July 2017<sup>5</sup>, the Foundation entered into a commitment with an artist to produce 13 artistic sculptures for the project entitled 'Hekk Jgħid il-Malti'. However, no contract was in place at the time. To address this, the Foundation signed an agreement with the service provider, who was to be paid the amount of €80,830 for the sculptures. The contract, which was dated 29 January 2018, was endorsed by the Executive Director.

Approval for this DO was not sought from the MFIN<sup>6</sup>. Furthermore, correspondence dated 5 March 2018 indicated that approval from the Permanent Secretary had not been obtained before the service provider was engaged.

- b. The above-mentioned agreement stipulated that 85% of the contract value was payable following the delivery of the artwork, while the remaining 15% was due after the artwork was dismantled. However, the artist invoiced the Foundation the full amount of €80,830 in March 2018, and the invoice was settled a month later. The artistic installations were to remain exhibited until 31 December 2018.

<sup>4</sup> Since the Valletta 2018 Foundation was a Contracting Authority, the responsibility for the publication lied with the entity itself.

<sup>5</sup> The date of engagement of the Executive Director in office during the audit.

<sup>6</sup> Amount included under Key Issue (a).

## Recommendations

No commitments are to be placed with service providers unless the necessary approvals are in place. Furthermore, contract agreements are to be entered into, endorsed and dated by the contracting parties in a timely manner, otherwise they will not serve their purpose.

Adequate controls are also expected to be in place to ensure that payments are effected in line with the terms and conditions laid down in the respective contracts for service.

## Management Comments

*Upon appointment, the new Executive Director found that a commitment had already been entered into and, while it was not possible to seek approval, as it would have been retrospective, Management was bound to respect it. A contract was therefore entered into to regulate the relationship with the artist company for the reasons explained previously in the very recommendations of the NAO in this Report.*

*As regards the payment effected in full to the service provider, this was a genuine mistake due to pressures of work at a time when the only full-timer within the Accounts Unit had just left. However, one needs to stress that all contractual obligations were met.*

*Once again, Management takes note and agrees with the recommendations by the NAO and the recently established VCA is working to ensure that these are entrenched within its working culture from its earliest days.*

## **'Pageant of the Seas 2018'**

- a. The agreement for the supply of generators for the event titled 'Pageant of the Seas 2018', was entered into on 5 June 2018. However, the invoice from the service provider was issued on 28 May 2018, i.e. before the endorsement of the agreement. The Foundation paid €51,194 for this service.
- b. On 5 June, the Foundation also signed a contract with another service provider for the supply of a crane to be used during the above-mentioned event. This contract included a list of charges applicable from 2 to 7 June, for a total cost of €37,206. This means that the provision of this service had already commenced before the agreement binding both parties was endorsed.

Furthermore, in addition to the invoice covering the full charge in line with the agreement, on the same day, the service provider issued two other invoices, for an aggregate value of €19,210, also for the hire of crane related to the same event. However, the additional services rendered were neither covered by a contract nor supported by an approval for DO.

Moreover, correspondence obtained during the audit indicated that the procurement of these additional services was not authorised by the Foundation's Executive Director, notwithstanding that the applicable contract stipulates that reimbursements for any other expenses were not to be effected unless agreed upon in writing.

## Recommendations

This Office reiterates that, to serve their purpose, contracts are to be entered into before the provision of the respective services. Furthermore, adequate verification is to be performed before payments are effected and all procurement is to be covered by the necessary approvals.

### Management Comments

*Whilst Management agrees with the need for correct documentation, the date on the invoice is a case of human error in its compilation, which admittedly should have been picked up and corrected. However, please note that payment was carried out on 16 July, after certifying that all services were provided correctly for the event which took place on 7 June.*

*In spite of official communication on procedures to be followed, Management was only informed of procurement relating to the hire of crane just prior to the event when it was not possible to rectify or seek approval. Due to the very public national and international commitments made, the event had to continue despite the lack of the MFIN approval. The newly established VCA is however fully committed to ensuring that it has the necessary controls in place to make sure that such a situation is not repeated.*

### 'Orfeo and Majnun'

- a. On 11 October 2018, the Foundation requested the MFIN to grant DO approval for the provision of musicians, production manager and singers for the opera 'Orfeo and Majnun', for a total of €39,864, with the approval being granted on the same day. However, the contract for service between the Foundation and the foreign service provider was entered into on 9 October 2018; thus, prior to obtaining the MFIN approval.
- b. The service provider endorsed the contract for service on 6 November 2018, i.e. after the date of termination of the agreement, which was 20 October 2018.

### Recommendation

As already recommended, commitments are not to be made with service providers unless all the necessary approvals are in place. Furthermore, the contracts for service, reflecting the approved prices and conditions, are to be duly endorsed before the engagement actually commences, thus ensuring that all the applicable terms and conditions have been mutually agreed beforehand.

### Management Comments

*The contract was still being drafted on 11 October, and therefore, this was a genuine human error by the person typing the date of the contract. The recently established VCA will make sure to minimise the possibility of human error in the compilation of the necessary documentation.*

*Management wishes to clarify that the DO and the contract with the service provider was carried out very close to the date of the performance, since the Foundation was bound to utilise the services of the musicians selected by the Artistic Director of the Creative Europe funded project. In the strict timeframe available, an agreement on both the price and the conditions of the contract was reached via email but physical copies could not be sent to the service provider in time. This also came about at a time when the Programming Department was producing a large scale opera, a city-wide parade and several other projects, including a major exhibition, with a small team over a span of three weeks.*

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Ministry for the Environment, Sustainable  
Development and Climate Change

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# Environment and Resources Authority

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## Revenue and Expenditure

The processes and internal controls relating to procurement, payroll and revenue as well as the pertinent Information Technology setup and systems in use within the **Environment and Resources Authority**, were found to be in place.

### Background

The Environment and Resources Authority (ERA) was set up under the portfolio of the Ministry for Sustainable Development, Environment and Climate Change as the environmental and resource regulator in Malta, following the demerger of the Planning and Environment protection functions of the Malta Environment and Planning Authority. It is regulated by the Environment Protection Act 1 of 2016 (Cap. 549).

The Financial Estimates for the line item under review, namely Item 6809, indicated an approved budget of €8.6 million for financial year 2018 under Vote 36, with a further €2 million approved in February 2018 by the Ministry for Finance, while actual expenditure as per the Authority's Management Accounts as at end December of the same year amounted to €8,769,454. Nearly 69% of these, amounting to €6,012,058, consisted of Personal Emoluments paid out to an average of 200 employees employed by the Authority during the year.

### Audit Scope and Methodology

The main scope of the audit was to verify whether procurement procedures adopted were in compliance with the pertinent Financial Regulations and Policies. The audit also sought to gain an understanding of the procedures and internal controls in place at ERA with respect to the payroll process, revenue collection, as well as Information Technology (IT) systems in place.

Meetings with representatives from the Procurement, Finance, Human Resources, Environment and Resources, as well as Information Technology and Telecommunications Units were held to obtain an understanding of the applicable procedures at ERA.

### Procurement

A total of 15 payments relating to expenditure under Programmes and Initiatives, Professional Fees, as well as additions to Furniture and Fittings, were selected from the Authority's accounting system. These were chosen on the basis of materiality and nature of the expense. The sample amounted to €287,700 and represented 73% of the total expenditure in the aforementioned accounts as per the August 2018 Management Accounts<sup>1</sup> of the Authority. Another two payments effected through the use of a Debit Card Facility at ERA, totalling €2,765, were also checked. All transactions were chosen on a random basis. No negative observations were noted following testing of procurement procedures.

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<sup>1</sup> Being the latest Management Accounts available at audit planning stage.

## Personal Emoluments

A systems overview and walkthrough tests covered the salary paid to three officers engaged within ERA, to ensure accuracy and validity of payments, including officers' entitlement to allowances and correctness of overtime paid. The result of these tests confirmed the existence of adequate internal controls and no further substantive testing was carried out.

## Revenue

During 2018, ERA's main source of revenue was from the Government subvention, which amounted to €9,963,226. Being the competent Authority regulating waste management in the Maltese Islands, ERA also collects revenue derived from various types of permits in respect of the local waste management industry. Revenue is also generated from the collection of annual and inspection fees related to the Integrated Pollution Prevention and Control.

Revenue from its operations in 2018 amounted to €461,307. Thus, a meeting with representatives from the Environment and Resources Unit was held to obtain an understanding of existing procedures and internal controls with respect to such revenue. From this meeting and the information provided, it was established that adequate systems are in place, including segregation of duties, and thus no further testing was carried out.

## Information Technology and Communication

A meeting was also held with representatives from the Information Technology and Communication Unit to gain a better understanding of the overall IT setup and the IT systems in use within ERA in terms of procurement, payroll and revenue. No negative observations were made.

## Conclusion

The National Audit Office satisfactorily noted that prior approvals were obtained as necessary from the right level of authority before disbursement of amounts from the accounts tested. Moreover, procurement procedures were followed in accordance with pertinent legislation. This Office is also satisfied that the overall IT setup and systems in use within the Authority in terms of procurement, payroll and revenue, were in place. Furthermore, all documentation relating to the audit was held in an organised manner and was readily available upon request.

## Management Comments

*We show our appreciation for the various discussions conducted with your team on the audited processes as these will definitely help us to further improve our best practice efforts. The Authority will also be informing you on progress registered along with the introduction of our Management Information System, which we are already working on with the intention to strengthen our internal processes.*



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Ministry for Foreign Affairs and  
Trade Promotion

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# Maltese High Commission in Canberra

## Income and Expenditure

Consular Revenue figures as reported by the **Maltese High Commission in Canberra** were not substantiated by any source documentation. This hindered both the respective Ministry and the Identity Malta Agency from carrying out the necessary reconciliations. Moreover, at times, fees charged by the Mission for the services in question were not in line with the applicable standing rates. Other shortcomings mainly related to non-compliance with travel and procurement regulations. Deficiencies with respect to the upkeep of records, including but not limited to accounting records, were also noted.

## Background

The strong and unequivocal commitment by the Maltese Government to network effectively with the Maltese people abroad and build closer political and economic relations with Australia, a country that has welcomed thousands of Maltese migrants, led to the establishment of a Maltese High Commission in Canberra, way back in 1964. By time, Consulates-General in Sydney and Melbourne, as well as Honorary Consuls in Adelaide, Ascot Vale, Brisbane, Cairns and Perth, including an Honorary Vice-Consul in the Latrobe Valley in Victoria, were also appointed.

The Mission in Canberra is a relatively complex one, employing three Malta Based Officers (MBOs) and nine Locally Engaged Personnel<sup>1</sup> (LEPs). The High Commissioner is not only responsible to provide leadership and resource management to the Mission, but is also expected to monitor and assist Consul Generals in Melbourne and Sydney, who fall under his jurisdiction. Besides promoting Maltese interests in Australia, the High Commission provides various consular services. In addition, it issues pension payments to eligible individuals on behalf of the Department of Social Security in Malta.

## Financial Information

For the financial year under review, the High Commission was provided with a budget of €984,900, with actual expenditure incurred totalling €828,115. Whilst €809,200 of the budget was allocated for Personal Emoluments and the remaining balance of €175,700 to Operational and Maintenance Expenses, actual amounts expended by the Mission on the said two categories amounted to €662,511<sup>2</sup> and €165,604 respectively.

Additional expenditure with a total value of €100,173<sup>3</sup> was paid by the Head Office (HO) on behalf of the respective Embassy.

During 2018, the Embassy also managed to generate revenue of €291,492, over 96% (€281,136) of which was earned from consular services, while the remaining balance of €10,356 consisted of bank interest and refund of overpayments received during the year.

<sup>1</sup> Three of whom worked on reduced hours.

<sup>2</sup> Budgeted expenditure for personal emoluments was not exhausted in view of the fact that plans to engage a driver and an administrative assistant during 2018 did not materialise. Furthermore, the post of Consul General (Sydney) was vacant for a period of almost three months.

<sup>3</sup> This related mainly to costs incurred for the operation of consul on the move, travel abroad, medical refunds, as well as internet expense.

## Audit Scope and Methodology

The audit was carried out with the objectives of:

- ensuring the efficient administration of public funds, in line with standing laws, regulations, policies and procedures;
- ascertaining that resources are being used judiciously;
- assessing the reliability and adequacy of information available for decision-making and accountability purposes, and to make recommendations, where warranted, based on best practices; and
- verifying that revenue from consular services was duly received and accounted for.

The focus and extent of the audit work was based on professional judgment, as well as experience gained from previous similar audits. Audit testing mainly entailed a review of the monthly transactions and other supporting documents as submitted by the Mission, which are vetted by the responsible Desk Officer from the HO. Scrutiny of registry files, communication with the HO, mostly through the aforementioned Desk Officer as well as an analysis of recurring trends were also carried out.

## Key Issues

### *Lack of Substantiating Documentation*

Internal controls at the HO to oversee the operations of the Mission were lacking and adequate monitoring was not in place to ensure efficient financial management. Below are examples of instances encountered:

- a. Desk Officer often relied on figures of revenue and expenditure reported by the Mission, with the former's role being limited only to the 'vetting' of the transactions. Queries were only raised in exceptional instances, such as in the case of any discrepancies arising in LEPs' salaries and rent. As a result, issues emanating following audit testing which necessitated further clarifications could not be answered by the HO but had to be referred back to the Mission. This also prolonged the audit process.
- b. Due to the lack of substantiating documentation, audit testing was hampered to the extent that it was not possible to ascertain that procurement was effected in line with pertinent laws and regulations.
- c. Revenue reported by the Mission was not substantiated by any other source documentation, hindering the Ministry for Foreign Affairs and Trade Promotion (MFTP) from carrying out the necessary reconciliations. In addition, consular services are charged in the Australian dollar being the Mission's local currency; however, apart from the amount of fees received as shown in the monthly report, the HO had no record indicating the applicable foreign currency rates.

## Recommendations

The Directorate for Corporate Services is to take remedial action by implementing an appropriate internal control structure. For the sake of transparency, the pertinent directives and guidelines are to be adhered to. Records forming the basis of decision making are to be maintained and filed for future reference.

## Management Comments

*Recommendation is noted to improve on current processes. The Ministry will be issuing calls for one Senior Manager (finance and accounting) as well as one Assistant Manager (finance and accounting) in quarter three of 2019 to strengthen the Finance Section of the Directorate. These two posts will be assigned the duties to implement internal control structures that would address the issues raised of transparency, besides adhering rigorously to pertinent directives and guidelines. The officials will be requested to ascertain that records forming the basis of decision making are properly maintained and filed for future reference.*

### **Completeness of Revenue not ascertained**

Official documentation, including but not limited to passports, birth certificates, citizenship and visas, is issued to Maltese Nationals living abroad, by the Identity Malta Agency (IMA) through Embassies and Consular Offices. However, in view that payments in respect of these services are being forwarded by the latter to the said Agency in bulk, without being substantiated by detailed reports, thorough reconciliation of funds received with services rendered could not be carried out. This issue has been raised by the respective Agency since at least 2015; however, the situation still prevailed, triggering a qualification in the audit report of the IMA on the basis that no sufficient appropriate audit evidence was available to determine the completeness of income in relation to Embassies.

## Recommendation

The MFTP is expected to request Missions to submit timely, accurate and detailed information, which data is then to be forwarded to the aforementioned entity. This will ensure that any shortcomings are detected at an early stage and that necessary action is taken in a timely manner.

## Management Comments

*The High Commission in Australia produces monthly reports for the three Missions (including Consulates-General Melbourne and Sydney) whereby fees paid by applicants are noted as is the distribution of fees. This consular banking is forwarded to the MFTP together with the monthly accounts. The MFTP will be holding consultations with the High Commissioner Canberra to discuss way forward on the matter of facilitating the relaying of such information to the IMA. Such an exercise is estimated to be complete by mid-2020.*

## Control Issues

### **Consular Service Fees not in line with Standing Regulations**

Fees charged by the Mission for consular services were not always in compliance with applicable standing rates. By way of example, whilst adults were charged a fixed fee of €76.22 (which is converted to Australian dollar) for passport renewals, irrespective of the month during which these are issued<sup>4</sup>, those concerning junior and minor individuals were undercharged by €5 and €2 respectively. Moreover, from documentation provided, it could not be ascertained whether there were any urgent passport applications, which cases should have been charged at higher rates.

Further to the above, correctness of fees charged for other consular services, such as those of €104.82 and €23.29 concerning citizenship and visas applications respectively, could not be verified in view of the fact that these were not covered by the pertinent Legal Notice (LN)<sup>5</sup> or any other official document issued by the MFTP.

<sup>4</sup> Normally, passport renewals effected between the months of April and August are charged at €80 and at €70 during the remaining months.

<sup>5</sup> LN 221 of 2016 – Fees leviable by Government Departments (Amendment) Regulations, 2016.

## Recommendations

The Mission is to ensure that amounts charged for consular services are in line with those established by law. Official rates are also to be established for any consular services which are not yet regulated by standing legislation.

## Management Comments

It was noted that standing regulations are there to be adhered to. In this regard, a process will be launched to seek a way forward by not later than quarter four of 2019, that addresses the High Commission's concerns.

### ***Contracted Services not supported by Agreement or Adequate Documentation***

#### *'Outgoings' and Cleaning at Sydney Consulate Office*

The rates charged for 'outgoings'<sup>6</sup>, as well as cleaning at the Sydney Office, were higher than those quoted in the respective rental agreement, which came into effect in November 2013. Documentation to substantiate the increase was not traced. Moreover, no supporting workings were attached to the invoices. As a result, this Office could not confirm the correctness of the amounts charged by the service provider, which during the year under review totalled €15,563.

It also transpired that, although the corresponding rental agreement expired on 21 November 2018, payments for rent continued to be effected up till year-end. However, despite various requests, during audit fieldwork, the National Audit Office (NAO) was not provided with a copy of the renewed terms and conditions. These were eventually made available following the conclusion of the audit, upon submission of management comments.

#### *Services of a Gardener and Handyman*

The services of a gardener and handyman acquired by the Mission in Canberra were provided on a call basis; however, a formal agreement outlining the respective rates and terms and conditions was not in place.

#### *Courier and Postage Services*

Records for postal services as maintained by the Mission were not deemed sufficient in view that these could not be reconciled to the monthly invoices issued by the respective supplier. Consequently, correctness of amounts paid in this respect, which during the year under review amounted to €16,853, could not be confirmed.

#### *Temporary Rental of Accommodation*

Rental of furnished accommodation, amounting to €8,158, incurred with respect to the temporary posting of an Officer as Consul General Sydney for three months, was not covered by formal quotations.

## Recommendations

It is pertinent that expenditure met out of public funds is properly substantiated by official source documentation, thus enabling verifications as well as reconciliations where applicable. Furthermore, procurement regulations are to be followed rigorously with quotations to be submitted for approval prior to entering any commitments.

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<sup>6</sup> Consists of lift maintenance, as well as amounts payable in connection with the land and/or the building (other than the cost of structural works).

### Management Comments

*The records of the renewed terms and conditions of the Sydney Office are available at the Ministry.*

*As of January 2019, the High Commission in Canberra has started maintaining itemised mailing list statements for outgoing mail from the Canberra Office, in the monthly accounts. The MFTP will be requesting the High Commission to ensure that the two Consulates-General will forward the said statements for inclusion in the monthly accounts as well. To be implemented by end of quarter three 2019.*

*The Ministry will continue to abide by the procurement regulations and ensure that the High Commission in Canberra follows such action.*

*The rental accommodation is available on websites and real estate agencies. The quotation provided by the respective Officer reflected the rental market for Sydney city centre and was considered fair and reasonable - a standard rule of procurement. Nonetheless, the NAO comments are noted. The Ministry would engage with the High Commission to ensure compliance and be more transparent.*

### Carriage of Personal Belongings

The request form as submitted by the Mission to the HO, concerning approval for the transportation of the personal belongings of the then Consul General (Sydney)<sup>7</sup>, was not endorsed by the respective Permanent Secretary. An endorsed form by the latter, indicating that the respective approval was given on 21 January 2018, was only made available to the NAO when the audit was concluded, upon the submission of the management comments.

It also transpired that, whilst the three quotations obtained in this respect were approved on 19 January 2018, the invoice for the service was dated 16 January 2018, implying that the procurement in question was effected before being approved. In addition, the quotations were merely gathered for formality purposes since these were all dated after the date of the invoice. Total cost incurred in this regard totalled €7,970.

### Recommendation

Requests for the transporting of personal effects are to be made to the Permanent Secretary within two months from the date of the end of posting, after obtaining three quotations from potential service providers.

### Management Comments

*The Ministry has followed up the required procurement process and three quotes were sought. The Ministry confirms that formal approval for the Transfer of Personal Effects was signed by the Permanent Secretary, MFTP and issued on 23 January 2018.*

### Accounting

#### *Payment Vouchers drawn up merely as a formality*

A review of the payment vouchers falling within the audit sample revealed that these were being raised days after the respective payment was made, at times even following the elapse of a month. Whilst such practice is in breach of the General Financial Regulations, it also by-passes the applicable internal controls.

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<sup>7</sup> Upon the termination of his post on 10 February 2018.

### Recommendation

In line with the cited regulations, all payments are to be covered by proper authority, thus payment vouchers are to be raised and approved accordingly before the settlement of outstanding balances.

### Management Comment

*No comments submitted.*

### *Wrong Incidence of Charge*

Multiple instances were encountered whereby expenditure was posted to the incorrect line item (wrong incidence of charge). This leads to the distortion of the reported expenses.

### Recommendation

More diligence is to be exercised when allocating amounts to ensure that the related expenditure is correctly reported under the pertinent line items.

### Management Comments

*The NAO comments to wrong inputting is duly noted and the attention has already been drawn to the overseas accounting officer. The Ministry has received the High Commission's assurance that it will be ensuring that the NAO recommendations will be taken on board.*

### **Upkeep of Records**

- a. Review of the MBOs' and LEPs' attendance records for 2018 provided for audit purposes revealed certain shortcomings. The following relate:
  - i. In various instances, attendance sheets were not being marked as 'certified correct' and endorsed by the responsible officer. This implies a lack of control over the record-keeping of hours worked and ultimately the respective salary payment.
  - ii. Five days recorded as vacation leave on one of the MBO's attendance sheets were not reflected in the leave records and thus were not deducted from the officer's entitlement.
  - iii. A number of other errors, including date of public holidays incorrectly recorded, officers marked as duty on public holidays and blank attendance records were also noted.
- b. Following various reminders, attendance sheets of the MBOs and LEPs were provided to this Office at a very late stage of the audit. This sheds doubt on whether these records were actually readily available.
- c. The posting details form of three MBOs as provided for audit purposes, reflecting salary adjustments effective as from 1 January 2018, were not endorsed by the Permanent Secretary even though these adjustments had to be duly approved by the latter prior to effecting payments. Signed copies were provided to the NAO when the audit was concluded, upon submission of the management comments.

## Recommendations

Attendance records are to be prepared by the respective officers in an accurate and timely manner and appropriately vetted by the responsible officer. It is also to be ensured that any leave availed is deducted from the officer's entitlement. Moreover, the MBOs' and LEPs' salary adjustments are to be duly approved before effecting payment.

## Management Comments

*The Ministry confirms that the Ministry for Foreign Affairs (MFA) Forms 1 are signed by the Ministry's authorised officers and endorsed by the Permanent Secretary. However, the attention of the High Commission is being drawn to ensure that with immediate effect, any supporting documents which refer to Ministry's approval must include copies of the original signed documents.*

## Shortcomings relating to Inventory

- a. Approval for the disposal of fixed assets was only sought from the Directorate for Corporate Services, following an assessment by a Board of three members of staff consisting of two MBOs and a LEP, notwithstanding that in line with standing regulations, this also necessitated the endorsement of the Permanent Secretary.
- b. Statutory returns in respect of assets under the Mission's responsibility, as well as additions to fixed assets, were not forwarded to the Auditor General in terms of MF Circular No. 14/99 – 'Government Accrual Accounting: Revised Inventory Control Regulations'.

## Recommendations

Full compliance with MF Circular No. 14/99 is recommended, whereby approval from the right level of authority is to be sought prior to the disposal of any assets. In addition, Management is to make sure that officers in charge of inventory are aware of the statutory returns that are to be compiled and that accurate and timely feedback is submitted to the pertinent authorities.

## Management Comments

*Whilst the Ministry takes note of the NAO recommendation, it wishes to inform that it has assigned an officer to monitor and ensure compliance of Missions' inventory. A similar officer has also been tasked to carry out the Ministry's assets exercise.*

## Compliance Issues

### **Lack of Compliance with Standing Travel Regulations**

Review of the travel on official duty undertaken by the Mission's officers during 2018 revealed instances of non-compliance with the provisions of the Manual on Transport and Travel Policies and Procedures, as well as the applicable Conditions of Service.

- a. Invitations or related correspondence and official agendas for certain official visits were not submitted by the Mission to the HO as a means of supporting documentation.
- b. Instances were noted whereby flights for certain travel undertaken on official duty also covered the officers' spouses notwithstanding that trips pertaining to the latter should only be paid out of public funds when travelling to and from the host country at the start and end of a post and in the case of home leave.

- c. At times, air tickets and boarding cards were not traced to substantiate travel on official duty. Moreover, certain flight reservations were only supported by the travel agent's purchase invoice which lacked sufficient details concerning flight schedules. In the absence of adequate documentation, travel dates as indicated in the Duty Travel Advance Request Forms (MFA Form 5) as well as accuracy of subsistence paid could not be confirmed.
- d. Higher authority approval for Consul-on-the-Move travel undertaken in January and August 2018 by two officers was only granted subsequent to the necessary flight arrangements being made. Moreover, the Duty Travel Advance Request Form covering a trip effected by one of the said officers in May 2018 was not endorsed by the Permanent Secretary.
- e. On a number of occasions, the required three quotations sought ahead of making flight reservations were not submitted to the HO. The respective Desk Officer did not raise any queries in this respect whilst carrying out the necessary vetting.
- f. The NAO's request for the report that should have been prepared by the incumbent on the termination of the post of Consul General (Sydney) was not acceded to.

### Recommendations

MBOs are to invariably adhere to the provisions of the Conditions of Service and follow the Manual on Transport and Travel Policies and Procedures with respect to travelling abroad. Moreover, substantiating documentation, enabling verification of the subsistence allowance paid, is to be maintained at all times. Approval from higher authority is also to be duly sought ahead of making any travel arrangements.

As required by standing regulations, officers returning to the HO are also to submit a report to the Permanent Secretary, two months ahead of their termination of post, to enhance accountability.

### Management Comments

*It is to be noted that the use of paperless and electronic boarding passes is widely adopted within Australia and New Zealand. When such documents are made available by the airlines, officers are reminded that these are to be submitted together with a statement of expenses of the duty travel.*

*Further to the above, an issue that is often faced is the fact that quotations sought for domestic flights are valid only for pricing on same-day purchase. Time difference works against normal practice in view of the different time zones as by the time the travel quote is issued, the Directorate for Corporate Services vetting and the Permanent Secretary's approval is received, the flight price may increase. Nevertheless, the cheapest and most reasonable quote is selected throughout. These time-difference disadvantages, which may impinge on increased cost of flights, need to be further discussed to seek a better way forward.*

*Travel claims and quotations are handled and vetted by the Ministry's Travel Section. Once this is done, all documentation including endorsed MFA Form 5<sup>8</sup>, are forwarded to the Mission Desk Office of the HO and kept in a separate file. During the vetting exercise, the Desk Officer verifies that the approved sum (flights, subsistence and contingency allowances) has not been exceeded by the travelling officer. It can be confirmed that each and every travel carried out during 2018 is supported by the three quotes and where applicable, agendas and expenditure was always in line with the approved sums. With the monthly accounts, only one quote is provided, i.e. the cheapest one together with a copy of the MFA Form 5.*

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<sup>8</sup> Duty Travel Advance Request Form.

### **Untimely Bank Deposits**

Audit testing revealed that cash in hand was not being deposited at the bank frequently as specified in the Financial Regulations. Amounts in excess of €100 are to be deposited every day, whereas smaller balances are to be deposited every Friday. However, Sydney and Melbourne Consulates deposit cash of around AUD 3,000 (approximately €2,200) on a weekly basis, while the Canberra Mission deposits its revenue, more or less of the same equivalence, on a fortnightly basis.

### **Recommendations**

In line with best practice, for the safeguarding of funds as well as to minimise the negative impact on the Mission's cash flow, cash and cheques are to be deposited on a regular basis. Authorisation from the Permanent Secretary is to be requested if deposit arrangements are to differ from the requirements set by standing regulations.

### **Management Comment**

*The Ministry will engage with the High Commission to review the situation and formalise a plan by end of quarter four 2019 to carry out a more efficient bank deposit process.*

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Ministry for Transport, Infrastructure  
and Capital Projects

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# Ministry for Transport, Infrastructure and Capital Projects

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## Personal Emoluments

The National Audit Office was satisfied that the procedures and controls in relation to the expenditure on personal emoluments paid by the **Ministry for Transport, Infrastructure and Capital Projects** were adequate and in sound operation.

### Background

The Ministry for Transport, Infrastructure and Capital Projects (MTIP) operates through a number of departments, including Works and Infrastructure, the Project Monitoring Unit and the Land Expropriation Unit, amongst others.

From the total estimate of recurrent expenditure for 2018 under Vote 38, €22.4 million were allocated to personal emoluments. The actual total gross emoluments paid to an average of 1,000 employees for the year under review amounted to €21.2 million, of which €2.3 million and €0.6 million covered allowances and overtime respectively.

### Audit Scope and Methodology

The main scope of the audit was to determine and assess the level of internal controls in the payroll process, as well as to verify whether the relevant regulations were being followed.

From meetings held with the Human Resources Department, it transpired that the procedure to request and approve overtime relied solely on spreadsheets. Consequently, the audit focused on the procedures surrounding overtime request, its approval and respective payment.

Testing was also conducted on a number of allowances, which were also dependent on the employee's actual work attendance.

A thorough analysis was carried out on the 2018 pay lists, showing the gross pay and its various components, including overtime and allowances. Areas identified as carrying the highest risks were further examined through more detailed audit testing.

### Overtime

Overtime carried out by the MTIP employees for other Ministries or Departments was not paid out of the MTIP budgetary allocation, since the actual payment to the respective individuals was only made once the cost of the overtime is transferred to the appropriate MTIP Vote. The risk was thus deemed to be minimal and testing was limited to a high-level overview of how the overtime recouping system works.

Overtime within the MTIP was payable from the latter's budget line item, provided that the necessary Ministerial approval was obtained; and it was based on timesheets. As a result, a random qualitative sample was selected from those employees who, during 2018, were paid overtime.

## Allowances

A number of individuals in receipt of either the Ex-Imprinted Drivers Allowance or the Car Cash Fringe Benefit were randomly selected for audit purposes because these allowances were based on whether the individual actually reported for work.

A high-level analytical review was then carried out on the remaining allowances. However, owing to the relatively material amount paid to one Officer, the National Audit Office (NAO) performed detailed testing in this regard.

## Access Rights to the Payroll Application

The Ministry provided a list of users having access to the Payroll Application. All users had 'read only' rights, except for the Head of Salaries, who had full access rights in case any last minute adjustment was necessary to any employee's salary, even though no changes were ever effected.

## Good Practice

The NAO was satisfied that the procedures and controls in relation to the areas tested were adequate and in sound operation. Additionally, all documentation requested was made available in a timely manner. Staff was well versed on their respective areas of work and replied to all queries raised by this Office.

From the NAO's analysis, only one exception was noted, as detailed below.

## Control Issue

### *Concerns relating to Allowances*

In 2018, an Officer received €16,824 in allowances, equivalent to 72% of his basic salary for the year. This comprised an On Call duty allowance, a Sunday duty allowance, as well as the use of a fully expensed car.

Upon further enquiry, the following were noted:

- As per approvals by the respective Permanent Secretary in 2015, which were still applicable for 2018, this employee was allowed to work on a system of flexible hours which, during the period reviewed, included nine hours daily during weekdays and a six-hour shift every Sunday.

However, there were instances whereby 12 hours were worked on a given Sunday to make up for a shortfall in hours related to another Sunday. Without entering into the merits of the need to report for work every Sunday, it is difficult to understand how the Ministry benefitted from this arrangement.

- The monthly return of allowances showed that besides the Sunday duty allowance, this employee was also paid for an additional 10 hours every week at the basic rate. Testing revealed that whilst five of these hours were worked during the week, the remaining five hours were not accounted for in the timesheets.

The MTIP confirmed that these extra hours are being remunerated to make up for the fact that Sunday allowances were not paid at twice the basic hourly rate. The NAO acknowledges that if work is carried out on Sundays, the payment should be done at the appropriate rate; however, the way this was carried out is not in line with standing regulations.

In the circumstances, one also questions the need for the seemingly excessive hours worked, besides the manner in which they were being remunerated.

### Recommendation

A thorough review by the MTIP of this employee's working hours and the respective remuneration is encouraged. This would ensure that all hours this individual is putting in are justified, and that the remuneration paid faithfully reflects the extra hours performed.

### Management Comments

*The MTIP has performed a review of the employee's working hours, in the context of his job responsibilities, where he manages a number of personnel who are deployed on a 24-hour roster, 7 days a week.*

*In view of the above, the MTIP has set a modified three-days on, one day off roster for the Officer, which takes into consideration the needs of the Ministry, but at the same time retains the overall times and hours under the established shift when taken on a four-week timeline. Moreover, it has been agreed that this Officer will modify his work attendance whenever needed due to work exigencies.*

*The employee will be remunerated in line with normal remuneration for this type of shift, namely eight hours extra over the four-week period, the shift allowance and the Sunday duty.*

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Ministry for Gozo

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# Ministry for Gozo

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## Stores

No formal records were kept substantiating claims by the **Ministry for Gozo** that stocktakes were carried out throughout the last 10 years. Lack of internal control and security were also noted.

### Background

Besides the Office of the Permanent Secretary, the Office of the Chief Information Officer and the Operations Division, the Ministry for Gozo (MGOZ) is made up of the following eight Directorates:

- Services Gozo Directorate
- Corporate Services Directorate
- Rural Gozo Directorate
- Projects and Development Directorate
- Policy Development and Programme Implementation Directorate
- Tourism and Economic Development Directorate
- EcoGozo Directorate
- Cultural Heritage Directorate

The aim of the Ministry is to create sustainable, good quality and productive jobs in Gozo through the creation of a conducive socio-economic environment, while at the same time protecting the inherent and distinctive natural features that distinguish the island.

For 2018, the MGOZ Recurrent Vote 39 totalled €33,211,000. An amount of €11,176,000 was also appropriated under Capital Vote XVI. Total expenditure on material and supplies for the year amounted to €853,205.

### Audit Scope and Methodology

The audit scope was to determine the level of existing internal controls over stock items and whether there was adequate stock management in line with pertinent circulars. An introductory meeting was held with Management to discuss the audit objectives and to obtain a general understanding of the relevant procedures adopted by the MGOZ. The National Audit Office (NAO) was informed that the largest store, known as Kajselli, mostly contained items such as tools, hardware and raw materials used for carpentry, capital projects and maintenance works. The Ministry also provided a list of the other stores falling under its responsibility.

Following a risk assessment exercise, the NAO selected a qualitative sample of store items for the purpose of the audit. Stock lists made available were checked for anomalies and various enquiries were made. A number of items were traced to procurement documents to ensure accuracy of stock records with respect to both quantity and price. The audit also sought to confirm whether the selected items purchased were taken on charge, issues were duly authorised and the respective cost allocated to the particular job, where applicable.

## Limitation on Scope of Audit

Relevant circulars include, amongst others, procedures which should be followed when particular circumstances occur. These comprise, but are not limited to, instances where there are discrepancies, unserviceable and surplus stock. The NAO was however not in a position to assess adherence to the relative requirements, as documentation supporting action taken in this regard for the year 2018 was not available, thus limiting the scope of this exercise.

## Key Issue

### Security

None of the stores were equipped with alarm systems or closed-circuit television cameras. According to the MGOZ, when this audit was underway, an exercise covering the overall security system within the entire Ministry, including stores, was being carried out.

### Recommendation

Considering that the current situation increases the risk of possible intrusion and theft, remedial action is not to be unduly prolonged.

### Management Comments

*Note has been taken and the MGOZ will take necessary action accordingly.*

## Control Issues

### Physical Spot Checks at the Kajselli Stores

Two out of the five stock items tested were overvalued by circa €500,000 in the ledger as a result of data input errors.

### Recommendations

Information entered in the stock system is to be accurate and complete. Although the NAO acknowledges that discrepancies can never be eliminated in their entirety, every effort is to be made in order to minimise such differences. It is also advisable that the maximum and minimum order levels available in the stock system are used, as this could help to highlight certain errors.

### Management Comments

*Following the centralisation of stores, the first phase included the upgrading of the stores Information Technology (IT) system which was developed in conjunction with the officer in charge of stores. To complement the record system, the second phase shall introduce continuous physical stocktaking. Standard Operating Procedures will be drafted so that proper guidelines to store-keepers are given.*

*The officer in charge of stores will be gradually introducing the maximum and minimum values for all stock items.*

### **Spalls Dump Section**

The Spalls Dump Section is a separate area adjacent to the Kajselli main store, where items such as cement, tiles and tarmac are stored. An officer is responsible for these stock items which are administered and recorded separately from other stores. During the first week of August 2019, approximately €51,200 worth of stock was recorded on the system.

The following concerns were noted:

- The discovery of these stores by the NAO during audit fieldwork was purely coincidental as upon enquiry, the Ministry claimed that it was not aware the store in question was administered separately.
- Although the stores could be closed by a gate, it was stated that beach cleaners and drivers of motorised road sweepers had to enter this area to reach their offices, even during days when the officer in charge of the Spalls Dump Section was not on duty. As a result, access was not controlled.
- The officer in charge claimed that a stocktake of this store could not be carried out as the necessary measuring and handling equipment was not available.

### **Recommendation**

Besides restricting access to the area, the MGOZ is encouraged to furnish the section with the necessary equipment to enhance accountability and safety.

### **Management Comments**

*The Spalls Dump Section and Main Store are incorporated into one IT system under the responsibility of the officer in charge of stores. The responsible officers at each store have access rights only to the stock items under their respective responsibility.*

*The whole storage area under the Spalls Dump Section is earmarked to be segregated as part of the reorganisation of stores. In this way, only the officers working in the store will have access to this area.*

*The MGOZ is considering the available options for ways on how stocktaking will be carried out reliably on loose bulk stores (sand and spalls). For the bulky stores which can be counted, the use of a fork lifter, which is currently being procured, will be made available.*

### **Gozo Experimental Farm**

*During 2018, the Ministry spent a total of €11,844 on animal feeds for the Gozo Experimental Farm in Xewkija. Although it was claimed that strict controls were in place to ensure that consumption of animal feeds was in line with the animal head count, evidence to this effect was not available.*

### **Recommendations**

For the sake of accountability and as a control measure, considering the nature of the expense involved, one would expect at the very least a basic reconciliation of actual consumption to the products' recommended daily consumption guidelines. A requisition form is also to be used for internal control purposes.

### **Management Comments**

*The MGOZ will adhere to this recommendation.*

### Store for Incontinence Supplies

As from mid-June 2019, a stock of incontinence supplies started being kept at the Incontinence Distribution Centre within the Ghajnsielem Hub following a decision taken by the Ministry that the latter was to distribute these supplies to entitled individuals against vouchers. The following concerns relate:

- Although a tender for incontinence supplies was awarded and the supplier was notified on 16 May 2019, the respective contract was not made available to the NAO by the second week of October 2019; i.e. nearly four months after the introduction of this service.
- Stock records were kept on spreadsheets. As entries could be amended or deleted without any audit trail, such records did not give the necessary comfort of completeness and accountability.
- The Auditors noted discrepancies between the quantities shown in the first two delivery notes received in connection with this tender when compared to those in the stock records. Although the delivery notes in question were already endorsed as received by the officer in charge, when this matter was brought to the attention of the MGOZ, the same delivery notes were manually corrected in pencil.

### Recommendations

Effort is to be made to transfer stock records to an appropriate computer program in order to improve accountability and simplify work. Moreover, delivery notes are only to be signed following proper verification to confirm the actual goods received.

Contracts formalising agreements with suppliers are to be made available for audit purposes.

### Management Comments

*The agreement was signed by the contractor on 30 August 2019 and by Director General (Contracts) on 4 September 2019. The contract was not signed before due to issues raised by the Department of Contracts regarding the single bond of the supplier. Our copy of the contract was delivered to us at end September.*

*Although the stock is held by the MGOZ, the supplier is paid when stock is distributed to entitled individuals. The MGOZ cannot use its present IT system for these supplies. However, a separate IT system which was developed for this purpose, will record stock movement via a Quick Response Code Reader.*

*It is to be remarked that the delivery notes received are checked against the actual stock delivered at the time of delivery. When a discrepancy is found this is corrected immediately on the delivery note in pen by the employees at the Incontinence Distribution Centre. The delivery note is then signed and handed to the courier as proof that the stock was delivered and confirmed.*

*The notes in pencil on the delivery notes are made by the officer entering the stock on the database, to convert the number of cases into individual pieces so that all items in stock are recorded consistently with the same units of measurements (in this case in pieces).*

*As opposed to what is being stated, there are no discrepancies at all. The figures tally, since the delivery notes indicate the number of pieces or packets whilst the Directorate records all items in pieces.*

### **Lack of Accountability**

#### *Engineering Section Store*

A sampled invoice relating to electrical supplies revealed another store that was being kept for items purchased by the Engineering Section. It was stated that most of these items were consumables used for maintenance and repairs at various MGOZ sites.

Although record sheets containing date, store items issued and respective location were being maintained and signed by the officer taking the goods, proper stock records were not made available. The regular stock control procedures were also not in place. The NAO was informed that procurement by this section amounted to €11,231 in 2017 and €2,749 in 2018, whilst it had reached €4,803 between January and mid-August 2019.

#### *Dawwara Nursery*

The following concerns were encountered at the Dawwara Nursery in Kerċem, which is responsible for the cultivation of plants and trees, mostly to be used for embellishment projects:

- Although it was claimed that issues were being recorded, no record of the total stock of plants available as at a particular date was kept. The Rural Gozo Directorate pledged remedial action when this weakness was brought to its attention.
- The applicable Standard Operating Procedure made available clearly specified that plants from the nursery were sometimes used by third parties for special occasions, such as weddings. However, it did not contain adequate guidelines for the issue and return of plants. Upon enquiry, the NAO was informed that this was still being drafted.
- Besides the fact that the forms used to record the plant issues were not pre-printed in numerical sequence, they also did not require the identity card number of the individual resorting to this facility.

### **Recommendations**

Basic control procedures require that adequate stock records are in place to ensure accountability. These are to be reconciled to the physical stock at least annually. Such a requirement is even more important at this stage when the MGOZ is on the verge of implementing accrual accounting. Additionally, internal controls are expected to be enhanced, to ensure that the stock of plants is safeguarded, thus avoiding misappropriation.

### **Management Comments**

*The normal procedure at the Engineering Section is that they procure electrical items and materials for specific projects or repair jobs as soon as they are required. The section only maintains a small number of items for emergency cases after office hours. Since the value is immaterial, this is not considered as a store.*

*The Rural Affairs Directorate will take necessary action to regularise the position of the Dawwara Nursery and thereby to adhere to this recommendation.*

### **Cleaning Materials**

Six out of ten stores which were originally brought to the NAO's attention by the MGOZ contained cleaning materials. Auditors were verbally informed that these items were being procured directly by different sections at retail prices but according to Management, plans were underway to secure period contracts covering the procurement requirements of the whole Ministry.

## Recommendation

The Ministry is encouraged to adopt the planned period contracts without undue delay. Besides being cost effective, this practice should also ensure better control.

## Management Comments

*The MGOZ is currently preparing the publication of the tender for the supplies of cleaning materials through period contracts which should cover all Directorates within the MGOZ.*

## **Lack of Segregation of Duties**

The officer in charge of the Kajselli stores was also in charge of the carpentry workshop, which was regularly provided with supplies from the former store. Although requests were made through a Stores Issue Form, this situation was anomalous in view of the lack of segregation of duties.

## Recommendation

Segregation of duties, where possible, is highly recommended, for proper internal control purposes.

## Management Comments

*The MGOZ takes note of this recommendation and will take necessary action to resolve this concern.*

## **Compliance Issues**

### ***Bin Cards do not meet the purpose***

Although bin cards were available, these did not serve their intended purpose, since they did not contain the details of stock receipts, issues and the stock balance, in line with Treasury Circular No. 6/2004 – ‘Stock Control Procedures’.

## Recommendation

The appropriate use of bin cards in addition to ledgers is encouraged as mistakes are minimised when entries are recorded concurrently with stock movement. In this way, control over stock is also more effective and discrepancies are identified more easily.

## Management Comments

*Before the transition of the stores, the bin cards used to contain all the information. However, with the new bar-coding and scanning system, the information on the bin cards was eliminated since it is now automated. This will also be supported by continuous physical stock control.*

**Statutory Stock Return not submitted to the NAO**

Treasury Circular No. 6/2004 requires the Ministry to furnish the Auditor General with a stocktaking report outlining the results obtained annually. Notwithstanding this, stock returns were not submitted to the NAO for the last 10 years.

No formal records were kept substantiating the MGOZ's claims that stocktakes were being carried out throughout these years. In view of this, the relative circulars were to be brought to the attention of the officers concerned in order to ensure compliance.

**Recommendation**

Management is to ensure that entrusted officers are responsible for compliance with statutory requirements, including the annual submission of information to the NAO.

**Management Comments**

*The MGOZ takes note of this recommendation and confirms that stocktaking will be carried out periodically according to the provisions of Treasury Circular No. 6/2004.*

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

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# Age Pension

## Expenditure

Deterrents were not in place to prevent abuse of the social assistance and benefits system. Following an audit on **Age Pension**, the National Audit Office also identified areas of improvement where overpayments of the benefits in question are concerned. In addition, valuations applied by the Department of Social Security on the land and property owned by beneficiaries were understated.

## Background

The Department of Social Security (DSS) within the Ministry for the Family, Children’s Rights and Social Solidarity is responsible for the administration of the provisions of the Social Security Act 1987 (Cap. 318), hereinafter referred to as the Act. This audit focused on the Age Pension (AP), which falls under non-contributory benefits. The AP is awarded to persons upon reaching 60 years of age, and is paid at the applicable weekly rates in line with the Act, upon satisfying the established capital resource<sup>1</sup> and means test.

The approved budget allocation for 2018 under Vote 42, Line Item 5147 – Old Age Pensions, which amounted to €27,400,000, was revised to €29,290,000. A total of €29,251,657 was actually expensed by year end. Besides the AP, this line item also covers Increased Carers Allowance and Visually Impaired Assistance, the latter two being outside the scope of this audit. The budget allocation for the AP only, for the year under review, amounted to €24,890,000.

The number of the AP beneficiaries over the past four years together with the respective disbursements are outlined in Table 1 below.

Table 1: Age Pension Beneficiaries

Details	2015	2016	2017	2018
Number of AP beneficiaries	5,442	5,360	5,179	5,112
Actual AP paid (€)	21,610,874	21,498,603	21,946,251	22,015,667

As at 31 December 2018, the Department registered a total of €2,047,444 in AP overpayments<sup>2</sup>, of which, €619,607 were created during the year under review.

<sup>1</sup> In the case of a single person the capital resources must not exceed €14,000 while the threshold for a couple is €23,300.

<sup>2</sup> These overpayments are triggered by incorrect declarations, beneficiaries failing to report changes in circumstances, admissions to state-financed homes and/or hospitals and the passing away of individuals, amongst others.

## Audit Scope and Methodology

The scope of this audit was to determine whether adequate internal control procedures were embedded in the AP administration system, from the assessment of eligibility up to the respective payment process. Furthermore, the National Audit Office (NAO) assessed whether these benefits were made in an accurate and timely manner, in accordance with the provisions laid out in the Act. In this respect, a sample of 20 beneficiaries was selected on the basis of risk and materiality.

The relevant information from the beneficiaries' departmental files and the Social Assistance and Benefits System (SABS) was used for detailed substantive testing.

## Control Issues

### *Absence of Deterrents to prevent abuse*

Due to incorrect declarations by the applicants or failure to report changes in circumstances, substantial overpayments are regularly created. However, no penalties are usually imposed in such instances.

Testing revealed that the largest overpayment in AP registered by the DSS during the period under review, amounted to €78,087. This related to a beneficiary who did not declare his assets and continued to benefit from said pension for a total period of 14 years. Very often, these overpayments are difficult to recoup.

### Recommendation

The Department is encouraged to take the necessary action leading to the enforcement of suitable penalties to mitigate and deter abuse.

### Management Comment

*Suggestions in this respect were made but have not been taken on board yet.*

### *Refund of Overpayments not requested*

- a. Claimants who were overpaid were usually informed by the DSS that the overpaid amount was to be deducted from current and future DSS benefit payments. This was also noted during previous audits. The notification letter, which was sent by post, did not specifically request a refund for the amount overpaid. In view of this, the Department was recommended to include a specific request in the notification letter for the claimant to visit the respective area office and discuss the necessary arrangements for the repayment of the amount due. However, the DSS maintained that this would be futile given that the majority of overpayments were due by persons who rely solely on the benefits earned from the DSS. As a result, no action was taken in this regard.
- b. The NAO also noted that the notification letter for overpayments created after a beneficiary passes away was still addressed to the deceased person who was notified that deductions were to be made from future DSS payments to which he/she may become entitled.

### Recommendations

The DSS is once again encouraged to adopt a more proactive approach towards the recovery of overpayments. Thus, a request is to be made to overpaid claimants to settle the respective amounts. Although this approach may not always be successful, it will make claimants aware that overpaid amounts are indeed expected to be repaid within a reasonable timeframe.

The anomaly with respect to notification letters sent to deceased beneficiaries is also to be rectified, by addressing these letters directly to the heirs of the individual.

### Management Comment

*Management agrees with the recommendation.*

### Case Reassessment Delays

There was no formal procedure to periodically review the personal files of all beneficiaries. The DSS confirmed that the last full-blown review of all personal files in relation to the AP was conducted in 2009.

The effectiveness of such reviews was also questioned. For example, in a particular instance, the marital status of a beneficiary was updated more than 16 years following the passing away of the respective spouse. As a result, during this period, the capital threshold was not reduced accordingly. In another case, the respective file of a beneficiary, who was also entitled to a foreign pension as from a given date, was only brought up for review 18 months later.

At times, such delays trigger substantial overpayments.

### Recommendation

The NAO recommends more frequent and effective case reviews. This would enable inconsistencies to be captured at an early stage, thus minimising the risk of overpayments and the respective administrative burden to recoup the amounts in question.

### Management Comments

*As a result of previous NAO audits, a Standard Operating Procedure was finalised and is being observed. The DSS agrees with the NAO in the first case mentioned. However, in the last case, although the claimant did not declare that he will be entitled to a foreign pension in February 2017, the assessor could have played it safe and brought up the file at an earlier stage.*

### Insufficient Information on the Receipt of Foreign Pensions

The NAO was informed that the DSS was provided with uploaded information pertaining to Australian and United Kingdom State Pension received in Malta. However, it relied on the integrity of claimants for the declaration of the foreign pensions received from other countries.

The list of the AP overpayments included eight cases which were created due to the receipt of a foreign pension. In aggregate, the respective overpayments amounted to €31,830. The highest overpayment of €12,594 was created when the beneficiary reported the matter 28 months later and will take 17 years to be recouped (at the current pension rate).

## Recommendation

The Department is to consider establishing agreements with other countries to facilitate the exchange of information and thus minimising overpayments.

## Management Comment

*Recommendation accepted.*

## **Unrealistic Land and Property Valuation**

The DSS confirmed that, although it carried out occasional case re-assessments, it was not the Department's practice to carry out revaluation on land or property originally declared by the beneficiary at application stage. As long as there was no interruption of the benefit in question, the value of land and/or property remained unchanged.

Considering the upward trend in the price of land and building, particularly in the last decade, it was very likely that the value of property owned by the claimants was understated. Furthermore, the policy document establishing the value of agricultural land, which contained type-written amounts denominated in Maltese Lira, cents and mils, was definitely outdated; this could have easily been over 30 years old.

## Recommendations

The Department is encouraged to revise outdated land and property valuations declared by the beneficiaries to fair value following a comprehensive reassessment exercise. Furthermore, the policy used by the Department in valuing agricultural land is expected to reflect more realistic rates.

## Management Comment

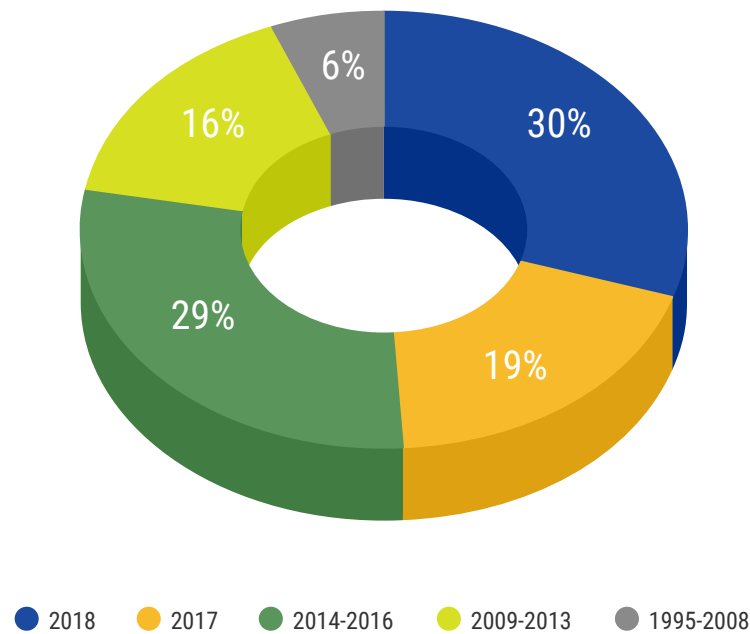
*Valuation has always been taken as at date of application.*

## **Ageing Balances of Overpayments**

The amount of arrears of €2,047,444 relating to the AP, already mentioned under the 'Background' of this Report, as shown in chart 1, was analysed as follows:

	€
Amounts outstanding for less than one year (2018)	619,607
Amounts outstanding for over one but less than two years (2017)	392,035
Amounts outstanding for over two but less than five years (2014 – 2016)	587,524
Amounts outstanding for over five but less than ten years (2009 – 2013)	316,276
Amounts outstanding for over ten years (1995 - 2008)	132,002
<b>Total arrears as at 31 December 2018</b>	<b>2,047,444</b>

Chart 1: Ageing of Debtors



Considering that the beneficiary starts receiving the AP at the age of 60 and certain amounts have been long overdue from the respective claimants, one questions the possibility of their recovery. It is pertinent to point out that these arrears also contain debtors, amounting to €255,561, created between 2002 and 2018, in relation of which no repayment was ever made.

**Recommendations**

Whilst every effort is to be made to prevent overpayments, the DSS is to ensure that ongoing monitoring of the amounts due is carried out in order to maximise recovery. Particular attention is to be given to amounts which have been long outstanding, as well as dormant debts.

**Management Comments**

*Recommendation is being fully accepted. An exercise to check all overpayments calculated prior to the year 2012 is to be performed to check if these are to be written off.*

**Insufficient Management Information**

The DSS officers creating overpayments within SABS are required to input the reason that trigger the error. Although the listed explanations may not be considered as exhaustive, the NAO was informed that there is a drop-down menu with pre-established reasons. However, most assessors used the free text to remark on the specific case; this resulted in inconsistent details. Moreover, in some instances, the reason for the creation of the overpayment was simply entered as ‘Not due’. In the circumstances, this makes the necessary analysis cumbersome and time consuming for the Department.

**Recommendation**

The DSS is to enhance the pre-established list to make it more comprehensive and limiting, as much as possible, resorting to the free text. This function would provide better management information for the analysis of overpayments, to identify suitable action and control recurrence.

#### Management Comment

*Recommendation accepted.*

#### **Unnecessary Creation of Overpayments**

Instead of the Retirement Pension, a beneficiary from the audit sample was erroneously given an AP for a period of 19 weeks. To rectify this error, the DSS paid a lump sum of €2,771, representing the Retirement Pension in arrears and created an AP overpayment of €2,096, which amount was being recouped at the rate of 10%. This overpayment could have easily been avoided.

#### Recommendation

In such circumstances, one would expect that the beneficiary is given the difference between the two amounts in order to prevent overpayments, thus avoiding the related risks and unnecessary complications.

#### Management Comment

*Recommendation accepted and, in this respect, discussions are to be triggered with the Malta Information Technology Agency and the Pensions Sections.*

#### **Contributions due to State-financed Residential Services**

Upon being admitted to a home or hospital offering state-financed residential services, residents are obliged to contribute a fee in accordance with the applicable legislation. The responsibility for calculating this contribution and subsequent revisions is vested within the Director (Elderly and Community Care) who, on the other hand, may issue the deduction rate only after the beneficiary submits his income declaration. The NAO was informed that in order to control the creation of high overpayments, an appropriate deduction was effected by the DSS upon being notified of any admission until the actual contribution rate was confirmed.

Overpayments relating to the AP beneficiaries receiving state-financed residential services from January up to November 2018 amounted collectively to €71,590. An analysis revealed that, on average, overpayments in this regard covered periods of 13 weeks, although in a particular instance, the respective overpayment related to a nine-month period.

#### Recommendation

Considering the fact that most of these claimants are elderly citizens, the time taken to identify an adjustment bears a crucial effect on the amount of the overpayment and thus on its recovery. Although the NAO acknowledges that an improvement was registered in this area over the last years, further discussions with the Director (Elderly and Community Care) may help to continue reducing overpaid amounts.

#### Management Comment

*Recommendation accepted.*

# Public Social Partnerships

## Expenditure

The review of expenditure on **Public Social Partnerships** revealed the need for enhanced enforcement on eligibility criteria and, in certain instances, lack of verification prior to fund disbursements to the respective beneficiaries.

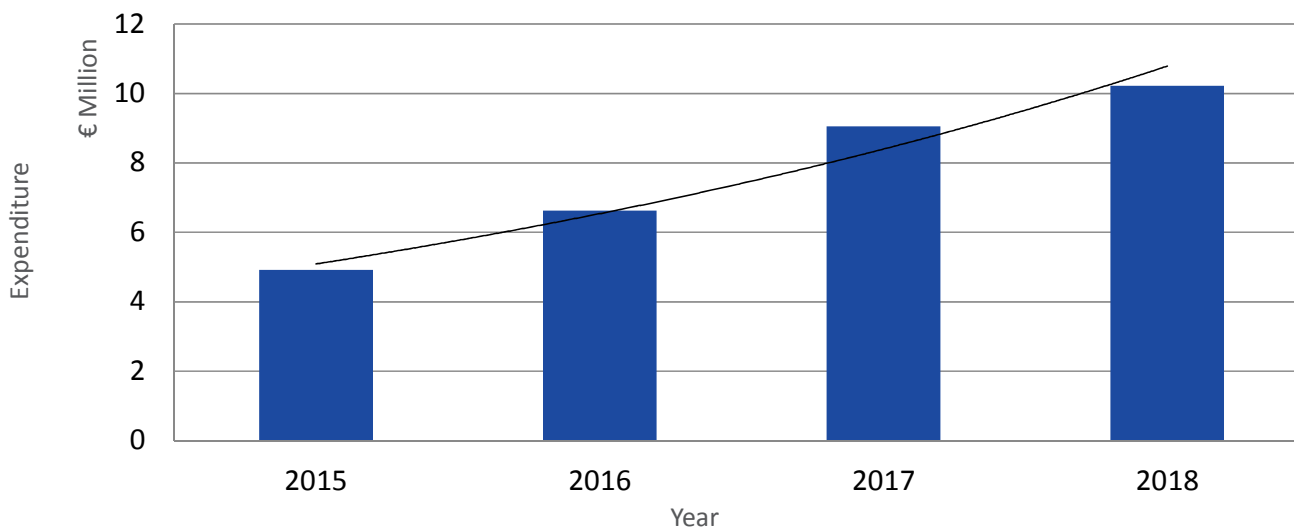
### Background

Since 2015, the Ministry for the Family, Children’s Rights and Social Solidarity (MFCS) has been entering into various Public Social Partnership (PSP) agreements to fund the administrative costs of several Voluntary Organisations (VOs), whose contribution to civil society includes the running of residences for individuals with special needs, mental health problems, drug-abusers, homeless, children with challenging behaviour, as well as rehabilitation of former offenders.

The Voluntary Organisations Act, Cap. 492 of the Laws of Malta, establishes the Office of the Commissioner for Voluntary Organisations (OCVO) as the authority responsible for the monitoring of VOs. Organisations registered with the said authority are eligible for financial aid from Government, provided, amongst others, that their audited financial statements of the prior year are submitted to the OCVO.

During 2018, a total of 37 PSP agreements were in force, covered by a budgetary allocation of €10 million from Recurrent Vote 40, Line Item 5790 under Programme and Initiatives. This expenditure has more than doubled over a three-year period since the inception of the PSPs in 2015, when the respective budget allocation was €4.2 million. The total actual expenditure during the year under review was €10,220,841. Chart 1 below refers.

Chart 1: Actual expenditure on PSP agreements over the last four years



Sources: Financial Estimates 2017-2019 and Departmental Accounting System

## Audit Scope and Methodology

The main scope of the audit was to determine the level of internal controls over the payments settled to cover PSP agreements during financial year 2018. The National Audit Office (NAO) also sought to ascertain that all contracting parties adhered to the contractual clauses and applicable legislation.

The legislative framework regulating the sector, i.e. the Voluntary Organisations Act and the Voluntary Organisations (Annual Returns and Annual Accounts) Regulations S.L. 492.01, was analysed. Moreover, the NAO obtained a general understanding on the systems adopted by the MFCS to implement the respective agreements. The list of PSPs comprising the homes and programmes benefitting from the funds under review, as well as the budgeted and actual payments, was also obtained.

A total of five agreements with four different VOs, receiving in aggregate the amount of €1,725,284 in 2018, were randomly selected for testing. In addition, two PSPs pertaining to a Foundation, where the respective residences received a total of €691,933, were reviewed.

The applicable agreements were scrutinised in order to assess the extent and adequacy of internal controls adopted to monitor amounts disbursed. The NAO also sought to ensure that the MFCS adequately monitored the respective service delivery, including the related rights and obligations. The accuracy of payments and compliance with the pertinent legislation, or deed as applicable, were also ascertained by examining the documentation filed for each PSP, also backed up with discussions with the responsible Ministry officials.

## Key Issue

### *Internal Control Environment in need of improvement*

Although the MFCS has documented internal controls and procedures to follow before the funds are disbursed to the respective beneficiaries, no evidence of any verifications performed was provided to the NAO. Amongst others, it was noted that there was insufficient communication with the OCVO to ensure compliance with the pertinent legislation. Moreover, certain amounts paid were not covered by an agreement or formal approval from the Ministry for Finance (MFIN), as indicated under the respective control issue mentioned later in this Report.

### Recommendations

In view of the materiality of the amounts involved, the Ministry is expected to implement its internal control measures to be able to administer these funds more efficiently. Regular monitoring of relative agreements, as well as proper scrutiny of the records submitted by the VOs, is also solicited.

### Management Comments

*It is standard practice to scrutinise documentation and accounts submitted by the Non-Governmental Organisations (NGOs) to verify that service provision and delivery are in conformity with the terms and conditions of agreements and to ensure that no undue payments are made.*

*The NAO's recommendations have been noted and steps are being taken to further strengthen the control and administrative mechanism.*

## Control Issues

### ***Enforcement on Eligibility Criteria needs to be enhanced***

The audit revealed that three sampled PSPs relating to the VOs registered with the OCVO did not file their Annual Accounts and the respective Return<sup>1</sup> for 2017. Despite their ineligibility for public funds due to this shortcoming, a total of €1,496,184 was allocated to them during the year under review.

Moreover, the applicable Certificates of Enrolment, issued in terms of Article 14 of the Voluntary Organisations Act upon registration for all the sampled PSPs, was not traced in the respective files.

### Recommendations

Before signing a new PSP agreement, the Ministry is to obtain a copy of the Certificate of Enrolment issued by the OCVO, along with a written confirmation of the VO's compliance with the legislation, hence ensuring their eligibility for public funds. A similar procedure is to be conducted annually, as well as upon renewal of the respective agreement. Withholding funds to the PSPs should be a measure of last resort. The Ministry is to insist as much as possible on the need for the PSPs to duly comply with their commitments.

### Management Comments

*The NAO is to be rest assured of the vigilance by the MFCS in the disbursement of funds and of its adherence to the fiscal governance rules set by the MFIN. Indeed, as a rule, MFIN's approval is sought before new or renewed PSP agreements are concluded.*

*The MFCS will adhere to the NAO's recommendation and will set as a yearly procedure the reconfirmation of compliance of standing partner NGOs.*

### ***Payments not formally endorsed by the Ministry for Finance and no binding Provisions***

During 2018, two residential homes administered by a Foundation, collectively received an aggregate of €383,880. Although the MFCS provided the MFIN with a breakdown of the estimated running costs, a formal approval by the latter for the annual disbursement relating to this PSP was not made available.

Unlike other PSPs, the foregoing homes were not covered by a binding PSP agreement. A public deed dated 16 September 2015 establishing the statute of the Foundation lacked any reference to the two residences and the annual amounts payable by the Ministry. The deed did not include the terms and conditions of service delivery or that monitoring by the MFCS could be made. In the circumstances, the NAO could not validate the amounts disbursed to these two homes.

### Recommendations

All payments are to be duly regulated and terms clearly stipulated, including the duration of assistance, the amounts due by Government and service provision by the two residences. Supporting documentation is to be submitted prior to each disbursement.

Prior to the signing of every agreement or its renewal, formal approvals are to be sought from the MFIN.

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<sup>1</sup> According to S.L. 492.01, apart from the Annual Accounts, the Annual Return should comprise an organisation chart, list of current administrators, documentation amending the statute (if applicable), Annual Report and statement of accounts for public collections (if applicable).

## Management Comments

*All agreements, including renewals, are submitted to the MFIN for validation. Recommendations have, nonetheless, been noted. The MFCS is seeking to regulate its financial commitments through an amendment of the statute of the foundation and to channel funding through a standalone Programmes and Initiatives account in the Ministry's Financial Estimates. To this end a submission has already been made to the MFIN in our revised Business Plans for 2020.*

### **Documentation provided following NAO's request**

Not all supporting documents required for audit purposes were filed in the respective PSP dossier. These records were made available following request by this Office; however, this indicated that the documents were not scrutinised before the amounts were paid to the respective VOs.

## Recommendation

The Ministry is to ensure that all documentation required as per checklist is obtained, filed and duly verified prior to the issuing of payments.

## Management Comments

*In accordance with the terms and conditions of standing agreements, the MFCS duly seeks to procure and verify all necessary documentation before making disbursements.*

*Partner NGOs are generally cooperative and transparent in their dealings with the MFCS. But experience has shown that the NGOs encounter difficulties and delays to forward their documentation. To this end the checklist timelines have lately been reviewed and updated to allow more time to the NGOs to compile and submit their documentation.*

### **Need of enhanced monitoring by the Foundation for Social Welfare Services**

As stipulated in various PSP agreements, the service delivery of these VOs are to be monitored by social workers of the Foundation for Social Welfare Services (FSWS), very often, employees from Aġenzija Appoġġ or Aġenzija Support, depending on the services being delivered.

However, it transpired that no monitoring was being performed on four of the sampled PSPs; these were only being endorsed by the administrators of the respective VOs. Monitoring on the other three sampled PSPs, if any, was not always being done before the quarterly payment was issued by the MFCS.

## Recommendations

The FSWS is expected to perform the necessary monitoring on the services provided by the VOs and on their respective service users, confirming the standard of the service being provided as well as the accuracy of the amounts claimed and subsequent payment.

### Management Comments

*The FSWS social workers regularly monitor the provision of services in terms of standing agreements. But it would be unreasonable to overlook the complexity of the verification exercise and the challenges posed by the fact that the primary duty of a social worker is not to undertake what essentially are clerical functions, but to improve the quality of life of service users by helping them overcome personal, family or social problems.*

*Besides, verifications are often slowed down by inaccuracies in the returns submitted by the NGOs. Certain agreements present unique issues where difficulties arise to determine the number of shelter nights spent by users.*

*In the light of the Report's recommendation, discussions will be held with the FSWS to resolve pending bottlenecks.*

### **Incomplete verification of Documentation submitted**

Documentation that beneficiaries receiving financial assistance have to submit includes, amongst others, an insurance policy, audited financial statements, quarterly management accounts, yearly bank statements, list of service users, as well as the Payee Statement of Earnings (FS3)<sup>2</sup> and the Payer's Annual Reconciliation Statement (FS7)<sup>3</sup>. However, although a checklist exists, there was no evidence that this was being used and that the respective documents were being verified.

- According to the Ministry's officials, they verify the bank statements submitted by the beneficiaries to ensure that there are no irregular transactions or fraudulent activities. However, this was not evidenced on any of the bank statements.
- Likewise, there was no evidence that FS3s and FS7 forms submitted by the VOs were checked to determine whether the staff-client ratio is consistent with what was negotiated prior to the signing of the agreement and that the National Insurance is paid accordingly.
- The MFCS is also expected to verify the quarterly management accounts of the VOs. A similar exercise is to be performed in June of each financial year with respect to the audited financial statements of the preceding year. However, proof of such scrutiny was not provided.

### Recommendations

A competent officer is to analyse the management accounts, audited financial statements and bank statements. Whilst acknowledging the difficulties encountered by the VO's to submit the required accounts and information, these need to be invariably submitted to the MFCS. Moreover, in view that the VOs are highly dependent on public funds and that the majority of their expenditure is salaries, the MFCS is to monitor that the staff-client ratio is adequate.

Detailed record keeping of all aforementioned assessments is to be filed for future reference and audit trail purposes. The applicable check list is also to be endorsed by responsible MFCS officials before the respective payment is processed.

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<sup>2</sup> The FS3 declaration form indicates an employee's annual gross emoluments, taxes deductions, as well as social security and maternity contributions pertaining to a specific year.

<sup>3</sup> In an FS7 declaration form, an employer is required to declare the number of FS3s issued for its employees, total gross emoluments, aggregate tax deductions, social security and maternity contributions, as well as payments made to the Inland Revenue Department during the year.

## Management Comments

*Despite the increased workload brought about by stricter controls and difficulties created by delayed presentation of accounts and documentation the officers in charge unfailingly scrutinise submitted documentation before sanctioning payments. In doing so they are appropriately guided by the check list which was introduced in the wake of past NAO reports on other partnership agreements.*

*The competence of the responsible officers is not in doubt, but going forward, the unit will be adequately reinforced, to further improve the level and timeliness of the control mechanisms.*

## Lack of Physical Inspections

As stipulated in a number of PSP agreements, the Department for Social Welfare Standards, within the MFCS's portfolio, may carry out inspections<sup>4</sup> at the VOs to assess the service delivery. Since June 2018, this Department became an authority, namely the Social Care Standards Authority (SCSA), whose function is to set regulatory standards in relation to social welfare services and to ensure that such standards are duly complied with, in accordance with the Social Care Standards Authority Act, Cap. 582 of the Laws of Malta.

According to the PSP agreements, within one month from the date of such inspections, a report is to be drawn up by the Department in question and subsequently forwarded to the Chief Executive Officer of the Governmental Agency, i.e. FSWS, for the necessary remedial action, if any. However, during 2018 no evidence was provided that the Department concerned carried out any verifications, while the new authority SCSA, performed inspections only on two out of the seven PSPs tested. Moreover, the MFCS, being the main administrator of these funds, was not aware of these visits.

## Recommendations

Enhanced communication between the SCSA and the MFCS is crucial to monitor the standards of care provided by these VOs, as well as ensuring that these are licensed, according to the Social Care Standards Authority Act. Inspection reports are to be filed in the respective PSP file and held for future reference.

## Management Comments

*The SCSA was established in June 2018 to assess a spectrum of services and sectors and draw up regulatory standards. These included the assessment of services to certify NGOs' compliance with relevant standards.*

*The Authority was provided with a list of standing PSPs, but as an independent body it was left to its discretion as to which inspections to undertake. Notwithstanding that in its infancy the Authority had to find its feet and face up to a heavy programme, in its first five operative months, it commendably managed to conduct two NGO inspections.*

*The scrutiny of services by the Authority can only lead to a higher quality level and to this end, as recommended, the MFCS will seek to maintain a close relationship with the SCSA.*

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<sup>4</sup> Apart from those performed by Aġenzija Appoġġ and Aġenzija Sapport.



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Other Reports

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# Arrears of Revenue 2018

## Background

Statements of Arrears of Revenue were submitted by Government departments and entities to the Treasury Department in line with Treasury Circular No. 3/2019 – ‘End of Year (2018) Statements of Account Arrears of Revenue – Amounts due to Government’.

From information submitted, total gross arrears as at 31 December 2018 amounted to €4,203,320,344, an increase of €836 million (25%) over last year’s figure (€3,367,137,676).

Out of gross total of arrears, the amount of €3,546,664,146 was deemed as uncollectable, resulting in a net closing balance of €656,656,198. After considering payments received in January 2019, the unpaid balance was €642,895,806; an increase of 31% over the amount due as at 31 January 2018 (€490,149,337).

Table 1: Arrears of Revenue Analysis (2014 – 2018)

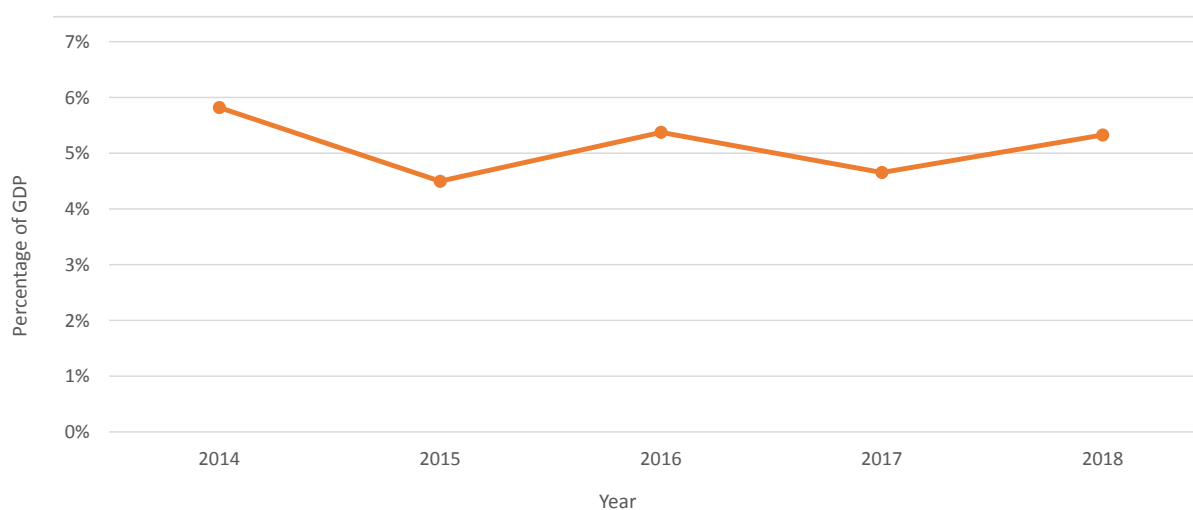
	2014	2015	2016	2017	2018
	€'000	€'000	€'000	€'000	€'000
Gross outstanding arrears	2,272,481	2,620,586	2,960,751	3,367,138	4,203,320
Arrears estimated as not collectable	1,777,246	2,186,231	2,404,517	2,840,882	3,546,664
Net collectable arrears	495,235	434,355	556,234	526,256	656,656
Collected Arrears	344,278	204,287	192,345	209,512	232,475
Gross Domestic Product (GDP)	8,508,300	9,657,900	10,346,500	11,302,828	12,323,839

(Source: Reports by the Auditor General 2014 – 2017, Budget Speech 2020)

Table 1 shows data relating to arrears of revenue for the years 2014 to 2018. An analysis of these figures has shown that the total net amount due to Government increased by €161.4 million over these five years.

However, despite this increase, when taken as a percentage of GDP which recorded an increase of €3.8 billion over the same period, net collectable arrears remained fairly stable and only fluctuated between 4.5% and 6% of GDP since 2014, as can be seen in Chart 1.

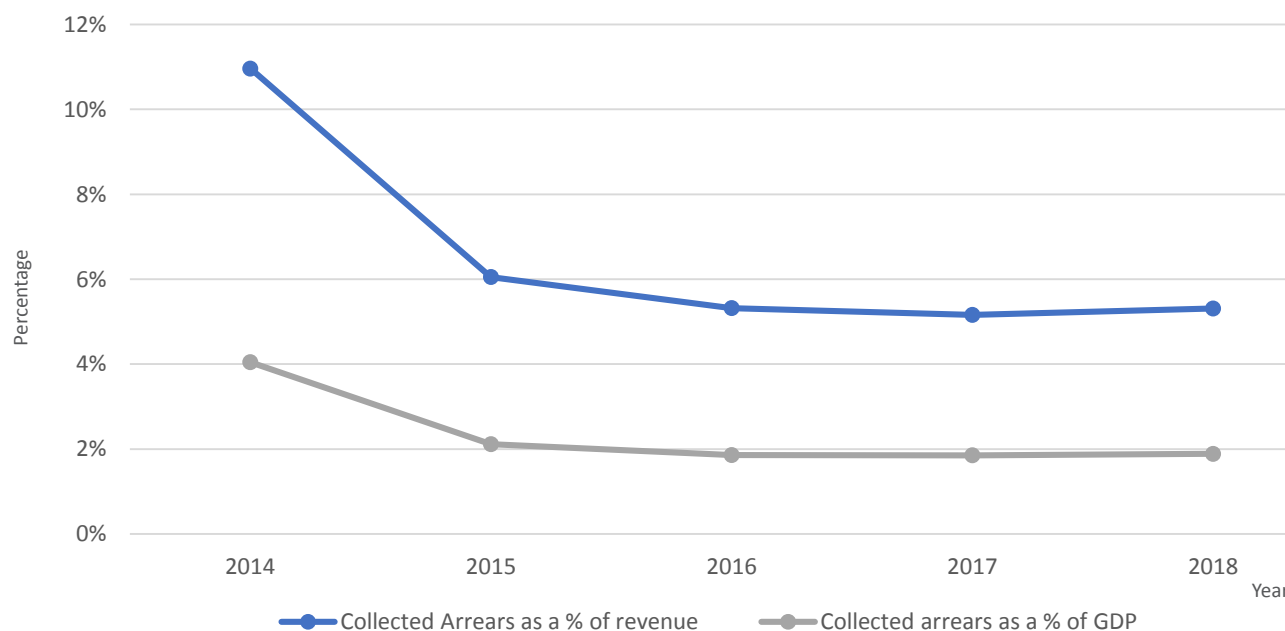
Chart 1: Net collectable arrears as a % of GDP



On the other hand, the amount of arrears collected decreased over the same period to €232,474,629 in 2018, from €344,277,680 in 2014.

As shown in Chart 2 below, collection has been a consistent 2% of GDP over the past four years, down from 4% in 2014. Furthermore, when assessed as a percentage of recurrent revenue<sup>1</sup>, collected arrears also registered a decline in years 2015 to 2017. A slight increase was then noted in 2018.

**Chart 2: Collected arrears as a % of Revenue and as a % of GDP**



From the additional analysis of the Statement of Arrears of Revenue on the 2018 year-end balances (Table on page 234), it is estimated that, out of the total reported gross arrears of revenue:

- €171,239,259 were statute-barred;
- €276,486,061 were under contestation and pending court action;
- €2,603,171,271 were under contestation but not pending court action;
- €347,516,505 were deemed recoverable by departmental action; and
- €763,557,364 were considered recoverable.

### Returns

Details of Arrears of Revenue included in the Table on page 230 have been compiled from the Returns forwarded to the National Audit Office (NAO) by Treasury. Those Ministries and/or departments which do not feature in this table have submitted Nil Returns.

<sup>1</sup> Figures for recurrent revenue are quoted as provided by the Ministry for Finance and were defined as follows: Customs and Excise Duties plus Licences, Taxes and Fines plus Income Tax plus VAT plus Fees of Office plus Reimbursements less Central Bank of Malta plus Rents less Dividends on Investment less Interest on Loans made by Government plus Social Security less Grants plus Miscellaneous Receipts.

## Notes and Comments on Major Arrears of Revenue Balances

### Ministry for Health

The gross closing balance of €15,922,096, reported as arrears of revenue as at 31 December 2018, is made up of the following:

	€
a. Primary Health Care	923
b. Sir Anthony Mamo Oncology Centre (SAMOC) <sup>2</sup>	125,783
c. Hospital Fees: St. Luke's Hospital <sup>3</sup>	237,029
d. Hospital Fees: Mater Dei Hospital (MDH)	6,288,130
e. Sundry Bills: MDH	986,051
f. Resignations and Overpayments: MDH	387,724
g. Licences	31,289
h. Ship Sanitation	13,578
i. Breach of Contract	2,278
j. European Union Countries E125 Claims	2,159,668
k. Central Procurement and Supplies Unit	5,689,643
<b>Gross Closing Balance</b>	<b>15,922,096</b>

From the gross receivables at year-end, only €91,209 relating to SAMOC and which was statute-barred was estimated as not collectable, leaving a net closing balance of €15,830,887, as analysed hereafter. Considering that the aggregate amount of €673,819 has been outstanding for over 10 years, it indicates that as pointed out by the NAO in previous years, the provision for doubtful debts is grossly underestimated.

	€
Amounts outstanding for less than one year (2018)	4,782,567
Amounts outstanding for over one but less than two years (2017)	3,411,815
Amounts outstanding for over two but less than five years (2014 – 2016)	5,373,348
Amounts outstanding for over five but less than ten years (2009 – 2013)	1,589,338
Amounts outstanding for over ten but less than fifteen years (2004 – 2008)	475,891
Amounts outstanding for over fifteen years ( – 2003)	197,928
<b>Net Closing Balance</b>	<b>15,830,887</b>

### Mater Dei Hospital

The MDH confirmed that no past arrears were collected during 2018. Despite this, the net closing balance, amounting to €7,898,934, was entirely shown as recoverable without departmental action.

### Central Procurement and Supplies Unit

The total amount due as from January 2015, for the supply of medicines and surgical devices to St. Vincent de Paul, has accumulated to approximately €5.69 million, with no reimbursement ever made. Details in Appendix A to Treasury Circular No. 3/2019 did not specify whether these amounts were recoverable with or without the need of departmental action. Moreover, no provision has been made to this effect so far.

<sup>2</sup> Previously reported under Sir Paul Boffa Hospital.

<sup>3</sup> Falling under Mater Dei Hospital.

## Ministry for Education and Employment

The opening balance of €3,027,139 in the Arrears of Revenue Return (ARR) for 2018 was €19,492 less than the previous year's closing balance, which amounted to €3,046,631. The Ministry did not justify this difference. Table 2 refers.

Table 2: Difference between Closing and Opening Balances (Ministry)

	2017	2018	Difference
	Closing Balance	Opening Balance	
	€	€	€
Travel item 28	339	339	-
55065364: Malta College of Arts, Science and Technology (MCAST) 52 stipends	118,380	101,546	(16,834)
55065364: MCAST69 stipends	6,875	6,875	-
55065364: MCAST69SP stipends	1,423	1,423	-
0306-0345: Exams	1,260	339	(921)
0999/55065364: Stipends overpayment	198,927	198,927	-
0999: Breach of contract	4,120	4,120	-
0999/55065364 University: University of Malta stipends	205,299	203,562	(1,737)
0999: Overpayment	-	-	-
Fees from office	996	996	-
European Social Fund	2,509,012	2,509,012	-
<b>Totals</b>	<b>3,046,631</b>	<b>3,027,139</b>	<b>(19,492)</b>

At year-end, the Ministry reported a gross closing balance of €945,510, out of which the amount of €941,390 is considered recoverable by departmental action, while the balance of €4,120 is contested. An ageing analysis of the debtors was not provided.

Although requested in the pertinent Circular, no explanation was given for the amount of €3,222 estimated as not collectable. Additionally, reasons for the downward revision of €720,944 were also not provided with the ARR.

### Education Division

The opening balance of €212,717, disclosed by the Education Department in its ARR for 2018, was €120,015 less than the previous year's closing balance which amounted to €332,732, due to changes in two of the four categories making up the arrears of revenue figure, as depicted in Table 3.

Table 3: Difference between Closing and Opening Balances (Education Division)

	2017	2018	Difference
	Closing Balance	Opening Balance	
	€	€	€
Overpayments	159,970	108,355	(51,615)
Tuck shops	27,118	27,118	-
Breach of Contract	77,244	77,244	-
European Union Funded Project – Asylum, Migration and International Fund	68,400	-	(68,400)
<b>Totals</b>	<b>332,732</b>	<b>212,717</b>	<b>(120,015)</b>

From the gross closing balance of €298,489, the amount of €293,658 is considered recoverable by departmental action, while the balance of €4,831 is contested.

Explanation for estimated amounts considered as not collectable, amounting to €147,962, was not provided even though this is required in terms of the related Circular.

### Conclusion

The Ministry, as well as the Division, are repeatedly not submitting adequate records of their outstanding dues. Thus, this Office could not verify the reported amounts. The NAO reiterates the need to address the shortcomings without further delay.

## Ministry for Finance

### Treasury Department – Salaries and Pensions Section

The outstanding balance of arrears as at 31 December 2018, disclosed by the Treasury Department, Salaries and Pensions Section, consists of:

	€
a. Cost sharing of Treasury Pension <sup>4</sup>	39,692,795
b. Refunds of Deceased Pensioners	45,008
c. Special Cases	7,655
d. Overpayments to Pensioners	952
<b>Gross Closing Balance</b>	<b>39,746,410</b>

During the year under review, the Department collected a total of €3,463,182 from past arrears, i.e. 8.8% of the balance carried forward from the preceding period. This represents an increase over the equivalent amount collected in the previous year, which amounted to 5.38% of the respective opening balance.

### Analysis of Debtors Return

The amount of €35,937,163 recorded in the Analysis of Debtors Return template was understated by €3,809,247 when compared to the amount of debtors reported in the ARR, which totalled €39,746,410. According to the Department, this amount related to newly accrued dues in relation to cost sharing. Up to the writing of this report, the Analysis of Debtors Return was not updated to include this newly accrued balance.

### Ageing of Debtors

The ageing of the Department's debtors is categorised as follows:

	€
Amounts outstanding for less than one year (2018)	3,822,462
Amounts outstanding for over one but less than two years (2017)	4,017,859
Amounts outstanding for over two but less than five years (2014 – 2016)	9,546,091
Amounts outstanding for over five but less than ten years (2009 – 2013)	17,151,365
Amounts outstanding for over ten years (– 2008)	5,208,633
<b>Gross Closing Balance</b>	<b>39,746,410</b>

<sup>4</sup> Cost sharing consists of amounts due from Public Entities, to cover part of the Treasury Pension of their retired employees.

## Collection Efforts

The Department stated that statements are sent to the respective entities at the beginning of the year with regard to cost sharing expenses. Other individual cases are followed up by sending personal letters requesting payment of amounts due.

### *Inland Revenue Department*

The Inland Revenue Department (IRD) reported a gross arrears balance of €1,207,484,537 in its ARR for the year ended 31 December 2018, classified as follows:

	€
a. Pre 1999 System (Up to Year of Assessment 1998)	154,598,200
b. Self-Assessment System (Post Year of Assessment 1998)	599,369,279
c. Final Settlement System (Employers)	134,937,944
d. Social Security Contributions Class 1 (Employers)	223,238,591
e. Social Security Contributions Class 2 (Self-Employed/Occupied)	95,340,523
<b>Gross Closing Balance</b>	<b>1,207,484,537</b>

### Collectability of Arrears

Out of the gross balance, the amount of €914,787,497 was considered as not collectable, thus resulting in net collectable arrears of €292,697,040.

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 €599,369,279, a total of €494,911,432 was deemed to be uncollectable. Workings obtained from the Department showed that 70% of Assessed Tax and 90% of Estimations were provided for as doubtful debts.

Pre 1999 balances also had a substantial amount of €139,138,380 which was estimated as not collectable. This represented 90% of the balance under this category.

The non-collectability rate of revenue from the Final Settlement System and Social Security Contributions (Class 1), stood at 70% and 47.4% respectively. This also triggered a provision for bad debts of €94,456,561 and €105,768,551. 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 arrears can be analysed as follows:

	€
Amounts outstanding for less than one year (2018)	51,487,220
Amounts outstanding for over one but less than two years (2017)	41,604,257
Amounts outstanding for over two but less than five years (2014 – 2016)	72,809,888
Amounts outstanding for over five but less than ten years (2009 – 2013)	50,404,514
Amounts outstanding for over ten but less than twenty years (1999 – 2008)	60,931,342
Amounts outstanding for over twenty years (– 1998)	15,675,264
<b>Net Closing Balance</b>	<b>292,912,485<sup>5</sup></b>

## Collection Efforts

As in previous years, the IRD provided the NAO with information in relation to its planned efforts and actions to collect the overdue amounts during 2018.

The Department also issued a total of 4,300 assessments (2017: 846), 2,839 statements of pending Final Settlement balances (2017: 2,190), as well as 9,751 notices in relation to the Final Settlement System (2017: 11,926). It has also issued 4,204 demand notices in relation to individuals and/or companies, as well as 685 judicial letters. In addition, there were a number of Remission of Interest agreements, as well as several court cases.

**Capital Transfer Duty Department**

The gross closing balance as reported by the Capital Transfer Duty Department in its ARR as at 31 December 2018 consists of:

	€
a. Duty on Documents	27,098,328
b. Death and Donation	4,614,066
<b>Gross Closing Balance</b>	<b>31,712,394</b>

Out of this gross closing balance, of which €12,560,261 were reported as being under contestation, the amount of €22,435,239 was considered as not collectable, thus resulting in net collectable arrears of €8,400,482 and €876,673, respectively.

<sup>5</sup> The total of the ageing analysis differs from the net collectable arrears in the ARR by €215,445. As was the case in previous years, this amount relates to payments collected by the IRD in connection with the Pre 1999 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.

## Ageing Analysis

The outstanding balances were analysed as follows:

	€
Amounts outstanding for less than one year (2018)	4,118,232
Amounts outstanding for over one but less than two years (2017)	171,853
Amounts outstanding for over two but less than five years (2014 – 2016)	153,659
Amounts outstanding for over five but less than ten years (2009 – 2013)	298,314
Amounts outstanding for over ten but less than fifteen years (2004 – 2008)	892,922
Amounts outstanding for over fifteen but less than twenty years (1999 – 2003)	2,760,316
Amounts outstanding for over twenty years (– 1998)	876,673
<b>Net Closing Balance</b>	<b>9,271,969<sup>6</sup></b>

## Amounts under Contestation

The amounts under contestation, amounting to €12,560,261, were mainly made up of Duty on Documents (€10,791,113), the majority of which were statute-barred (€8,819,302). Thus, the likelihood of the non-collection of these amounts is very high. On the other hand, the remaining balance of €1,971,811 is either undergoing collection procedures or dealt with by the Administrative Review Tribunal at objection stage, thus their collectability is more probable.

The amount of €1,769,148 which is under contestation pertained to Death and Donation Duty, which figure remained the same as in the previous years. This is due to the fact that this legislation was repealed and therefore no new claims were issued. The chance that these amounts are collected is very remote.

## Revisions

Downward revisions, totalling €2,065,095, were effected during 2018. These were mainly made up of an amount of €1,526,198 relating to an unexplained difference between the balance as at the end of 2017 and the same balance as at end of 2018 and €514,442 relating to revision of amounts which were posted prior to 2018. The remaining balance was made up of rebates, other adjustments and set-offs.

## Amounts considered as not collectable

The dues estimated as not collectable at year-end amounted to €22,435,239. This represents 80% of the total amounts that were due for more than one year, including those statute-barred.

## Collection Efforts

The Collection and Legal Sections within the Department were constantly monitoring the outstanding balances and took necessary action. The collection procedure is automated, thus ensuring that timely action is taken and no legal steps are bypassed.

During 2018, a total of 832 reminders, as well as 158 letters from the Legal Unit were sent to various debtors. Furthermore, the Department proceeded with 270 Demand Notes, 28 Garnishee Orders, 10 applications for withdrawal of funds and 61 legal action warnings.

<sup>6</sup> According to the Department, the difference of €5,186 between the ageing analysis and the net closing balance mentioned above is due to timing differences between the two reports.

**VAT Department**

The net closing balance as reported by the Value Added Tax (VAT) Department as at end 2018 comprised:

	€
a. VAT (1998)	159,499,046
b. VAT (1995)	658,250
c. Customs and Excise Tax (CET)	662,743
d. Eco-Contribution	600,749
e. Environmental Contribution	2,509,301
f. Refund to Government on stocks – 1997	620,382
<b>Net Closing Balance</b>	<b>164,550,471</b>

A total balance of €2,597,075,065 was reported as estimated not collectable in the VAT Department's ARR. This figure represents estimated audit assessments, penalties and relative interest, generated when a taxpayer fails to submit a VAT return by the due date. During a particular year, up to four estimates are included.

An analysis carried out by the Department on the gross closing balance, totalling €2,761,625,536, indicated that besides the 94% shown above as not collectable, the amount of €65,906,087 was pending court action, while another €98,644,383 were recoverable by departmental action. According to the Department, no amount became statute-barred since 2014.

An ageing analysis of net collectable arrears was not made available to the NAO. Furthermore, according to the Treasury Department, the Debtors' Template for the VAT Department was included with that of the Commissioner for Revenue; however, such figures did not feature in the latter's Debtors' return.

To recoup revenue in arrears, the Department sends requests for payment on a regular basis for VAT 98 arrears and takes legal action where deemed necessary. With regard to VAT 95 and CET, some amounts were recouped mainly through legal action and remission when reminders and demand notices are deemed futile.

**Customs Department**

The net closing balance as reported by the Department of Customs at year-end 2018 consists of:

	€
a. Import and Excise Duties	10,893,034
b. Licences, Taxes and Fines	336,011
c. Reimbursements from private entities	635,355
<b>Net Closing Balance</b>	<b>11,864,400</b>

**Amounts under Contestation**

The Department reported an aggregate of €7,962,859 as contested. Of this amount, €7,355,094 related to pending court cases. Furthermore, another €40,264 is considered as statute-barred. However, even though these amounts make up approximately €7.4 million, only €8,549 was reported as uncollectable in the ARR.

## Ageing Analysis

The ageing of the net collectable arrears can be analysed as follows:

	€
Amounts outstanding for less than one year (2018)	3,892,825
Amounts outstanding for over one but less than two years (2017)	28,540
Amounts outstanding for over two but less than five years (2014 – 2016)	234,698
Amounts outstanding for over five but less than ten years (2009 – 2013)	1,036,349
Amounts outstanding for over ten but less than fifteen years (2004 – 2008)	6,572,258
Amounts outstanding for over fifteen but less than twenty years (1999 – 2003)	59,814
Amounts outstanding for over twenty years (– 1998)	39,916
<b>Net Closing Balance</b>	<b>11,864,400</b>

## Ministry for Justice, Culture and Local Government

The Courts of Justice (CoJ) ARR had a gross closing balance of €10,154,042 as at 31 December 2018, a decrease of 2.4% over the amounts due at the beginning of the year. The amount is further analysed below:

	€
a. Fines: Criminal – Judges Superior Courts	3,026,877
b. Fines: Criminal – Magistrates Inferior Courts	5,188,364
c. Fines: Civil – Superior Registry	29,937
d. Fines: Civil – Inferior Registry	47,478
e. Fees	1,861,386
<b>Gross Closing Balance</b>	<b>10,154,042</b>

During the year under review, the CoJ collected the amount of €1,201,012 from the outstanding balance brought forward from previous year. Newly accrued debtors amounted to €2,167,114, with 70% of this amount relating to the Inferior Criminal Courts. Write-off approvals were obtained from the respective level of authority for the amount of €119,639.

The CoJ considers the amount of €9,174,252, i.e. 90.3% of the said gross closing balance, to be recoverable through departmental action, whilst €524,790 (5.2%) was reported as statute-barred. Only €455,000 (4.5%) were deemed as 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 (2018)	2,167,114
Amounts outstanding for over one but less than five years (2014 – 2017)	3,261,282
Amounts outstanding for over five but less than ten years (2009 – 2013)	820,551
Amounts outstanding for over ten but less than fifteen years (2004 – 2008)	640,118
Amounts outstanding for over fifteen but less than twenty years (1999 – 2003)	555,831
Amounts outstanding for over twenty years (1978 – 1998)	2,184,357
<b>Net Closing Balance</b>	<b>9,629,253</b>

**Court Fines***Criminal – Judges Superior Courts*

The opening balance of €3,279,314 was revised downwards by a net amount of €364,141 which was mainly due to the conversion of fines to prison sentences.

During 2018, only the amount of €231,808 (7%) was collected in respect of past arrears. Newly accrued amounts totalled €373,442, while an amount of €29,929 was written off.

*Criminal – Magistrate Inferior Courts*

The amount of €728,441, which is equivalent to 15% of the gross opening balance of €4,741,754, was collected during the year 2018. The amounts recouped mainly related to dues from the previous five years. The newly accrued debtors for 2018 amounted to €1,523,433.

The opening balance was revised downwards by a net amount of €321,411. This comprised various adjustments amongst which, reductions totalling €90,608 due to appealed sentences, €18,602 in respect of individuals who passed away during the previous year and €52,629 for receipts not previously accounted for.

*Court Fees*

The opening balance of €2,316,186 was revised downwards by €414,368. The CoJ only managed to collect 10% of the original opening balance of debtors during 2018. During the year, €251,510 was newly accrued, €62,640 written off, whereas €299,354 was estimated as not collectable.

**Ministry for Transport, Infrastructure and Capital Projects***Transport Malta*

The ARR submitted by Transport Malta (TM) for the year ended 31 December 2018 included a net collectable balance of €35,639,712, which incorporates the following two revenue categories:

	€
a. Vehicle Licence	34,950,649
b. Driving Licence	689,063
<b>Net Closing Balance</b>	<b>35,639,712</b>

The net outstanding balances can be analysed as follows:

	€
Amounts outstanding for less than one year (2018)	5,954,467
Amounts outstanding for over one but less than two years (2017)	4,390,920
Amounts outstanding for over two but less than five years (2014 – 2016)	10,244,447
Amounts outstanding for over five but less than ten years (2009 – 2013)	9,788,561
Amounts outstanding for over ten years ( – 2008)	5,261,317
<b>Net Closing Balance</b>	<b>35,639,712</b>

As reported in last year's Annual Audit Report, the Authority's ARR for the years 2016 and 2017 were not submitted. Therefore, the opening gross arrears figure as at 1 January 2018 could not be verified.

#### Write-offs and Revisions

The total write-offs for the year under review amounted to €1,313,751. Out of this amount, €1,071,836 related to scrapped vehicles whose licence for 2018 was still unpaid. On the date of scrapping, TM's system calculates the licence portion which is no longer due (i.e. from said date to the licence's expiry), and this amount is automatically cleared and not considered as arrears.

Downward revisions of €180,577 pertained to unpaid licences of vehicles which were scrapped, garaged or stolen.

#### Estimated amount considered as not collectable

It is the TM's policy not to show any amounts as considered uncollectable, since it is believed imprudent to set a provision rate. In the meantime, the TM is doing its utmost to chase its debtors by sending legal letters.

#### Lands Authority

The Lands Authority reported a gross/net closing balance of €33,001,025 in the ARR for the year ended 31 December 2018.

The Authority proceeded on the data cleansing exercise initiated in the previous years, on properties allocated to Government Departments, Parastatal Entities and Local Councils. In 2018, the Authority continued to update the system with the verified data and collect rent due on properties occupied by different departments and entities. Discussions with the Ministry for Finance are also ongoing with respect to outstanding balances.

#### Ageing Analysis

The net collectable arrears can be analysed as follows:

	€
Amounts outstanding for less than one year (2018)	5,644,114
Amounts outstanding for over one but less than five years (2014 – 2017)	17,397,329
Amounts outstanding for over five years ( – 2013)	9,959,582
<b>Net Closing Balance</b>	<b>33,001,025</b>

#### Collection Efforts

A balance of €3,728,133 was declared as statute-barred. However, the Lands Authority did not report any amounts as estimated as not collectable in its ARR. It was confirmed that any amounts pending over five years are included with this figure, notwithstanding that the prescription period was increased to 10 years. It was claimed that the current system does not provide detailed information in this regard.

In order to recoup its outstanding amounts, the Department sends statements to the defaulters. These are followed by reminders if the latter do not effect payments upon the receipt of the statements. Furthermore, officers in charge of the arrears of revenue also contact defaulters personally in order to settle their balances through monthly instalments. In the eventuality that tenants still fail to pay, legal action is initiated through a judicial letter and thus the Authority is now also protected from prescription. This is followed by a warrant of seizure, if necessary.

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

### Social Security Benefits

The Department of Social Security (DSS) reported a figure of €25,867,263 as gross arrears in the ARR in relation to overpaid Social Security Benefits for the year ending 2018.

An analysis of the amounts pertaining to each benefit and/or assistance can be summarised as follows:

	€
a. Social Assistance	13,457,128
b. Retirement Pension	2,962,420
c. Widows Pension	1,727,882
d. Children's Allowance	2,386,942
e. Old Age Benefits	2,374,294
f. Medical Assistance	1,697,881
g. Invalidity Pension	633,220
h. Disability Pension Benefit	298,929
i. Short Term Benefits	328,467
j. Contributory Bonus	100
<b>Gross Closing Balance</b>	<b>25,867,263</b>

From the total gross balance of arrears of revenue, an amount of €2,720,004 was estimated as uncollectable and listed as statute-barred. The DSS confirmed that this calculation is based on amounts which have been due to the Department for more than 10 years.

Furthermore, the amount of €1,205,753 under contestation related to debtors who were followed up by means of judicial letters.

### Ageing Analysis

A detailed analysis of net collectable arrears was provided by the DSS as follows:

	€
Amounts outstanding for less than one year (2018)	5,911,793
Amounts outstanding for over one but less than two years (2017)	3,146,173
Amounts outstanding for over two but less than five years (2014 – 2016)	7,746,396
Amounts outstanding for over five but less than ten years (2008 – 2012)	6,342,897
<b>Net Closing Balance</b>	<b>23,147,259</b>

### Collection Efforts

The DSS sends letters in relation to overpayments due and also resorts to agreements with individuals to repay dues by monthly instalments. If following various attempts, dues are not collected, legal action is taken.

## Elderly and Community Care

The ARR submitted by the Department of Active Ageing and Community Care for the year ended 31 December 2018 included a net collectable balance of €4,320,659, which incorporates the following revenue categories:

	€
a. Staff Salaries reimbursement	4,188,045 <sup>7</sup>
b. Revenue from residents in Public Private Partnership homes for the elderly	128,407
c. Commission receivable	306
d. Others	3,901
<b>Net Closing Balance</b>	<b>4,320,659</b>

The outstanding balances can be analysed as follows:

	€
Amounts outstanding for less than one year (2018)	136,095
Amounts outstanding for over one but less than two years (2017)	61,293
Amounts outstanding for over two but less than five years (2014 – 2016)	1,170,506
Amounts outstanding for over five but less than ten years (2009 – 2013)	2,951,613
Amounts outstanding for over ten years ( – 2008)	1,152
<b>Net Closing Balance</b>	<b>4,320,659</b>

Whilst no amounts were written off or reported as estimated as not collectable, only a balance of €33,206 was recouped during the year, which pertained mostly to staff salaries (€18,206) and refunds (€15,000).

Amounts under past arrears collected and newly accrued were taken as the difference between the opening and the closing net collectable balances. The Department was not in a position to provide full details for either of the two categories. However, it stated that an exercise will be undertaken to identify unrecoverable amounts.

## Collection of Arrears

According to the Department, following the recent appointment of a new legal advisor, a legal letter will be sent in due course to all persons whose amount due exceeds €1,000 (or to their next of kin). Further legal action will be taken as necessary. The legal advisor's role will complement the statements sent by the Department on a regular basis to all those failing to settle their outstanding dues.

## Conclusion

The NAO is once again highlighting its concern regarding the amount of arrears estimated as not collectable, as shown in Table 1 above. In this regard, discussions have been initiated with the Ministry for Finance with the objective of eventually submitting a Joint Memo to the Public Accounts Committee in order to have in place a transparent, fair and just system of write-offs. Thus, amounts of arrears of revenue would be more realistic.

<sup>7</sup> 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 2018<sup>a</sup>

Ministry/Department	€	Gross Outstanding on 31/12/2017 <sup>b</sup>	Collected during 2018	Written off 2018	Revisions 2018	Arrears 2018
Office of the Prime Minister <sup>d,e</sup>	€	10,476,061	224,330	-	-	-
Department of Information	€	9,591	9,591	-	-	21,986
Government Printing Press	€	371,624	121,128	-	-	274,642
Malta Gaming Authority	€	4,527,880	3,628,801	-	-	4,137,689
Malta Communications Authority	€	246,412	244,524	-	-	206,136
Ministry for Health	€	12,006,980	863,738	-	-1,827	4,780,681
Ministry for the Economy, Investment and Small Businesses						
Commerce	€	2,407,711	114,214	1,750	-155,714	11,786
Ministry for Education and Employment <sup>d</sup>	€	3,239,856	1,711,604	-	-720,944	436,691
Ministry for Energy and Water Management	€	14,349	14,349	-	3,124	159
Ministry for European Affairs and Equality	€	6,547	6,547	-	-	10,570
Industrial and Employment Relations	€	295,449	4,247	-	10	-
Ministry for Finance <sup>d</sup>	€	30,459	15,104	-	-	18,680
Treasury (Pensions Section)	€	39,347,346	3,463,182	-	-	3,862,246
Inland Revenue:						
Income Tax	€	706,709,699	17,697,283	-	-222,347,876	287,302,939
Social Security Contributions: Class 1 and Class 2	€	283,471,060	80,468,401	-	-87,471	115,663,926
Final Settlement System	€	114,011,201	83,472,660	-	-4,736,547	109,135,950
Capital Transfer Duty:						
Duty on Documents	€	25,861,828	1,069,750	790	-2,065,095	4,372,135
Death and Donation Duty	€	4,614,666	600	-	-	-
VAT	€	2,075,241,277	18,972,301	966	-457,454,022	1,162,811,548
Customs	€	14,858,366	6,240,040	4,117	-621,325	3,880,065
Contracts	€	163,723	-	-	-	-
Ministry for Tourism	€	1,148,590	210,537	-	-14,204	231,180
Institute of Tourism Studies	€	304,094	25,546	-	-83,620	47,614
Ministry for Home Affairs and National Security	€	33,278	19,558	-	-	12,630
Armed Forces of Malta	€	184,353	64,313	154	-11,400	73,270
Police	€	466,722	116,416	18,324	-	123,587
Correctional Services	€	618	-	-	12,893	42,865
Civil Protection	€	9,750	9,729	-	-	11,299
Ministry for Justice, Culture and Local Government	€	2,075	16	-	-	3,739
Judicial	€	10,408,048	1,201,012	119,639	-1,100,469	2,167,114
Attorney General	€	318,051	70,801	41,111	92,901	76,045
Notary to Government	€	850	850	-	-	7,637
Ministry for the Environment, Sustainable Development and Climate Change	€	1,285,136	357,122	8,053	4,142	305,256

Gross Outstanding on 31/12/2018	Gross Variation	Amounts Est. as not Collectable	Net collectable arrears as at 31/12/2018	Net collectable arrears as at 31/12/2017	Net Variation	Due from Govt. Depts. & Para. Bodies	Due from Individuals & Private Cos.	Amounts coll. during January 2019	Balance as at 31/01/2019
10,251,731	-224,330	4,008,973	6,242,758	9,848	6,232,910	-	6,242,758	-	6,242,758
21,986	12,395	-	21,986	9,591	12,395	21,986	-	21,080	906
525,138	153,514	-	525,138	371,624	153,514	522,133	3,005	-	525,138
5,036,768	508,888	1,758,504	3,278,264	3,634,016	-355,752	60,359	3,217,905	2,833,316	444,948
208,024	-38,388	-	208,024	246,412	-38,388	10,636	197,388	170,787	37,237
15,922,096	3,915,116	91,209	15,830,887	11,927,638	3,903,249	7,874,951	7,955,936	104,264	15,726,623
2,147,819	-259,892	2,107,263	40,556	336,902	-296,346	-	40,556	17,375	23,181
1,243,999	-1,995,857	151,184	1,092,815	3,256,452	-2,163,637	-	1,092,815	-	1,092,815
3,283	-11,066	-	3,283	14,349	-11,066	-	3,283	-	3,283
10,570	4,023	-	10,570	6,547	4,023	-	10,570	-	10,570
291,212	-4,237	206,238	84,974	89,251	-4,277	-	84,974	90	84,884
34,035	3,576	-	34,035	31,661	2,374	422	33,613	65	33,970
39,746,410	399,064	-	39,746,410	39,347,346	399,064	39,692,795	53,615	-	39,746,410
753,967,479	47,257,780	634,049,812	119,917,667	109,206,121	10,711,546	-	119,917,667	769,704	119,147,963
318,579,114	35,108,054	186,281,124	132,297,990	114,985,661	17,312,329	-	132,297,990	3,330,168	128,967,822
134,937,944	20,926,743	94,456,561	40,481,383	34,203,360	6,278,023	-	40,481,383	759,189	39,722,194
27,098,328	1,236,500	18,697,846	8,400,482	7,686,564	713,918	-	8,400,482	254,613	8,145,869
4,614,066	-600	3,737,393	876,673	876,786	-113	-	876,673	65	876,608
2,761,625,536	686,384,259	2,597,075,065	164,550,471	109,264,005	55,286,466	-	164,550,471	-	164,550,471
11,872,949	-2,985,417	8,549	11,864,400	14,858,366	-2,993,966	776	11,863,624	3,171,047	8,693,353
163,723	-	20,510	143,213	143,213	-	-	143,213	-	143,213
1,155,029	6,439	54,365	1,100,664	1,094,225	6,439	-	1,100,664	27,527	1,073,137
242,542	-61,552	194,928	47,614	100,039	-52,425	1,896	45,718	-	47,614
26,350	-6,928	-	26,350	33,278	-6,928	26,350	-	-	26,350
181,756	-2,597	81,620	100,136	178,675	-78,539	77,040	23,096	57,554	42,582
455,569	-11,153	19,701	435,868	437,011	-1,143	6,287	429,581	11,239	424,629
56,376	55,758	-	56,376	618	55,758	55,758	618	-	56,376
11,320	1,570	-	11,320	9,750	1,570	-	11,320	-	11,320
5,798	3,723	-	5,798	2,075	3,723	3,738	2,060	-	5,798
10,154,042	-254,006	524,789	9,629,253	9,900,491	-271,238	-	9,629,253	149,068	9,480,185
375,085	57,034	57,423	317,662	318,051	-389	-	317,662	1,473	316,189
7,637	6,787	-	7,637	850	6,787	7,637	-	7,473	164
1,229,359	-55,777	29,762	1,199,597	1,255,374	-55,777	3,172	1,196,425	161,682	1,037,915

Arrears of Revenue 2018<sup>a</sup>/cont...

Ministry/Department	€	Gross Outstanding on 31/12/2017 <sup>b</sup>	Collected during 2018	Written off 2018	Revisions 2018	Arrears 2018
Ministry for Foreign Affairs and Trade Promotion	€	204,077	106,465	7,472	-	114,756
Ministry for Transport, Infrastructure and Capital Projects	€	1,188,563	470,592	397	-199,651	505,095
Transport Malta <sup>c</sup>	€	32,029,651	1,245,018	1,313,751	180,577	5,988,253
Lands Authority <sup>f</sup>	€	33,145,601	7,329,435	1,062	-	7,185,921
Ministry for Gozo <sup>g</sup>	€	1,102,106	157,011	-	-2,080	110,721
Ministry for the Family, Children's Rights and Social Solidarity						
Social Security Benefits	€	25,354,645	2,707,686	119,497	-14,269	3,354,070
Social Welfare Standards	€	2,625	2,625	-	-	5,537
Elderly and Community Care	€	4,321,203	33,206	-	-	32,662
ex-Ministry for Social Dialogue, Consumer Affairs and Civil Liberties	€	7,766	4,297	-	-2,044	-
<b>Totals<sup>h</sup></b>	<b>€</b>	<b>3,409,429,887</b>	<b>232,474,629</b>	<b>1,637,083</b>	<b>-689,324,911</b>	<b>1,717,327,080</b>

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. Opening Balance 2018 does not tally with Closing Balance 2017 (vide comments where applicable).

e. Includes figures for the Television Licensing Unit, which were shown separately in previous years, as well as line items which were transferred under this Vote following the 2017 General Election. The Television Licensing Unit did not submit its Return for 2017.

f. Previously the Government Property Division.

g. Includes figures for the Gozo Judicial Courts.

h. Totals are incomplete in view of c. above.

Gross Outstanding on 31/12/2018	Gross Variation	Amounts Est. as not Collectable	Net collectable arrears as at 31/12/2018	Net collectable arrears as at 31/12/2017	Net Variation	Due from Govt. Depts. & Para. Bodies	Due from Individuals & Private Cos.	Amounts coll. during January 2019	Balance as at 31/01/2019
204,896	819	-	204,896	196,605	8,291	148,636	56,260	44,348	160,548
1,023,018	-165,545	47,191	975,827	1,141,805	-165,978	882,350	93,477	8,079	967,748
35,639,712	3,610,061	-	35,639,712	c	c	-	35,639,712	360,161	35,279,551
33,001,025	-144,576	-	33,001,025	33,145,601	-144,576	11,512,205	21,488,820	1,104,793	31,896,232
1,053,736	-48,370	284,132	769,604	817,974	-48,370	73,513	696,091	-	769,604
25,867,263	512,618	2,720,004	23,147,259	22,723,417	423,842	-	23,147,259	376,069	22,771,190
5,537	2,912	-	5,537	2,625	2,912	5,537	-	-	5,537
4,320,659	-544	-	4,320,659	4,321,203	-544	4,188,045	132,614	19,163	4,301,496
1,425	-6,341	-	1,425	7,766	-6,341	-	1,425	-	1,425
<b>4,203,320,344</b>	<b>793,890,457</b>	<b>3,546,664,146</b>	<b>656,656,198</b>	<b>526,193,146</b>	<b>94,823,340</b>	<b>65,176,222</b>	<b>591,479,976</b>	<b>13,760,392</b>	<b>642,895,806</b>

Arrears of Revenue Analysis of the Outstanding Balance as at 31 December 2018<sup>a</sup>

Ministry/Department	Net Collectable Arrears as at 31/12/2018	Amounts Est. as not Collectable	Gross Outstanding on 31/12/2018	Analysed as follows:				
				Statute-barred	Under Contestation Pending Court action	Not Pending Court action	Recoverable by Dept. action	No Dept. action required
Office of the Prime Minister <sup>d,e</sup>	€ 6,242,758	4,008,973	10,251,731	4,008,973	-	-	6,242,758	-
Department of Information	€ 21,986	-	21,986	-	-	-	21,986	-
Government Printing Press	€ 525,138	-	525,138	-	-	-	525,138	-
Malta Gaming Authority	€ 3,278,264	1,758,504	5,036,768	-	1,287,321	-	515,772	3,233,675
Malta Communications Authority	€ 208,024	-	208,024	-	-	-	-	208,024
Ministry for Health <sup>b,e</sup>	€ 15,830,887	91,209	15,922,096	91,209	-	-	35,164	10,106,081
Ministry for the Economy, Investment and Small Businesses Commerce <sup>b</sup>	€ 40,556	2,107,263	2,147,819	1,716,536	-	384,814	5,893	40,556
Ministry for Education and Employment	€ 1,092,815	151,184	1,243,999	-	-	8,951	1,235,048	-
Ministry for Energy and Water Management	€ 3,283	-	3,283	-	-	-	3,283	-
Ministry for European Affairs and Equality	€ 10,570	-	10,570	-	-	-	10,570	-
Industrial and Employment Relations	€ 84,974	206,238	291,212	-	4,135	-	276,006	11,071
Ministry for Finance	€ 34,035	-	34,035	-	11,158	2,744	20,133	-
Treasury (Pensions Section)	€ 39,746,410	-	39,746,410	-	-	-	39,746,410	-
Inland Revenue (including Capital Transfer Duty)	€ 301,974,195	937,222,736	1,239,196,931	163,388,477	195,104,547	-	161,805,484	718,898,423
VAT	€ 164,550,471	2,597,075,065	2,761,625,536	-	65,906,087	2,597,075,065	98,644,384	-
Customs	€ 11,864,400	8,549	11,872,949	40,264	7,355,094	616,314	193,429	3,667,848
Contracts <sup>b,f</sup>	€ 143,213	20,510	163,723	-	-	-	143,213	-
Ministry for Tourism	€ 1,100,664	54,365	1,155,029	54,365	-	-	-	1,100,664
Institute of Tourism Studies	€ 47,614	194,928	242,542	10,308	-	-	232,234	-
Ministry for Home Affairs and National Security	€ 26,350	-	26,350	-	-	-	-	26,350
Armed Forces of Malta	€ 100,136	81,620	181,756	-	92,438	75,635	-	13,683
Police	€ 435,868	19,701	455,569	154,701	14,733	-	275,831	10,304
Correctional Services	€ 56,376	-	56,376	-	-	618	55,758	-
Civil Protection	€ 11,320	-	11,320	-	-	-	-	11,320
Ministry for Justice, Culture and Local Government	€ 5,798	-	5,798	-	-	-	2,060	3,738
Judicial	€ 9,629,253	524,789	10,154,042	524,790	-	-	9,174,252	455,000
Attorney General	€ 317,662	57,423	375,085	-	57,423	-	-	317,662
Notary to Government	€ 7,637	-	7,637	-	-	-	7,637	-
Ministry for the Environment, Sustainable Development and Climate Change	€ 1,199,597	29,762	1,229,359	29,763	659,246	182,755	116,155	241,440
Ministry for Foreign Affairs and Trade Promotion	€ 204,896	-	204,896	-	-	-	117,128	87,768
Ministry for Transport, Infrastructure and Capital Projects	€ 975,827	47,191	1,023,018	47,191	-	16,949	956,225	2,653
Transport Malta <sup>c</sup>	€ 35,639,712	-	35,639,712	c	c	c	c	c
Lands Authority <sup>g</sup>	€ 33,001,025	-	33,001,025	3,728,133	4,771,487	4,574,824	18,656,135	1,270,446
Ministry for Gozo <sup>h</sup>	€ 769,604	284,132	1,053,736	164,553	16,639	232,602	469,750	170,192

## Arrears of Revenue Analysis of the Outstanding Balance as at 31 December 2018<sup>a</sup>/cont...

Ministry/Department	Net Collectable Arrears as at 31/12/2018	Amounts Est. as not Collectable	Gross Outstanding on 31/12/2018	Analysed as follows:				
				Statute-barred	Under Contestation Pending Court action	Not Pending Court action	Recoverable by Dept. action	No Dept. action required
Ministry for the Family, Children's Rights and Social Solidarity								
Social Security Benefits <sup>i</sup>	€ 23,147,259	2,720,004	25,867,263	-2,720,004	1,205,753	-	3,706,585	23,674,929
Social Welfare Standards	€ 5,537	-	5,537	-	-	-	-	5,537
Elderly and Community Care	€ 4,320,659	-	4,320,659	-	-	-	4,320,659	-
ex-Ministry for Social Dialogue, Consumer Affairs and Civil Liberties	€ 1,425	-	1,425	-	-	-	1,425	-
<b>Totals<sup>j</sup></b>	<b>€ 656,656,198</b>	<b>3,546,664,146</b>	<b>4,203,320,344</b>	<b>171,239,259</b>	<b>276,486,061</b>	<b>2,603,171,271</b>	<b>347,516,505</b>	<b>763,557,364</b>

a. Figures may not add up due to rounding.

b. Amount submitted as per the analysis of arrears as requested by Treasury Circular No. 3/2019 does not tally to Return of Arrears 2018 (vide comments where applicable).

c. Did not submit all or part of the submissions required by Treasury Circular No. 3/2019.

d. Includes figures for the Television Licensing Unit, which were shown separately in previous years, as well as line items which were transferred under this Vote following the 2017 General Election. The Television Licensing Unit did not submit its Return for 2017.

e. The amount of €5,689,642 relating to the Central Procurement and Supplies Unit were not categorized in the analysis of arrears.

f. Similar to last year's Return, the 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.

g. Previously Government Property Division.

h. Includes figures for the Gozo Judicial Courts.

i. Amount for statute-barred was listed as a negative figure by the Department.

j. Totals are incomplete in view of b. and c. above.

# Malta Enterprise

## Performance Audit on Selected Assistance Schemes

**Malta Enterprise** remained reluctant to provide the National Audit Office with access to the required documentation and information, citing legal restrictions as per legal advice received. Contending the Enterprises's arguments, this Office had no option but to terminate the planned task and instead issue this brief Report by way of information.

### 1. What is Malta Enterprise?

- 1.1. Apart from being an advisor to Government on economic policy, the Malta Enterprise's (ME) role is to secure investment in the Maltese economy and facilitate the growth of local enterprises. This entity falls under the Ministry for the Economy, Investment and Small Businesses. Its direction is set by a Board of Directors, and its operations managed by a Chief Executive Officer (CEO).
- 1.2. The ME's remit is carried out through the management of various schemes and incentives which are granted to eligible (and subsequently successful) applicants. These schemes can be categorised into two main categories, mainly discretionary and non-discretionary. The distinction between these two lays primarily in the fact that discretionary schemes are subjected to the evaluation and require the discretionary approval of the aforementioned Board of Directors; while the non-discretionary incentives are processed by the ME staff and granted or otherwise according to compliance to pre-set criteria. These incentives take various forms, but can primarily be categorised as: tax credits, grants, loans, guarantees and industrial space. For the year 2018, the ME was allocated €7.7 million in contributions, and €41 million in investment and project incentives.
- 1.3. Table 1 below lists the ME's schemes while indicating: whether they are discretionary or not; their type and; corresponding take-up for the year 2018 (both in terms of number of beneficiaries and approved amount).

**Table 1: The Malta Enterprise Incentives and Approvals for 2018**

Name of Scheme	Board Discretion required	Type of Assistance	Number of Beneficiaries	Assistance approved €
Innovation Aid for Small and Medium-sized Enterprises	No	Tax Credit	-	-
Investment Aid Cash	Yes	Grant	6	3,024,044
Investment Aid Tax Credits 2014 - 2020	No	Tax Credit	60	21,170,371
Aid for Research and Development Projects	No	Tax Credit	-	-
Business Development and Continuity	Yes	Grant	22	2,545,728
Business Development and Continuity	Yes	Tax Credit	4	635,000
Business START (B.Start)	Yes	Grant	15	375,000
Research and Development Feasibility Studies 2014 - 2020	Yes	Grant	1	13,952

Table 1: The Malta Enterprise Incentives and Approvals for 2018/cont...

Name of Scheme	Board Discretion required	Type of Assistance	Number of Beneficiaries	Assistance approved €
Research and Development 2014 - 2020	Yes	Tax Credit	2	118,684
Research and Development 2014 - 2020	Yes	Grant	2	44,259
Startup Finance 2017 - 2020	Yes	Repayable Grant	1	200,000
Startup Advance	Yes	Grant	-	-
Tax Credits for Research and Development and Innovation	No	Tax Credit	1	10,000
Investment Aid for High-Efficiency Cogeneration	No	Tax Credit	-	-
Knowledge Transfer	Yes	Tax Credit	-	-
Knowledge Transfer	Yes	Grant	-	-
Micro Invest	No	Tax Credit	2,338	25,438,581
Soft Loans	Yes	Loan	2	875,000
Allocation for Industrial Land Application	Yes	Industrial Space	71	74,460
Business Associations Grant	Yes	Grant	1	9,889
Catering Capacity Building	No	Not indicated	-	-
Certify (Tax Credits) 2018 - 2020	No	Tax Credit	1	3,075
Cooperate for Growth	Yes	Grant	4	2,070
Gozo Transport Grant Scheme	No	Grant	30	367,417
Interest Rate Subsidies	Yes	Grant	5	577,767
Investment Aid for Energy Efficiency Projects	No	Not indicated	-	-
LEAP2ENTERPRISE Scheme	Yes	Grant	1	25,000
Loan Guarantees	Yes	Guarantee	1	720,000
Micro Guarantee Scheme 2017 - 2020	Yes	Guarantee	-	-
Rent Subsidy	Yes	Grant	-	-
Support for the Development of Business Units at the Artisan Village, Ta' Qali	Yes	Grant	25	1,707,430
Family Business Support Services	No	Grant	16	35,654
Family Business Transfer of Ownership	No	Grant	3	10,458

Source: Malta Enterprise

## 2. Reason for Review

2.1. As presented in Section 1, the financial allocation managed and disbursed by this enterprise is considerable. This financial consideration becomes even more substantial when the potential for economic generation is also factored in. To this end, the National Audit Office (NAO) intended to carry out a performance assessment essentially to determine whether the ME's operations are efficient and whether the processes by which it grants its various schemes and incentives are conducive to good governance.

### 3. Methodology

- 3.1. As the ME's schemes are numerous and it would have been impractical for the NAO to review them all, the audit team selected two of these for its analysis, with this decision being primarily based on financial materiality. Specifically, the 'Investment Aid Tax Credits 2014-2020' and the 'Investment Aid Cash' schemes were selected as their corresponding approvals for 2018 amounted to €21,170,371 and €3,024,044 respectively. Apart from their materiality, these two schemes were also selected as they would have led the team to obtain visibility on both the discretionary and non-discretionary processes of approval.
- 3.2. It is also worth noting that, while the aforementioned two schemes were to be the primary focus of the analysis, a third scheme with a substantially lesser financial tag (namely the 'Gozo Transport Grant Scheme' – amounting to €367,417) was also selected so that the audit team could assess whether ME's approval processes and control mechanisms remain constant irrespective to the relevant scheme's profile and magnitude.
- 3.3. The audit team subsequently intended to gather the required information through various channels. Semi-structured meetings with key officials were to be conducted so that the audit team could better understand the details and mechanisms surrounding each scheme under review. This process would then have been followed with requests for documentation so the team could carry out its analysis. Amongst others, such documentation would have included filled-in application forms, minutes of board meetings and any other generated documents which relate to the approval processes.
- 3.4. As this Report was due to be published in 2019, the audit team had set the study's scope to cover the calendar year 2018.

### 4. Data Access and Legal Issues

- 4.1. In order for the audit team to be in a position to adequately verify whether the ME's internal processes are efficient and whether approval processes (both discretionary and non-discretionary) are comprehensive and compliant to set procedures, while following good governance principles, it was inevitable that related documentation would have had to be reviewed. Particularly, the audit team required that filled-in applications and subsequent documentation detailing the evaluation process (in the case of the discretionary schemes), and the approval processes should be made available so that, amongst others, it could analyse:
  - a. how long it takes for the ME to process an application and whether this length of period is justified;
  - b. whether all accepted applications were comprehensively filled in and in a compliant manner; and
  - c. whether the ME processed all applications in a fair, consistently and transparent manner.
- 4.2. Additionally, in order for the team to assess whether the Board's approval process for discretionary schemes is guided by any formally and clearly set criteria or otherwise, minutes of such meetings would have had to be reviewed.
- 4.3. It is here to be noted that the NAO has made these legitimate requests in terms of Article 3 of Part II of the Second Schedule of Chapter 396 - Auditor General and National Audit Office Act which, inter alia, states that:

*Except as may be expressly provided by any law, the Auditor General, and all authorised officers of the National Audit Office, shall be entitled to free access at all reasonable times to such information from officers and other personnel of government departments or offices, or of bodies subject to his audit, that may be required by them for the proper execution of their functions according to law, and they shall be entitled to receive from such officers and other personnel such reports and explanations as they may deem necessary for such purposes.*

4.4. Notwithstanding the above, the ME, on multiple occasions, declared that, according to advice given by its legal consultant, it could not provide the NAO with any documentation and/or information which is specific to single applications. It informed this Office that it will only be disposed to forwarding information in aggregate format, citing non-disclosure obligations from both Chapter 463 - Malta Enterprise Act and Chapter 325 - Business Promotion Act.

4.5. The NAO notes that Section 20 of the Malta Enterprise Act, inter alia, states:

*(1) Save as otherwise provided by this Act and subarticle (2) or any other law, a person shall not, except where necessary for the proper performance of his functions, without the consent of the Board, disclose to any person any non-public information obtained while performing (or as a result of having performed) duties as -*

- (a) a member of the Board;*
- (b) the Chief Executive Officer;*
- (c) a member of the staff of the Corporation;*
- (d) a member of a committee established under articles 16 or 17; or*
- (e) an advisor or consultant to the Corporation or an employee of such person whilst performing duties relating to such advice or consultation.*

*(2) Nothing in subarticle (1) shall prevent disclosure to the Minister of information in a report made to the Corporation or on behalf of the Corporation.*

4.6. However, the NAO contends that Section 21(6)(b) of the Malta Enterprise Act, relinquishes the ME from its non-disclosure obligation when such information is requested by entities such as the NAO. Specifically, this Section states:

*21. (6) Nothing in this article shall hinder the Corporation or its staff:*

*(b) from providing full access to such other persons or authorities as are entitled to receive such information under provisions of applicable law for the carrying out of their functions;*

4.7. Also, the NAO notes that Section 33 of the Business Promotion Act states:

*33. (1) Save as may be otherwise required for the purposes of this Act, or in the course of a prosecution for any offence committed in relation to this Act, or where the Prime Minister otherwise directs -*

*(a) every person having an official duty or being employed in the administration of this Act shall regard and deal with all documents and information relating to matters contemplated by or pursuant to the provisions of this Act as secret and confidential and shall make and subscribe before a Commissioner for Oaths a declaration on oath to this effect in the form prescribed which shall be deposited with the Attorney General;*

*(b) no such person shall be required to produce to or before any court, tribunal, Board, committee of enquiry or any other authority, or to divulge to any court, tribunal, Board, committee or other authority, any matter or thing coming to his notice or being in his possession in the performance of his duties under this Act.*

- 4.8. This Office however considers Article 32 of the same Act as a waiver to this legal obligation, since it states:

*32. Nothing contained in this Act shall affect the provisions of any other law whatsoever except to the extent solely that the provisions of this Act replace or supersede the provisions of that law, and no incentive, exemption, reduction of taxation or other benefit or privilege provided for under the provisions of this Act shall modify any obligation to furnish returns, statements, particulars or documents as may be required by any other law.*

- 4.9. Notwithstanding the NAO's conviction of its claim to such information and documentation, this Office still sought legal advice on the matter which confirmed that the NAO had the right to access and review such data. As already stated, however, the ME is also in possession of legal advice, which conflicts with that obtained by the NAO. This essentially led the situation into a legal deadlock.

## **5. Disengagement from Audit**

- 5.1. While this Report, incorporated within the Annual Report, is being published in the latter part of the year 2019, NAO had initiated this assignment in November 2017. After five preliminary meetings however, it became manifestly clear to the audit team that significant resistance from the ME will be experienced when requests for specific information and documentation were to be put forward. To this end, in February 2018, the NAO decided to temporarily postpone the audit so that the ME could obtain necessary legal advice and/or clearances so that it may reconsider its position. In the meantime, the audit team started and completed another audit assignment.
- 5.2. After having allowed ample time for this reconsideration, the NAO re-launched its audit in November 2018. The audit team re-engaged with the ME management and conducted one meeting. During this meeting, the audit team once again pointed out that it would require specific documentation in carrying out this audit exercise. This request though was met with the ME's re-assertion on its original non-disclosure position. In view of this, the audit team asked former CEO ME whether efforts were made, during the allowed stoppage period, to clear the way for this audit to progress unhindered. During this last meeting however (dated 27 November 2018) former CEO ME asserted that, at that time, such clearance had not been forthcoming, though it remains unclear to the NAO whether the ME actively explored and exhausted all possible avenues as provided by law in this regard.
- 5.3. Faced with this renewed impasse, the NAO opted to disengage from the intended performance audit and consequently, as is its duty, report on the reason why this planned audit could not be carried out. This was done in accordance to Article 10(b)(i) of the First Schedule of the Auditor General and National Audit Office Act.

## 6. Malta Enterprise Management Comments

- 6.1. The ME states that there was no reluctance on its part to disclose the information requested. Rather, after seeking legal advice from more than one legal advisor on the matter, including from the Attorney General, the ME was advised that if it provided the information in the request put forward by the NAO, the ME would, in fact, be in a breach of its obligations at law.
- 6.2. Article 108(5) of the Constitution of Malta provides that the NAO has the right to request – and consequently be granted access to – all books, records, returns and documents which are required for the purposes of having the NAO carry out an audit of the ME’s accounts. Accordingly, in such circumstances the Constitution of Malta would supersede the confidentiality obligations that the ME is bound by in terms of the Malta Enterprise Act and the Business Promotion Act.
- 6.3. In this particular instance however, the NAO was not conducting an audit of the ME’s accounts. The documentation requested concerns information of third party applicants to the ME’s schemes which information is confidential and also commercially sensitive to such third parties. As detailed in the above mentioned Report, the exercise that the NAO intended carrying out was “... a performance assessment essentially to determine whether the ME’s operations are efficient and whether the processes by which it grants its various schemes and incentives are conducive to good governance” and not an audit of the ME’s accounts.
- 6.4. It follows, therefore, that in this case, the NAO could not rely on the wide discretionary powers granted to it in terms of the Constitution of Malta. The ME was therefore advised that it remains bound by the confidentiality provisions of the Malta Enterprise Act and the Business Promotion Act and could not divulge certain specific documentation that was requested by the NAO. Had it done so, the ME would have been in breach of the very law that regulates it. It is for this reason, that the ME was legally precluded from providing (as opposed to being reluctant to provide) the NAO with the requested information concerning third parties.
- 6.5. For completeness, and as is also acknowledged by the NAO in the said Report, the ME sought to assist the NAO in ways which would not have resulted in a breach of the ME’s obligations, such as by providing information in aggregated format and accepting discussions on a non-individualised basis.

## 2018 - 2019 (to date) Reports issued by NAO

### NAO Work and Activities Report

April 2019            Annual Report & Financial Statements 2018 - Work and Activities

### NAO Audit Reports

December 2018    Report by the Auditor General on the Public Accounts 2017

December 2018    Performance Audit: An evaluation of the regulatory function of the Office of the Commissioner for Voluntary Organisations

January 2019        An Investigation of Visas issued by the Maltese Consulate in Algiers

March 2019         Performance Audit: A Review on the Contract for Mount Carmel Hospital's Outsourced Clerical Services

June 2019          Joint Audit: An Evaluation of the Community Work Scheme

July 2019           Cooperative Audit: Are adequate mechanisms in place for the designation and effective management of Marine Protected Areas (MPAs) within the Mediterranean Sea?

October 2019        Information Technology Audit: The Effective use of Tablets in State, Church and Independent Primary Schools

October 2019        Follow-up Reports by the National Audit Office 2019

November 2019     Report by the Auditor General on the Workings of Local Government for year 2018

November 2019     Performance Audit: An analysis of issues concerning the Cooperative Movement in Malta