NAO
National Audit Office
MALTA

Report by the Auditor General

Public Accounts

Annual Audit Report

Public Accounts 2019

Report by the Auditor General
December 2020

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List of Abbreviations

AACC	Active Ageing and Community Care
AAR	Annual Audit Report
AĦT	Aġenzija għall-Ħarsien tat-Tfal
AHWD	Animal Health and Welfare Department
ARMS	Automated Revenue Management Services Ltd
ARR	Arrears of Revenue Return
ASM	Assessments Application
AWAS	Agency for the Welfare of Asylum Seekers
AWPSD	Animal Welfare, Promotion and Services Directorate
CBM	Central Bank of Malta
CCTV	Closed Circuit Television
CEO	Chief Executive Officer
CFMS	Corporate Financial Management Solution
CfR	Commissioner for Revenue
CPSU	Central Procurement and Supplies Unit
CTD	Capital Transfer Duty Department
DAS	Departmental Accounting System
DC	Department of Contracts
DLG	Department for Local Government
DMD	Debt Management Directorate
DO	Direct Order
DOC	Department of Customs
DSS	Department of Social Security
EB	Energy Benefit
EBU	Energy Benefit Unit
EU	European Union
FIAU	Financial Intelligence Analysis Unit
FMS	Foundation for Medical Services
FR	Financial Report
FSWS	Foundation for Social Welfare Services
FTS	Foundation for Tomorrow's Schools

GDP	Gross Domestic Product
GRN	Goods Received Note
HM	Heritage Malta
HO	Head Office
IM	Infrastructure Malta
IPSAS	International Public Sector Accounting Standards
IRD	Inland Revenue Department
ISC	Infrastructure Services Contributions
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
LA	Lands Authority
LC	Local Council
LES	Local Enforcement System
LESA	Local Enforcement System Agency
LSE	Learning Support Educator
MAFA	Ministry for Agriculture, Fisheries and Animal Rights
MBO	Malta Based Officer
MCAST	Malta College of Arts, Science and Technology
MCH	Mount Carmel Hospital
MDH	Mater Dei Hospital
MEDE	Ministry for Education and Employment
MEUSAC	Malta-European Union Steering and Action Committee
MFIN*	Ministry for Finance
MFSA	Malta Financial Services Authority
MG2I	MCAST Gateway to Industry
MGI	Malta Government Investments Ltd
MGOZ	Ministry for Gozo
MGS	Malta Government Stocks
MIP	Malta Industrial Parks Ltd
MITA	Malta Information Technology Agency
MTA	Malta Tourism Authority
MTIP	Ministry for Transport, Infrastructure and Capital Projects
MUT	Malta Union of Teachers

*As from January 2020, Ministry for Finance and Financial Services.

NAO	National Audit Office
NSO	National Statistics Office
OECD	Organisation for Economic Co-operation and Development
PA	Planning Authority
PCRB	Public Contracts Review Board
PD	Police Department
PO	Purchase Order
POYC	Pharmacy of Your Choice
PPR	Public Procurement Regulations
PSMC	Public Service Management Code
SABS	Social Assistance and Benefits System
SAMB	State Aid Monitoring Board
SAV	Supervised Access Visits
SL	Sick Leave
SOP	Standard Operating Procedure
SSC	Social Security Contributions
SVPR	St. Vincent de Paul Residence
TM	Transport Malta
TML	Trade Malta Limited
TMS	Traffic Management System
TOIL	Time Off In Lieu
VAT	Value Added Tax
VL	Vacation Leave
VRD	Veterinary Regulation Directorate
WAM	Weighted Average Maturity
WRA	Work Resources Allowance
WSC	Water Services Corporation
WSM	WasteServ Malta Ltd

Guide to using this Report

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

In line with normal practice, we sought to spread our reviews across Government Ministries and Departments and 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 2019, each containing either the Ministry itself, or one or more Departments or Entities which were the subject of our review. Most write-ups 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 internal controls of the Ministry, Department or Entity. 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 comments of the National Audit Office and action taken, or planned to be taken, so as to address in a timely manner the issues and any shortcomings identified.

Executive Summary

Following an **Analysis of the Financial Report 2019**, submitted by the Accountant General in terms of the Public Finance Management Act, 2019, it was noted that Letters of Comfort and Bank Guarantees, considered as contingent liabilities, reached almost €1.1 billion. Furthermore, Advances at year-end totalled €12.5 million. As at end December 2019, the percentage of Government's debt to the country's gross domestic product stood at 42.6%, resulting in a decrease of 2.6% over the previous year. Thus, the respective ratio continued to decline below the 60% Maastricht Treaty requirements. (page 18)

An analysis of the **Arrears of Revenue 2019** revealed a gross arrears balance of €5.1 billion, an increase of €906 million over last year's figure. Of this amount, €4.3 billion was estimated as being uncollectable, leaving a net collectable balance of approximately €819 million. This figure stood at 6.1% of gross domestic product, an increase over both 2018 and 2017 quotients. (page 54)

An audit at the **Malta Financial Services Authority** revealed procurement issues, such as resorting to direct orders without the necessary approvals and services not supported by agreements. (page 80)

Weak internal controls in various areas were noted at **Mount Carmel Hospital** leading to non-compliance with standing laws and regulations. The hospital has been operating continuously with a running deficit, leading to an adverse working capital of €11,824,230 registered at the beginning of 2019. This situation led to the continuous deferment of payments. (page 91)

A contract entered into by **Malta Industrial Parks Ltd** for the lease of a factory, was not in line with the approval given by the Allocations and Compliance Committee. In another instance, NAO was not in a position to confirm whether the Company performed any monitoring on a particular project which was to be undertaken by a tenant in line with the contract signed. This was noted when conducting an audit on revenue from leases, ground rent and encroachment fees generated by the Company. (page 108)

Public procurement regulations were not always followed by the **Foundation for Tomorrow's Schools** when designing and building the new primary school in Marsascala. Furthermore, by end of September 2020, the respective school had not yet been officially transferred to the Ministry for Education and Employment, despite that this was inaugurated in February 2019. As a result, several shortcomings in the respective asset control management were noted. (page 116)

The audit of personal emoluments at the **Malta College of Arts, Science and Technology** disclosed various shortcomings, including lack of internal controls on the number of hours worked by lecturing staff and inaccurate payments. Moreover, other payments could not be validated since no applicable policy or addendum was in place. (page 128)

Lack of ownership over the **Malta National Shooting Range** project was observed, which according to SportMalta, was due mainly to lack of administrative capacity. Weak internal controls and other procurement issues, such as works of substantial value acquired following a call for quotations, were also noted. (page 139)

Timely enforcement action by the Capital Transfer Duty Department, in the collection of revenue from **Duty on Documents**, was not always effective during the last years. This resulted in gross outstanding balances of over €27 million due to Government. (page 164)

No enforcement was carried out in the last three years in respect of unpaid **Class Two Social Security Contributions**. (page 172)

By March 2020, the Malta Tourism Authority's licence management system, which was planned to be in place by the first quarter of the year 2018, had not yet been implemented. Various concerns relating to the management of debtors, arising from **Licences to Hotels and Catering Establishments**, were also encountered. (page 188)

Weak internal controls within the **Police Department** were noted in all the three phases related to procurement, namely the definition of needs, the award of contract and its monitoring. (page 194)

The extension to the contracts for security services at the **Agency for the Welfare of Asylum Seekers** was not in line with the regulations, whilst procurement of medical services was not supported with any documentation. The audit also exposed instances where the procurement regulations were bypassed due to claimed urgency. (page 200)

The **Local Enforcement System Agency** experienced difficulties in the collection of pending fines and to a certain extent had limited control thereon. With respect to contraventions issued between 1 October 2015 and 31 December 2019, outstanding debtors totalled more than €9 million. Internal control weaknesses were also noted. (page 211)

Claims for reimbursement by Local Councils settled from the allocation for the **Waste Separation – Organic Bag** were not made on a regular basis, while substantial reimbursements to Local Councils were still outstanding by end 2019. (page 228)

Adequate control procedures were lacking with respect to store items and fixed assets maintained by the Departments of Fisheries and Aquaculture, the Rural Development, the then Veterinary and Phytosanitary Regulation, as well as Ambjent Malta, which in 2019 all formed part of the **Ministry for the Environment, Sustainable Development and Climate Change**. (page 233)

No legal action was taken by the then **Veterinary and Phytosanitary Regulation Department** against illegalities regarding the ownership of dangerous animals. (page 243)

An audit on the Trade Promotion Scheme operated by **Trade Malta Limited** revealed instances of internal control weakness including, amongst others, departures from the entity's established internal processes, inadequate verifications at both application and claim stages, as well as poor monitoring. (page 250)

As in previous years, the Head Office within the then Ministry for Foreign Affairs and Trade Promotion placed excessive reliance on the Missions. Consequently, limited checking was performed on the respective accounts filed by the latter. Other shortcomings noted during an audit of the **Madrid Embassy** included those related to inventory management, as well as hours of attendance and time off in lieu. (page 258)

Internal controls on cash management at the **Planning Authority** were weak and, besides security issues, there was no comfort of completeness of the substantial amount of revenue that it received. (page 276)

Following an audit on the **Residential Services in Gozo for Older People** it transpired that overpayments with respect to pension deductions were created due to delays in the processing of information provided by the Ministry for Gozo to the Department of Social Security. (page 292)

Lack of monitoring and control on overtime, especially in those instances where members of staff showed a tendency to avail themselves of sick leave immediately after performance of overtime, was noted at **St. Vincent de Paul Residence**. Another issue was the high accumulation of balances of time off in lieu of a number of employees. (page 307)

Opinion on the Financial Report

Opinion on the Financial Report to the House of Representatives

Audit Mandate

As stipulated by Article 108(5) of the Constitution of Malta and para. 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997, I am hereby reporting on the presentation of the statements and accounts prepared by the Accountant General in fulfillment of the provisions of Article 37 of the Public Finance Management Act, 2019, for the financial year under review.

I consider the primary users of the Analysis of the Financial Report to be Parliament and the Public Accounts Committee.

Respective Responsibilities of the Accountant General and Accounting Officers

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

Accounting 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 responsibility of the National Audit Office is to obtain reasonable, rather than absolute, assurance as to whether areas in the Financial Report that were subject to examination, were free from material misstatement. Thus, it is not a guarantee that such examination will always detect material misstatements, arising from fraud or error.

Basis for Opinion

We conducted an examination of the Financial Report in terms of sub-para, 1(4) of the First Schedule of the Auditor General and National Audit Office Act.

This examination involves performing procedures to enhance the degree of confidence that intended users have in the published figures 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 130 – 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(3)(c) of the Constitution of Malta and fulfilled the independence requirement in accordance with Article 108(12) of the aforementioned Constitution.

We believe that the 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 terms of para. 5(ii) of the First Schedule of the Auditor General and National Audit Office Act, I am to report that I received all the information and explanations required for the carrying out of my duties.

In my opinion, the areas in the Financial Report that were subject to our examination were fairly presented in accordance with the Public Finance Management Act and any regulations made thereunder.

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

Charles Deguara
Auditor General
9 December 2020

Financial Report

Analysis of the Financial Report 2019

Introduction

Consolidated Fund Statement – 2019

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

The House of Representatives approved the year 2019 Budget (Estimates)[2] for a total expenditure of €5.5 billion and a further €284 million approved by Supplementary Estimates[3]. Actual expenditure for the year, amounting to €5.5 billion, exceeded revenue by more than €48 million, leading to an end-of-year deficit of over €357 million.

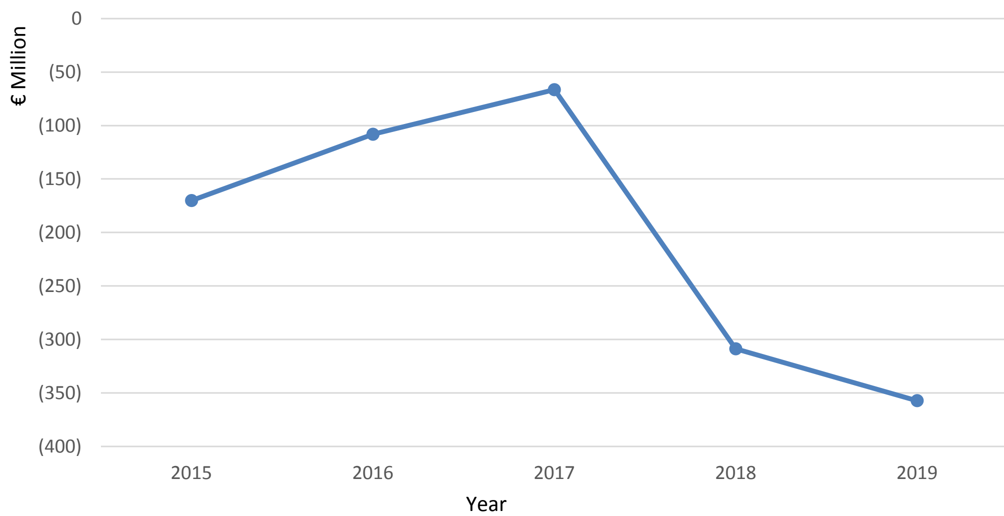
A line graph comparing the closing balance of the Consolidated Fund as at 31 December 2019 with the prior four years is depicted in Chart 1.

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

[2] As authorised by Warrant No. 1 of 2019 issued on 19 December 2018.

[3] As authorised by Warrant No. 2 of 2019 dated 7 January 2020.

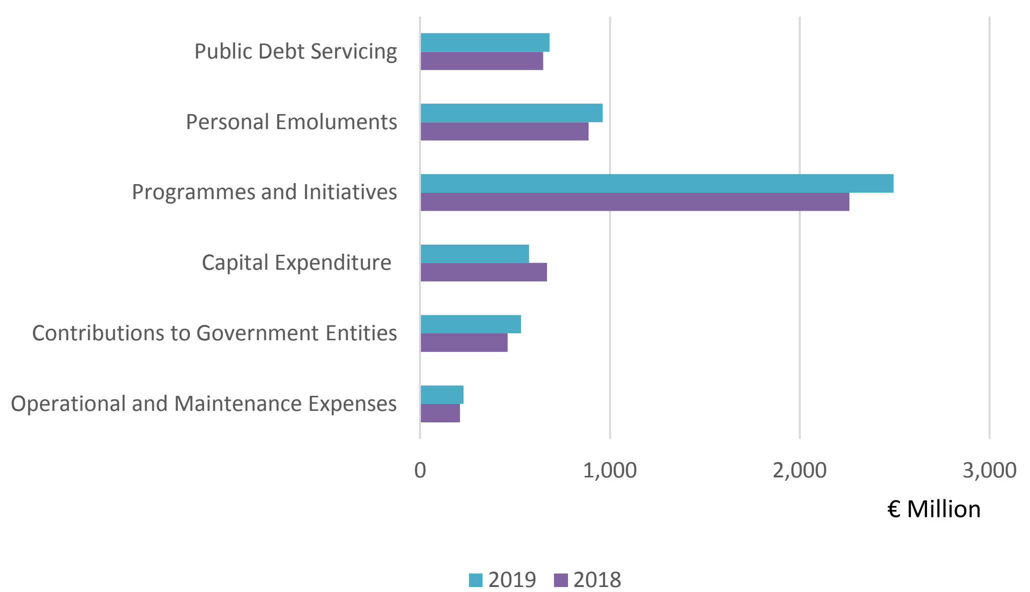
Chart 1: Trend Analysis of the Closing Balance of the Consolidated Fund (2015 – 2019)



(Source: FR 2015 page xv, FR 2016 page xv, FR 2017 page xv, FR 2018 page xv, FR 2019 page xvi)

The closing balance of the Consolidated Fund for 2019 fell by a further 16% when compared to prior year. Although total revenue generated during the year increased by 11%, the shortfall of over €48 million of expenditure over proceeds and given the substantial negative opening balance (€309 million), led to a negative balance of more than €357 million as at year-end. As shown in Chart 2, all categories of outflow, except for capital expenditure, experienced an upsurge during 2019.

Chart 2: Growth registered in most Expenditure Areas during 2019



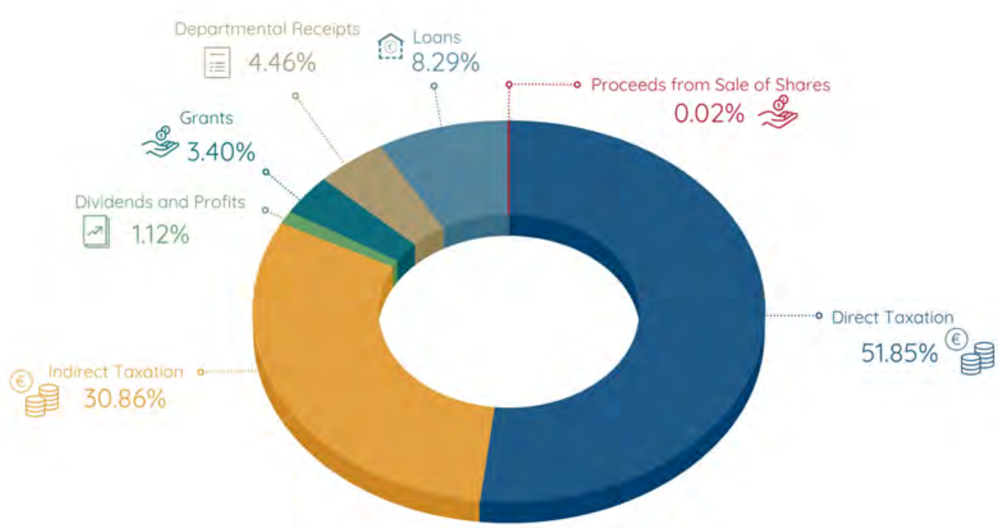
(Source: FR 2019 page xvi)

Revenue

Revenue by Category

Actual total revenue collected during 2019 amounted to €5.4 billion, representing an 11% increase over the previous year. Chart 3 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 2019 page xxi)

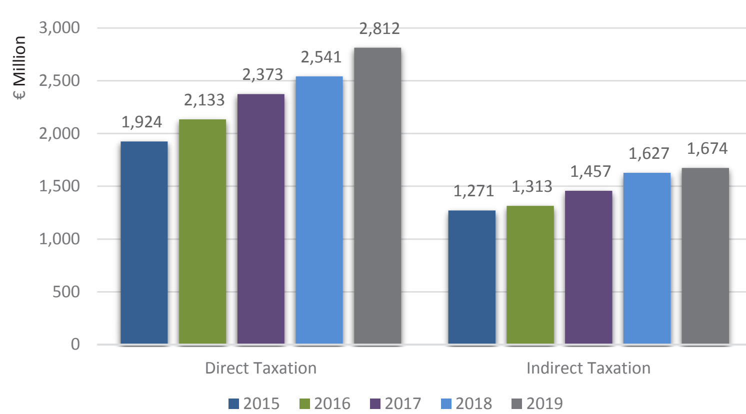
Five Year Trend Analysis

Recurrent Revenue

a. Tax Revenue

An analysis of tax revenue for the years 2015 to 2019 is shown in Chart 4.

Chart 4: Tax Revenue between 2015 and 2019



(Source: FR 2015 page xviii, FR 2016 page xviii, FR 2017 page xviii, FR 2018 page xviii, FR 2019 page xix)

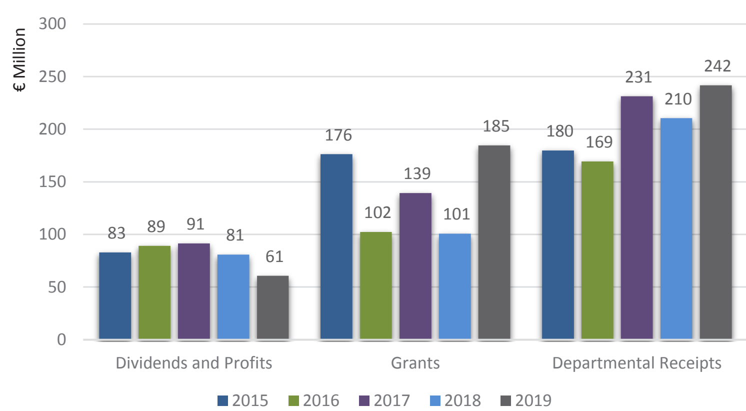
Revenue arising from income tax and social security contributions increased consistently by an average of 10%, over a five-year period. Notwithstanding the 11% increase in this category during 2019, receipts from income tax were 6% lower than anticipated.

Meanwhile, although indirect taxation generated during 2019 surged by a further €47 million, the rate of increase fell to 3% when compared to the higher rates registered in 2017 (11%) and 2018 (12%). The rise in this revenue category was mainly influenced by a growth of nearly €17 million in VAT collected, over €15 million in additional excise duties and a further €4.6 million of import duties.

b. Non-Tax Revenue

Chart 5 depicts non-tax revenue for the five years 2015 to 2019. An analysis of these figures follows.

Chart 5: Non-Tax Revenue between 2015 and 2019



(Source: FR 2015 page xviii, FR 2016 page xviii, FR 2017 page xviii, FR 2018 page xviii, FR 2019 page xix)

Dividends and Profits – During 2019, income generated from this category fell by a further 25%, when compared to prior year, as a result of a €13 million decrease in dividends on investments and a further €7 million reduction in dividends collected from the Central Bank of Malta (CBM).

Grants – During the last five years, grants experienced considerable fluctuations, with the most significant being in 2019 where it registered an increase of 83%. As indicated in the Financial Report, this scenario occurred due to timing differences in the actual receipt of funds from the European Union (EU).

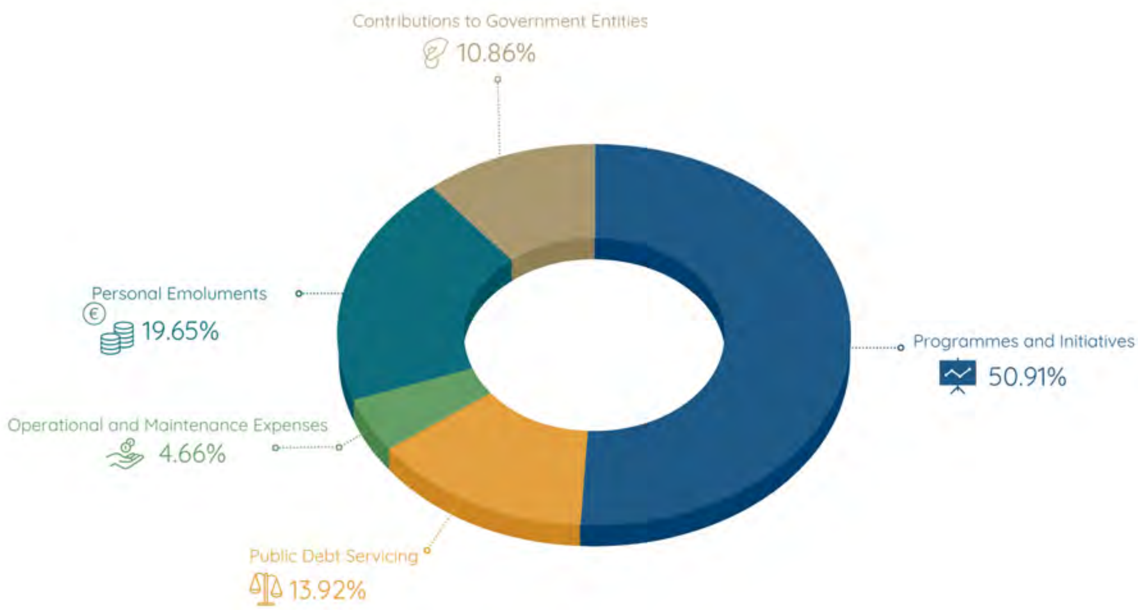
Departmental Receipts – During the last five years, several fluctuations were noticed in revenue collected from Fees of Office, Reimbursements, Rents and Miscellaneous Receipts. The lowest inflow was registered in 2016, amounting to €169 million, whilst the highest was in 2019 at €242 million. The 15% increase, which occurred during the year under review, was mainly influenced by a rise of nearly €25 million in Miscellaneous Receipts and €5 million from Rents.

Expenditure

Recurrent Expenditure and Public Debt Servicing

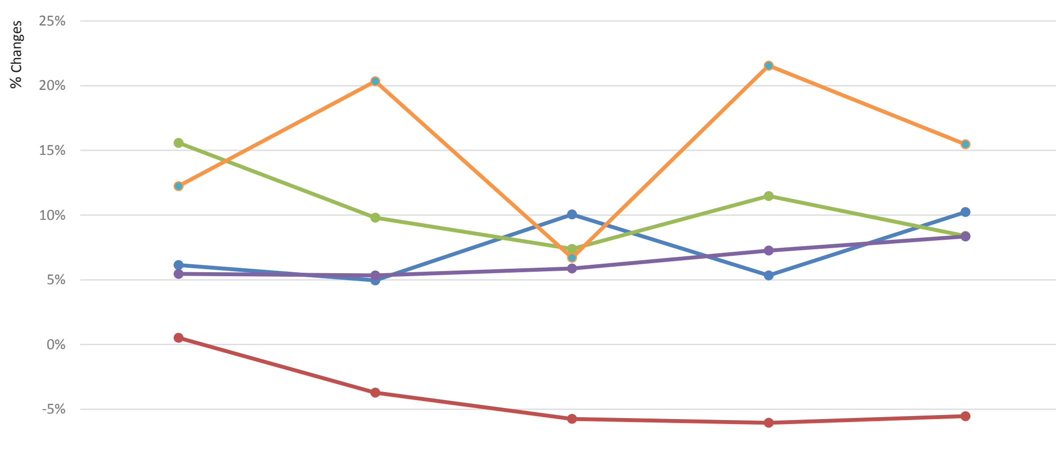
The total recurrent expenditure during 2019 exceeded €4.8 billion, representing a 10% increase over the previous year. This amount includes €682 million in relation to Public Debt Servicing. Chart 6 shows the different categories of expenditure as a percentage of total recurrent expenditure.

Chart 6: Recurrent Expenditure by Category as a Percentage of Total Recurrent Expenditure



(Source: FR 2019 pages xxvii - xxviii)

Chart 7: Five-year Trend Analysis of Recurrent Expenditure by Category



	2015	2016	2017	2018	2019
Programmes and Initiatives	6%	5%	10%	5%	10%
Public Debt Servicing	1%	-4%	-6%	-6%	-6%
Operational and Maintenance Expenses	16%	10%	7%	11%	8%
Personal Emoluments	5%	5%	6%	7%	8%
Contributions to Government Entities	12%	20%	7%	22%	15%

(Source: FR 2015 page xxv, FR 2016 page xxv, FR 2017 page xxvi, FR 2018 page xxvi, FR 2019 page xxvii)

The fluctuations of the various categories[4] of recurrent expenditure over the last five years are depicted in Chart 7. The major variation during 2019 related to Contributions to Government Entities where it registered an increase of €71 million; i.e. 15% over the preceding year. However, the rate of increase in 2019 decreased by 7% when compared to that of the prior year (22%). The main areas of expenditure which contributed to this variation are summarised in Table 1.

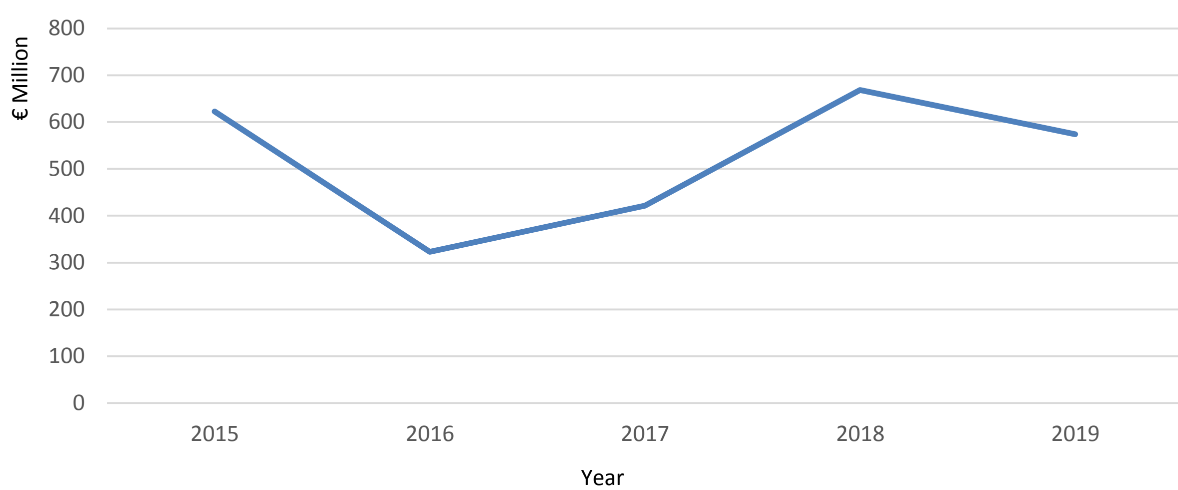
Table 1: Contributors for the most Material Increases in Recurrent Expenditure registered in 2019

Classification	Government Entity receiving Funds	Increase €
Contributions to Government Entities	Malta Tourism Authority	22,000,000
	Malta College of Arts, Science and Technology	6,470,000
	Agency for Welfare of Asylum Seekers	6,112,000
	Environment and Resources Authority	4,509,114
	Housing Authority	3,821,945
	Lands Authority	2,266,091
	University of Malta	2,000,001
	Sapport	1,799,326
	Servizz.gov	1,690,177
	Karen Grech Rehabilitation Centre	1,597,339

Capital Expenditure

An analysis of total capital expenditure over the last five years revealed that after two years of recurring increases, such outflow, which amounted to approximately €574 million, fell by 14% in 2019. Chart 8 refers.

Chart 8: Capital Expenditure over the last Five Years



(Source: FR 2015 page xxix, FR 2016 page xxix, FR 2017 page xxx, FR 2018 page xxx, FR 2019 page xxxi)

Analysis of Appropriations

The appropriations for expenditure during 2019, authorised by the Ministry for Finance (MFIN) Warrant Nos. 1 and 2, were made under the following Statutes:

		€
a.	Appropriation Act	3,914,117,954
b.	In terms of Special Laws	1,849,432,000
c.	In terms of the Constitution	4,568,046
	Total Appropriations	**5,768,118,000**

a. Appropriation Act

	€
Appropriated by Act XLV of 2018 (Original Budget)	3,630,329,954
Appropriated by Act XXXIII of 2019 (Supplementary)	283,788,000
Total	**3,914,117,954**

b. In Terms of Special Laws

The following amounts, including Supplementary Estimates as detailed in Warrant No. 2 of 2019, were appropriated in terms of the various laws as indicated:

Table 2: Amounts Permanently Appropriated in terms of the various Laws

Description	2019	2018
	€	€
General Elections Act (Cap. 354)	330,000	330,000
Broadcasting Act (Cap. 350)	583,000	583,000
Reletting of Urban Property (Regulation) Ordinance (Cap. 69) and Agriculture Leases (Reletting) Act (Cap. 199)	60,000	60,000
Social Security Act (Cap. 318)	1,029,440,000	982,250,000
Pensions Ordinance (Cap. 93)	108,000,000	100,400,000
Ombudsman Act (Cap. 385)	1,300,000	1,150,000
Permanent Commission Against Corruption Act (Cap. 326)	80,000	80,000
Government Borrowing and Management of Public Debt Act (Cap. 575)	688,396,000	659,511,000
Arbitration Act (Cap. 387)	75,000	75,000
Auditor General and National Audit Office Act (Cap. 396)	3,500,000	3,400,000
Value Added Tax Act (Cap. 406), Customs Ordinance (Cap. 37) and Excise Duty Act (Cap. 382)	3,000,000	3,500,000
Widows' and Orphans' Pensions Act (Cap. 58)	555,000	530,000
Personal Injuries (Emergency Provisions) Ordinance (Cap. 111)	45,000	45,000
Members of Parliament (Retiring Allowances) (Act XVII of 1966) and Members of Parliament Pensions Act (Cap. 280)	2,350,000	2,480,000
Lease of Parliament Building – Budget Measures Implementation (Act V of 2012)	4,430,000	4,430,000
Standards in Public Life Act (Cap. 570)	368,000	-
Parliamentary Service Act (Cap. 562)	6,920,000	6,261,000
Totals	**1,849,432,000**	**1,765,085,000**

*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	92,818
The Attorney General	102,677
Judges and Magistrates	4,278,551
The Public Service Commission	94,000
Total	**4,568,046**

Public Credit – Shareholding

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

New Investment

IP Holding Ltd

During 2019, the Ministry for Tourism acquired 8,000,001 ordinary shares of €1 each in IP Holding Ltd, being a company registered under the Laws of Malta. As per agreement dated 23 March 2020, the Government purchased the shares that Air Malta plc held in this company.

Movements in Values of Existing Investments

During 2019, the cost of investments in the following entities collectively increased by €1,479,929 due to changes in the exchange rate of the American Dollar:

a. Council of Europe Development Bank;
b. International Bank for Reconstruction and Development;
c. Malta Freeport Corporation Ltd;
d. Malta Air Travel 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 41 companies as at 31 December 2019 amounted to €23,750,413. However, the estimated net book value of these investments amounted to €21,861,210, thus a total unrealised loss of €1,889,203. Data by investment type is provided in Table 3.

Table 3: Investments through Malta Government Investments Ltd

Investment Type	Number of Companies	Cost €	Provisional Loss €	Net Book Value €
Subsidiary Companies	20	22,293,208	782,422	21,510,786
Associated Companies and Other Investments	21	1,457,205	1,106,781	350,424
Totals	**41**	**23,750,413**	**1,889,203**	**21,861,210**

This includes seven companies that were undergoing liquidation procedures.

At the end of 2019, the total investment in industry as reported by Treasury amounted to €24,222,696. This figure did not tally with the amount stated by MGI due to a revaluation of €450,000 with respect to Ricasoli Tank Cleaning Co. Ltd. To this effect, Treasury took note of this discrepancy and rectified this matter during 2020, bringing the new revised amount for Investment in Industry at €23,772,696.

As in previous years, indirect investments at year-end, as reported by Treasury, did not tally with the aggregate balances reported by MGI. The difference of €22,283 between Treasury's and MGI's records emanates mostly from an investment of €22,369 in Topwear Ltd that was not reported on MGI records, this being an investment made from Government funds by the former Malta Development Corporation.

Movements in Other Investments

Euro Coins

During 2019, CBM made Euro Coin issues on behalf of Treasury totalling €4,740,000, bringing the total amount of Euro Coins in circulation as at 31 December to €89,171,000.

Malta Development Bank[5]

During 2019, there was an increase in the paid-up capital of €10 million in this investment, in view that the Malta Development Bank was to embark on several new projects. Hence, the total invested in this bank as at 31 December amounted to €40,000,000.

Dividend and Profit Received

Central Bank of Malta

By the end of financial year 2019, CBM distributed a total dividend of €28 million in six tranches.

Investment in Industry

A dividend of €700,000 was received during 2019 from MGI.

Inspection of Securities and 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 representative from Malta Investments Management Company Ltd and the Accountant General.

Up to the date this Report went for publication, the National Audit Office (NAO) had not yet received the 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 2019 as reported in Appendix E of the Financial Report 2019 totalled €55,257,641.

[5] During 2019, Treasury reclassified the investment in Malta Development Bank from the Statement of Investments (Appendix H) to the Statement of Other Investments (Appendix H1).

Water Services Corporation

The loan to the Water Services Corporation is interest free and repayable either through a direct payment to Treasury, if 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 loan repayments were made during the year 2019. As a result, the closing balance as at 31 December 2019 amounted to €4,367,885, as in prior year.

The Corporation made significant profits during the years 2018 and 2019, but, since 2016, no further repayments were made to Government. Each entity to which loans are granted has the responsibility to ensure that settlement thereof is made in a timely manner. The function of following up on expected loan repayments is carried out by MFIN or by the Treasury, as the case may be. In the case of Water Services Corporation, although the matter was followed up by the Ministry, including requests to submit a loan repayment schedule back in June 2015 and May 2016, the Corporation has yet to address the issue of this outstanding loan.

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[6] (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 each country contributes was established in this agreement, which, in Malta's case, stood at €74,543,026. However, the actual contribution amounted to €50,683,923.

Loan – Mariam Al Batool School

In order to assist the Mariam Al Batool School 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. On the other hand, the annual sum of €460,000 lent in year 2019, as per said agreement, was accounted for as an Advance in Appendix L.

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 and any return generated from the investment in other financial assets. To this effect, contributions and investment income generated are invested in Government Securities. Any investment of this type is excluded from total Government Debt on consolidation.

[6] Excluding the Hellenic Republic since it was not a signing party for a loan to itself.

Table 4 shows a breakdown of investments held on behalf of Sinking Funds.

Table 4: Sinking Funds' Investments

Investment	Sinking Funds - Local	Sinking Funds - Foreign
	€	€
Central Bank of Malta Deposit Accounts	133,336,924	661,960
Malta Government Stocks	121,203,499	-
Totals	**254,540,423**	**661,960**

(Source: FR 2019 pages 204 - 205)

Advances (Receivables)

Accounting for Advances

Article 87 of the General Financial Regulations, 2017 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 Financial Report incorporates a detailed statement of balances remaining outstanding as on 31 December 2019, in respect of Advances made to various Ministries on behalf of Government Departments, Agencies and Organisations.

Chart 9: Outstanding Advances

Outstanding advances as at 31 December 2019 were as reported in Table 5.

Table 5: 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	1,539,630
Commissioner of Inland Revenue, to meet loans in terms of Article 4 of the Monte Di Pietà Act (No. XXXIX) of 1976	283,399
Ministry of Finance and Commerce, to be utilised as a loan facility by the Maltacom Employees Foundation, to purchase ordinary shares in Maltacom plc in 1998	3,366,078
Ministry for Education and Employment, advanced loan facility to Mariam Al Batool School	460,000[7]
Ministry of Finance, advanced to Mid-Med Bank Employees Foundation, for the purpose of investment, pursuant to the agreement dated 3 December 2002 and entered into between Malta Government and the Foundation in the interest of the members of the said Foundation	6,857,114
Total	**12,506,221**

Remarks

Bank of Valletta Employees Foundation – €1,539,630

MFIN confirmed that this loan continued to be repaid through annual instalments, in accordance with the respective loan agreement. During 2019, a repayment of €31,171 was effected.

Loans in terms of Article 4 of the Monte Di Pietà 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 within the Office of the Commissioner for Revenue.

Loan to Maltacom Employees Foundation – €3,366,078

MFIN continued to look into the repayment of this loan, in light of representations made by the Maltacom Employees Foundation.

[7] Refer to 'Loan – Mariam Al Batool School' under 'Public Credit – Loans made by Government and Repayments thereof' earlier in this write-up.

Mid-Med Bank Employees Foundation – €6,857,114

The loan continued to be repaid through annual instalments in accordance with the loan agreement.

Full Settlement of Advances

During the year under review, three advances were repaid in full settlement of the outstanding amount. These were Enemalta Corporation, Sea Malta Co. Ltd and the Malta Freeport Corporation which were paid back through funds provided under Item 7189 Contributions towards the Treasury Clearance Fund, voted in the 2019 Financial Estimates.

Central Bank of Malta Public Account

Treasury submitted to NAO outstanding monthly reconciliation statements for the Public Account for the period January to December 2019.

As reported in last year's Annual Audit Report (AAR), NAO noted that discrepancies classified as Other Adjustments between the balance as per CBM Statement and that reported in the Cash Book, averaged €617 million between January and December 2019. 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, according to the Treasury, the amount in question will continue to feature as an unreconciled balance in the future.

With regard to the Reconciliation for the period June 1992 to December 2001, Treasury once again confirmed no development in this respect and retained its position as in prior years that, due to cost considerations and human resources requirements, it was impossible to embark on any kind of reconciliation for the years in question.

Boards of Survey

Boards of Survey at Treasury and at the Ministry for Gozo were appointed in terms of Article 98 of the General Financial Regulations, 1966, in order to take account of moneys, deposits and other values as at 31 December 2019.

NAO received the 2018 Board of Survey Report on 21 January 2020, that is, following the related publication of the 2018 AAR in December 2019. The relevant statements for the year ended 2018 were duly certified correct with no adverse remarks.

At the date of this publication, 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 2019.

The Report from the Board of Survey at the Ministry for Gozo for the year ended 31 December 2019 reached this Office in October 2020. The Board noted some inconsistencies in the Survey Report and suggested appropriate measures to rectify such issues.

Ministerial and Departmental Bank Accounts

Treasury Circular No. 1/2020 – 'End of Year (2019) Statements of Account Cash in Hand and Bank Balances held at Local Commercial Banks and Central Bank of Malta', issued on 8 January 2020, requested Heads of Departments and other Accounting Officers to submit a return, both soft and hard copies, indicating the cash and bank balances as at 31 December 2019, including the position of each bank account held both at local commercial banks and 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 bank balances were published accordingly in the Financial Report 2019 (pages i to vii). 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 were queried by Treasury with the respective Ministry and corrective action was taken as necessary.

Public Debt

Debt Composition

The composition of Government Debt as at end-of-year is shown in Table 6.

Table 6: Government Debt

Type of Debt	2019		2018	
	Amount	Percentage of Total Debt	Amount[8]	Percentage of Total Debt
	€'000	%	€'000	%
Malta Government Stocks (Consolidated)	4,615,450	80.85	4,709,421	83.43
Treasury Bills	300,000	5.25	290,000	5.14
Malta Government Retail Savings Bond	289,849	5.08	192,582	3.41
European System of National and Regional Accounts Rerouted Debt	249,060	4.36	206,071	3.65
Extra Budgetary Units and Local Councils	162,659	2.85	160,402	2.84
Euro Coins	90,996	1.59	85,428	1.51
Foreign Loans	967	0.02	1,084	0.02
Total Debts	**5,708,981**	**100**	**5,644,988**	**100**
Gross Domestic Product (GDP)	**13,390,045**		**12,490,970**	
Ratios of Public Debt to GDP	**42.64%**		**45.19%**	

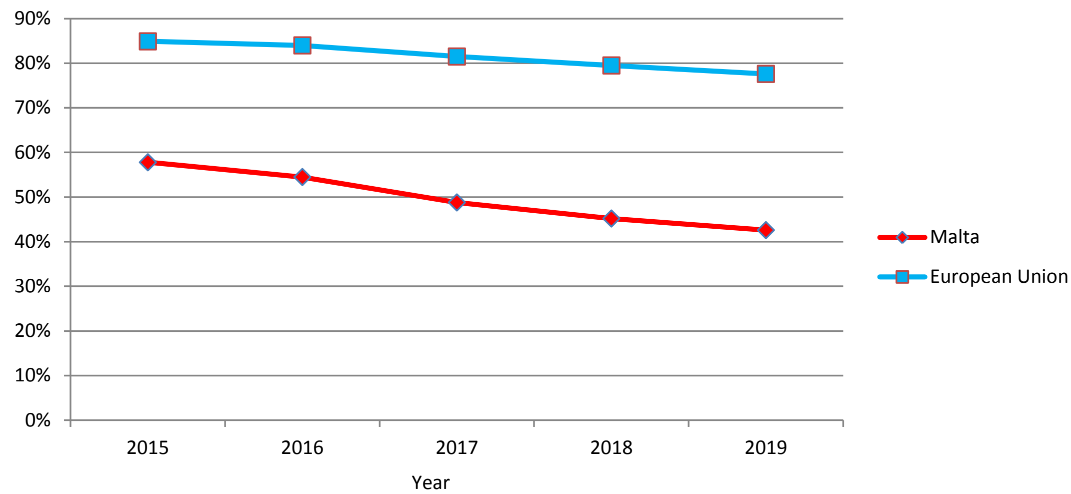
(Source: National Statistics Office News Releases 052/2020, 065/2020, 112/2020, 142/2020; Debt Management Directorate (DMD) computations)

Foreign loans account for less than 1% of total debt. As at end 2019, the percentage of Government Debt to the country's GDP amounted to 42.64%, resulting in a decrease of 2.55% 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 was growing faster than the respective debt.

[8] Public Debt and GDP balances as at 31 December 2018 as reported in the previous year's AAR have been updated to provide a more accurate analysis as per most recent publications.

Moreover, it was noted that since year 2015, Malta had a considerably lower Government Debt-to-GDP ratio when compared to the average of EU, which as at end 2019 was recorded as 77.6%. Chart 10 refers.

Chart 10: Government Debt-to-GDP Ratio (2015 to 2019)



(Source: Year 2015 – Eurostat News Release 161/2019, Year 2016 to 2019 – Eurostat News Release 156/2020)

Debt Management

Methodology used for the Analysis of Public Debt Management

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 audited every year by NAO, in line with the 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 were:

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

Tables[9] 7 and 8, as listed in ISSAI 5440, provide checklists of issues drawn from the Revised Guidelines for Public Debt Management, which auditors should consider when developing their understanding of Public Debt Management.

[9] 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. However, the tables are not meant to be a comprehensive list of factors that should be present in all public debt management arrangements.

Table 7: 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[10]
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[11]
Business recovery procedures in place	Yes

Table 8: 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[12] System	No[13]
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	**Is this feature present in DMD?**
Over the counter market	Yes
Exchange traded market mechanism	Yes
Sound clearing and settlement systems	Yes
Limits on foreign participation	No

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

[11] Subject to Code of Ethics incorporated in the First Schedule of the Public Administration Act (Cap. 595 of the Laws of Malta).

[12] A Primary Dealer is a bank or 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.

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

Policy

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 was to provide for the governance aspects, high-level policy objectives and institutional arrangement for prudent management of the Government Debt, cash position, as well as liquidity and reserve funds, as detailed in Article 3 of the same Act.

In terms of Article 18(4) of the same Act, the Treasury published the Annual Borrowing Plan in January 2019. The plan was later updated in July following the publication of the Medium-Term Debt Management Strategy.

Treasury announced that for the financial year 2019, the issuance of Malta Government Stocks (MGS) and debt instruments with maturity of more than one year shall not exceed €450 million. The maturity term of the issues was planned to be a mix of short and medium to long-term MGS. Treasury also announced that it was going to adopt a degree of flexibility to adapt to changing market conditions and, where necessary, review and re-arrange the amount that would be allocated for each issue, as well as the intervals of the issuances.

Operations

As can be seen from the Bid-to-Cover ratios in Table 9, there was strong participation in both MGS and Malta Government Retail Savings Bonds.

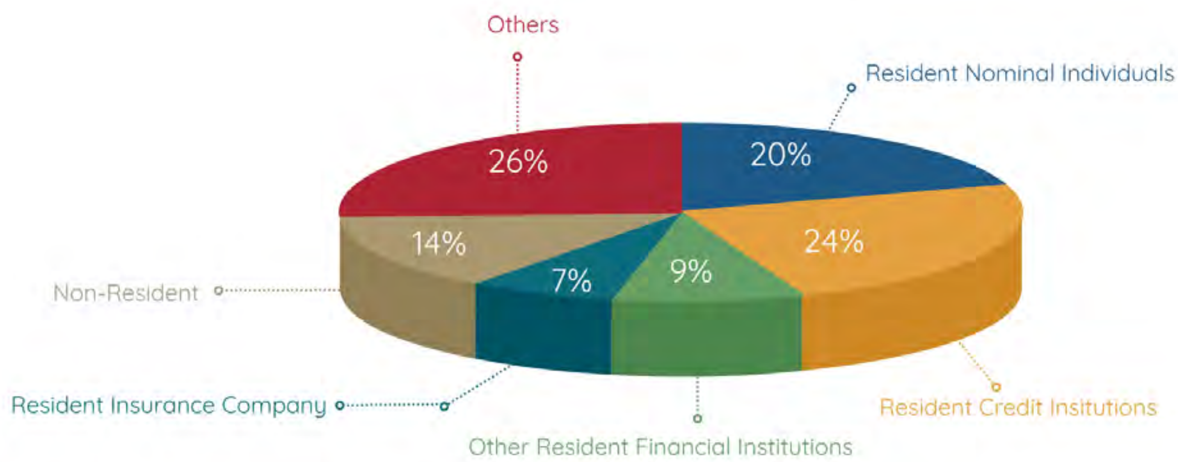
Table 9: 2019 Issuance Performance

Month	On offer (plus over-allotment) €'million	Total Participation €'million	Bid-to-Cover
Malta Government Stocks			
March	50 + 30	135.3	2.71
July	60 + 40	296.5	4.94
September	50 + 30	298.9	5.98
November[14]	60 + 30	173.5	2.89
62+ Malta Government Retail Savings Bonds			
March	65 + 35	105.7	1.63

The distribution of MGS among the different types of investor categories as at 31 December 2019 is depicted in Chart 11. Holdings by other investors, principally resident entities not falling under the main categories, including non-profit entities, Local Councils and public non-market units, collectively amounted to 26%. Resident credit institutions held ownership of 24%, whilst resident nominal individuals held ownership of 20%, decreasing their ownership by 3%.

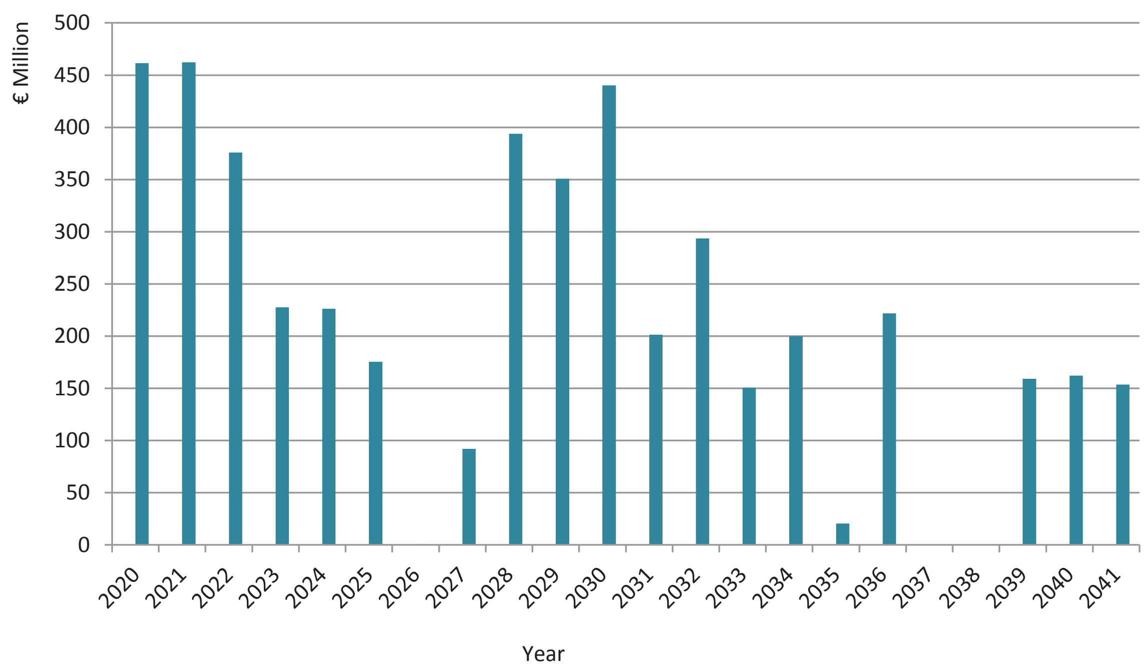
[14] One stock was offered.

Chart 11: Malta Government Stocks Holder Distribution as at 31 December 2019



The gross outstanding nominal value of MGS as at 31 December 2019 stood at €4.8 billion. This represented a 2% decrease over the end 2018 balance, in line with lower levels of outstanding debt and some minor changes effected in Central Government Debt portfolio. Chart 12 illustrates the distribution of outstanding MGS by year of maturity.

Chart 12: Maturity Profile of Malta Government Stocks as at 31 December 2019



(Source: FR 2019 pages 183-185)

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

With the demand for MGS during 2019 mostly coming from financial institutions, 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 MGS from 9.1 to 8.8 years.

A publication by the Organisation for Economic Co-operation and Development (OECD)[15], 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. Thus, the current WAM in Malta compares very well with that of other countries.

Risk Control Procedures

NAO satisfactorily noted that a Medium-Term Debt Management Strategy was prepared for a four-year period starting 2018, and DMD based its risk management framework accordingly. To the extent possible, DMD has taken steps to mitigate and limit the risks that may arise during its funding operations. Table 10 shows the major risks that have been taken into account.

Table 10: 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.	• Weekly monitoring of cash management. • Smoothing expenditure peaks over a period of months to avoid the need to borrow extensively at times when revenue falls short of expenditure. • When possible, avoids issuances of medium to long-term debt during times of market stress or volatility.
Interest Rate	As at end-of-year 2019, rate of interest maturing in respect of Floating-Rate Notes within one year, stood below the Euro Area average.	• DMD keeps the level of Floating-Rate Debt out of all MGS issues below 10% (as at 31 December 2019 and 2018, such ratio stood at 1% and 2.6% respectively).
Refinancing	Rollover risk is traditionally and conceptually assessed by the debt metric known as WAM.	• Over the past years, DMD has pursued a strategy of lengthening WAM of its debt portfolio. In fact, WAM of MGS has risen steadily from 6.6 to 8.8 years at end 2010 to 2019, respectively.

Information Technology Systems

As already recommended in the previous years, the debt management activities are to be supported by a reliable, accurate and comprehensive information technology management system with proper safeguards, which would deal with debt management. DMD confirmed that this issue will be addressed once the Corporate Financial Management Solution (CFMS) is implemented since a separate debt management module will be developed.

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

Financial

Table 11 shows the servicing cost of Central Government Debt.

Table 11: Central Government Debt Interest Expense

Description	2019 €	2018 €	Variance €
Local Loans:			
Malta Government Stocks and 62+ Malta Government Retail Savings Bonds	192,273,129	203,190,937	(10,917,808)
Treasury Bills[16]	422	390	32
Sub-totals	**192,273,551**	**203,191,327**	**(10,917,776)**
Foreign Loans	9,697	363,271	(353,574)
Totals	**192,283,248**	**203,554,598**	**(11,271,350)**

(Source: FR 2019 pages 144-145)

During year 2019, the overall servicing cost of Government Debt totalled €192.3 million; a decrease of €11.3 million over the previous year. The interest payable on stocks and bonds amounted to €192.3 million, i.e. 5.4% less than the interest paid in 2018. This decline was mainly the result of lower coupons assigned to new MGS issued during the current low interest rate environment, whereby Treasury continued to refinance maturing high coupons MGS with longer-dated bonds paying lower coupon. In fact, MGS portfolio Weighted Average Coupon[17] as at 31 December 2019 continued to decrease to 3.7% from 3.9% registered a year earlier. Lower servicing cost on foreign loans, resulting from lower outstanding amounts of such loans, also contributed to a decrease amounting to €0.35 million.

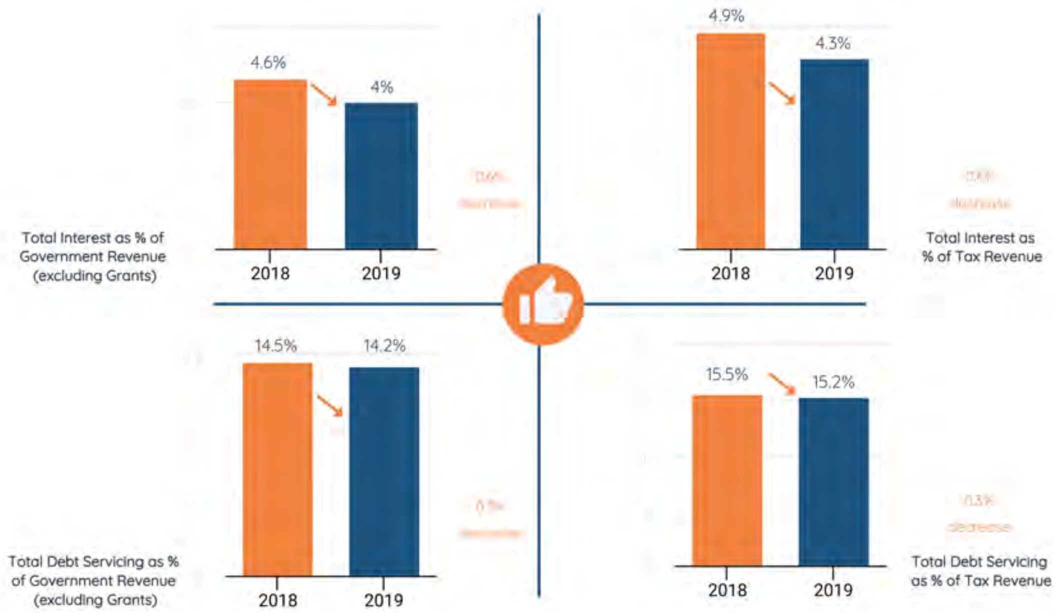
Debt Metrics

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.

[16] Cost represents bank charges. On the other hand, negative interest received from Treasury Bills, amounting to €1,172,394 (2018: €1,176,428) was reported as Revenue under line item Bank Interest.

[17] Weighted Average Coupon of MGS portfolio is the weighted average gross interest rate of the outstanding MGS portfolio at a point in time, in this case, 31 December 2019.

Chart 13: Debt Sustainability Ratios



(Source: FR 2019 pages xix, 4, FR 2018 pages xviii, 4)

All four ratios calculated in Chart 13 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 €11.3 million in Central Government Debt interest expense and an increase in Government revenue and tax revenue of €329.3 million and €318.1 million respectively (the latter outpaced the increase of €34.5 million in debt servicing).

Contingent Liabilities

As already reported in previous years, DMD needs to perform a risk assessment needs 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 AARs indicated that Government guarantees were not being managed by DMD but resided within MFIN. Thus, this Office had recommended that the Directorate is properly equipped to carry out the necessary risk assessments. Communication between Treasury and MFIN regarding Government guarantees was also solicited.

NAO also recommended that Government monitors the potential risk that it could be exposed to by its contingent liabilities, to ensure that it is aware of the related obligations. Furthermore, DMD is not only expected to be informed of the explicit contingent liabilities that the Government intends to undertake but is also conscious of the conditions that could trigger such liabilities.

During this year's analysis, DMD confirmed that up to the date of this publication, the responsibility including the scrutiny and risks arising from Government guarantees lied within the remit of MFIN. Article 4 of the Government Borrowing and Management of Public Debt Act has not yet come into force and therefore the Treasury is not yet informed of any requests made to MFIN for new guarantees. Neither the assessment of new request for guarantees, nor the reassessment of the financing risk of outstanding guarantees, were conducted by Treasury. Article 4 of the

Act will eventually come into force once an officer with a strong accounting and risk management background is assigned to 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 2019, otherwise referred to as Government Potential Debt, as reported upon in Part I of the Financial Report 2019 and comparative figures for 2018 are reproduced in Table 12.

Table 12: Contingent Liabilities

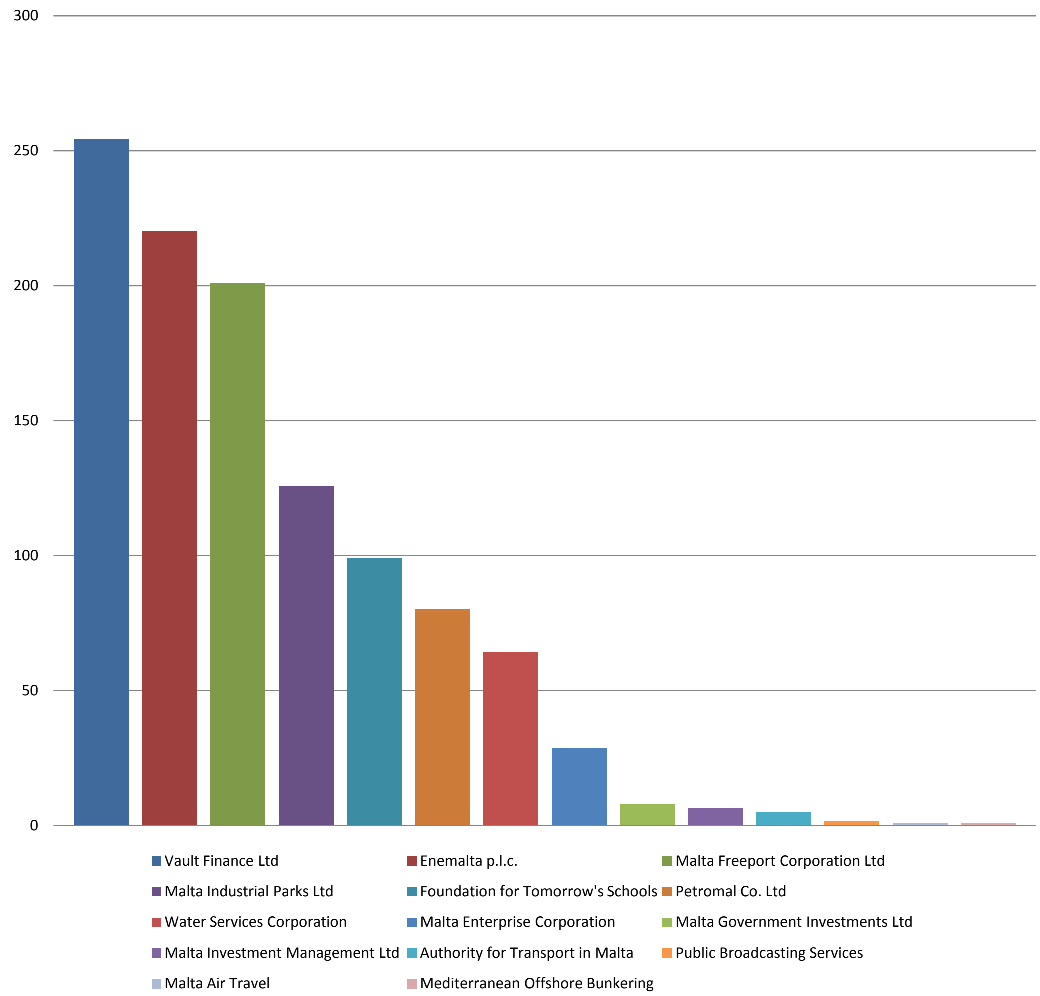
Description	2019	2018
	€	€
Government Guarantees:		
Local	634,524,390	688,304,041
Foreign	436,020,765	450,614,965
Sub-totals	**1,070,545,155**	**1,138,919,006**
Letters of Comfort	27,748,943	25,516,455
Totals	**1,098,294,098**	**1,164,435,461**

Premiums received by Government during 2019 with respect to Letters of Comfort and Bank Guarantees amounted to €2,792,771, which revenue was appropriately accounted for under Guarantee Fees in MFIN Revenue Vote.

In contrast to the shortfall in guarantee premiums reported in the Financial Report 2018, revenue from guarantee fees increased during the year under review. This increase was brought about mainly due to premiums received in respect of Malta Enterprise.

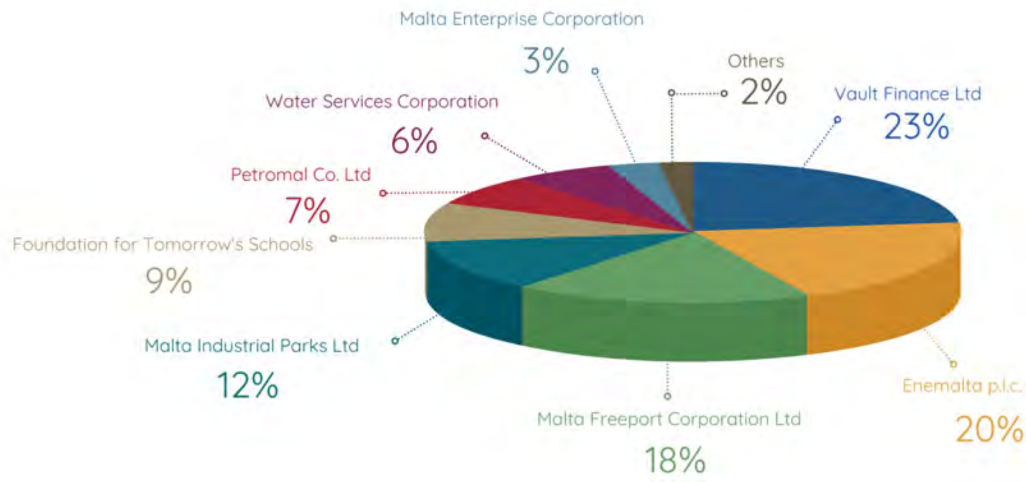
A breakdown by entity is shown in Chart 14, representing a spread of 37 Letters of Comfort and Bank Guarantees issued in favour of 14 entities.

Chart 14: Letters of Comfort and Bank Guarantees for the year ended 31 December 2019



A total of 98% of the aggregate outstanding amount as at end 2019 was given to eight entities. The energy sector absorbed 50% of such guarantees, whilst other sizeable guarantees related to water services, the industrial sector and education. Chart 15 refers.

Chart 15: Outstanding Guarantees



These Letters of Comfort and Bank Guarantees offered to Government entities and Extra Budgetary Units may translate into dues, up to almost €1.1 billion from public funds, should the entities concerned call upon Government to make good for their debts. This represented a decrease of €66,141,363 (6%) over the amount reported in the previous year, which movement also represented 0.49% of GDP for 2019, bringing total guarantees at 8.2% of GDP.

Government's aggregate exposure of €1,098,294,098 as at end 2019 differs from that as reported by the National Statistics Office (NSO), at €990,255,864 which figure has been reported to Eurostat in line with the European System of Accounts 2010. 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 by Government in favour of 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.

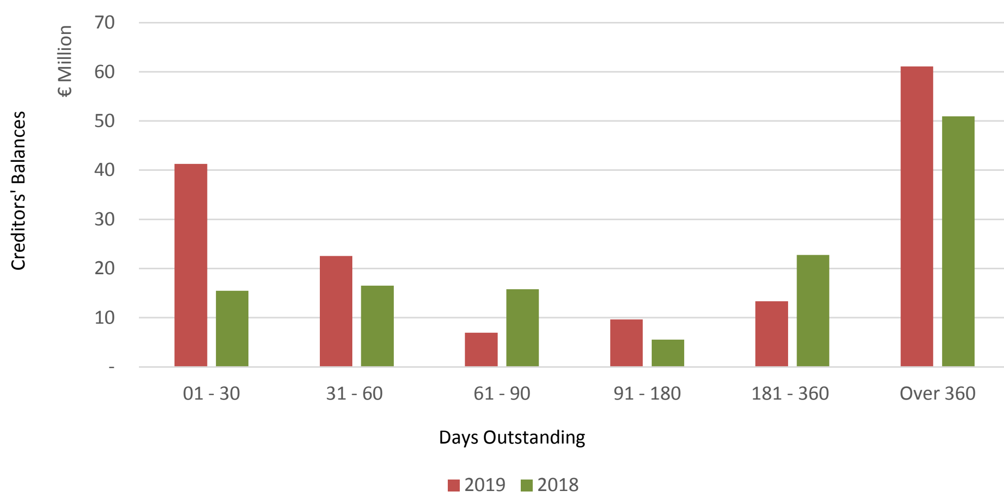
According to MF Circular No. 10/2001 – 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors', a quarterly analysis of creditors shall be submitted on the prescribed template to the Accountant General within seven days after the end of the specified monthly period.

A total of 54 Ministries and Departments submitted an analysis of the creditors return as at 31 December 2019 to the Treasury. Aggregate reported creditors amounted to €155,306,456 as at year-end, out of which €475,680 related to contested amounts. The opening balance as at 1 January 2019 was made up of balances submitted by 52 Ministries and Departments, with an aggregate amount of €127,530,861. This indicates an increase of nearly 22% by the end of 2019.

Ten Ministries and Departments reported a Nil creditors balance in their return.

Chart 16 depicts an ageing analysis of the aggregate creditors' balances as at 31 December 2019, categorised by the number of days overdue, compared to prior year. The most significant increase was in the amounts outstanding between one and thirty days, which registered an increase of nearly €26 million when compared to 2018. This rise was mainly influenced by an upsurge in balances due by the Central Procurement and Supplies Unit, as well as the Active Ageing and Community Care, which increased by €12 million and €5.5 million, respectively.

Chart 16: Ageing of Creditors' Balances in 2018 and 2019



Credit balances outstanding by over 360 days related mainly to the Lands Authority, Ministry for Transport, Infrastructure and Capital Projects, as well as Mater Dei Hospital, with aggregate amounts of €43.6 million, €7 million and €6.4 million respectively.

NAO conducted audits on the reported balances of creditors and accrued expenditure of:

a. Ministry for Transport, Infrastructure and Capital Projects (page 284 refers)
b. Elderly and Community Care (page 322 refers)

The main scope of these audits was to assess compliance with the pertinent Treasury circulars regulating the collation and reporting of balances of creditors and accruals as at 31 December 2019, together with a financial audit of figures submitted to the Treasury.

These audits 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

Background

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), 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, as well as changes in business processes across Government. This project will also be accompanied by the change-over from the Departmental Accounting System, which is a cash-based system, to CFMS, which is a fully-fledged accrual accounting system.

The piloting stage of accounting on accruals basis commenced in January 2020, with the core CFMS going live in 10 pre-agreed sites where the respective Ministries and Departments are now operating exclusively through CFMS. Following this piloting stage, the core CFMS will be going live in all Ministries and Departments beginning 2021.

Key Benefits

<table>
<tr><th>Key Benefits of Corporate Financial Management Solution</th><th>The Importance of the use of Accrual-based Accounting for Decision Making</th></tr>
<tr><td>Introduce reporting structures that meet both local and international data requirements.
Consolidate the corporate and financial systems across line Ministries.
Accrual accounting via the new solution will provide enhanced transparency in the use of public funds.
Adopting latest technologies to ensure efficiency, effectiveness and mitigate risks.</td><td>In its Study 14 – Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities, the IPSAS Board outlined the benefits of using an accruals-based accounting system, stating that reporting on an accrual basis of accounting:
shows how Government financed its activities and met its cash requirements;
allows users to evaluate Government's on-going ability to finance its activities and to meet its liabilities and commitments;
shows the financial position of the Government and changes thereto;
provides Ministries and Departments with the opportunity to demonstrate successful management of its resources; and
is useful in evaluating Government's performance in terms of its service costs, efficiency and accomplishments.</td></tr>
<tr><td>(Source: CFMS Newsletter 1 dated 5 June 2020)</td><td>(Source: IPSAS Board Study 14 – Diploma in IPSAS course material)</td></tr>
</table>

<table>
<tr><th>Statement of Financial Position</th><th>Statement of Financial Performance</th></tr>
<tr><td>Accrual accounting will provide information on Government's overall financial position and current stock of assets and liabilities. Ministries and Departments need this information to:

• Demonstrate accountability to the public for their management of assets and liabilities recognised in the financial statements.
• Plan for future funding requirements of asset maintenance and replacement.
• Plan for the repayment of, or satisfaction of, existing liabilities.
• Make decisions about the level of assets and debt held in the context of financing the services they wish to provide.

Accrual accounting will require Ministries and Departments to maintain complete records of assets and liabilities. It can facilitate better management of assets, including better maintenance, more appropriate replacement policies, identification and disposal of surplus assets, as well as improved management of liability risks. The identification of assets and the recognition of depreciation and amortisation will help managers to understand the impact of using fixed assets in the delivery of services, calculate service fees (where applicable), and encourage management to consider alternative ways of managing costs and delivering services.

Information on equity also means that Ministries and Departments may be held accountable for the financial impact of their decisions on both current and future equity.</td><td>Accrual accounting also provides information on revenues and expenses, including the impact of transactions where cash has not yet been received or paid. Accurate information on revenues is essential for assessing the impact of taxation and other revenues on the Government's fiscal position. It also helps both the users as well as Government itself to assess whether current revenues are enough to cover the costs of current programmes and services.

Government needs information about expenses in order to assess its revenue requirements, the sustainability of existing programmes, and the likely cost of proposed activities and services. Accrual accounting provides Government with information on the full costs of its activities so that it can:

• consider the cost consequences of policy objectives and the cost of alternative mechanisms for meeting these objectives;
• decide whether to fund the production of services within Ministries and Departments, or whether to purchase goods and services directly from third party entities;
• consider the costs of services in relation to user fees; and
• allocate responsibility for managing costs.

Accrual accounting provides enhanced information on whether current resources are enough to sustain the level of service delivery.</td></tr>
<tr><th colspan="2">Cash Flows Statement</th></tr>
<tr><td colspan="2">Most importantly, accrual accounting provides comprehensive information on current and certain projected cash flows, including the cash flows associated with debtors and creditors. It can therefore lead to better cash management and may assist in the preparation of more accurate cash budgets.</td></tr>
</table>

The risks of undertaking such major changes should not be underestimated; thus, support from higher levels of authority is critical to ensure a successful implementation, in order to benefit from future effective decision making.

General Comment

The Treasury and MFIN staff were always cooperative during the conduct of our analysis. More importantly, most recommendations were acted upon, with corrective action taken immediately, wherever possible. NAO is also satisfied that the documentation was provided for audit purposes upon request.

Compliance Audit Opinion

Opinion on the Compliance Audits to the House of Representatives

Audit Mandate

As stipulated by Article 108(5) of the Constitution of Malta and para. 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997, I am reporting on whether the audited entities, subjected to review, were 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 Public Finance Management Act, 2019, 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 operations of the audited entities are in accordance with the pertinent rules and regulations.

Accounting 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 responsibility of the National Audit Office 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, were 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 misstatements, 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 130 – 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(3)(c) 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

In terms of para. 5(ii) of the First Schedule of the Auditor General and National Audit Office 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.

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.

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

Charles Deguara
Auditor General
9 December 2020

Arrears of Revenue

Arrears of Revenue 2019

Background

Statements of arrears of revenue were submitted by Government Departments[1] to the Treasury in line with Treasury Circular No. 2/2020 – 'End of Year (2019) Statements of Account – Arrears of Revenue – Amounts due to Government'.

From information submitted, total gross arrears as at 31 December 2019 amounted to €5,109,557,672, an increase of €906 million (22%) over last year's figure (€4,203,320,344).

Out of gross total, the amount of €4,290,653,765 was deemed as uncollectable, resulting in a net closing balance of €818,903,907. After considering payments received in January 2020, the unpaid balance was €799,887,107; an increase of 24% over the amount due as at 31 January 2019 (€642,895,806).

Table 1: Arrears of Revenue Analysis (2015 – 2019)

	2015 €'000	2016 €'000	2017 €'000	2018 €'000	2019 €'000
Gross outstanding arrears	2,620,586	2,960,751	3,367,138	4,203,320	5,109,558
Arrears estimated as not collectable	2,186,231	2,404,517	2,840,882	3,546,664	4,290,654
Net collectable arrears	434,355	556,234	526,256	656,656	818,904
Collected arrears	204,287	192,345	209,512	232,475	329,818
Gross domestic product	9,657,900	10,346,500	11,302,828	12,490,970[2]	13,390,045

(Source: Reports by the Auditor General 2015 – 2018, National Statistics Office News Release 142/2020)

An analysis of the figures in Table 1, which displays data relating to arrears of revenue for the years 2015 to 2019, shows that the total net amount due to Government increased by €385 million over these five years, with the highest increase of €162 million being reported in 2019.

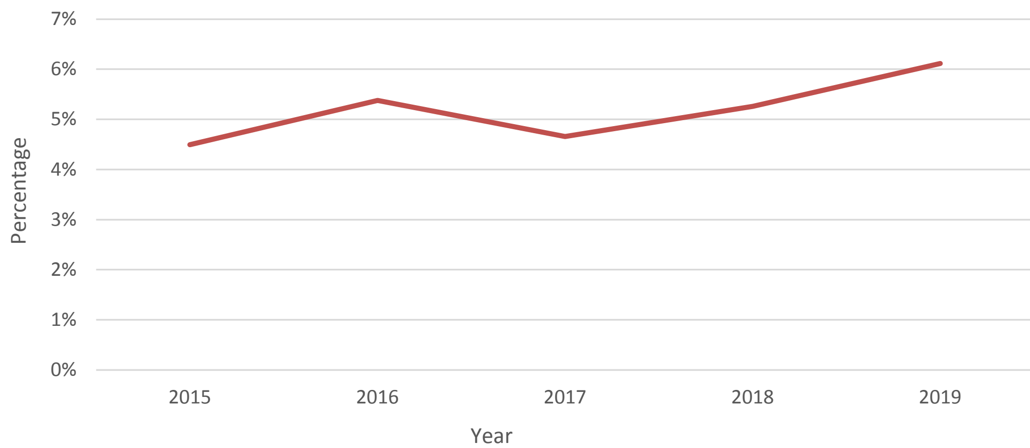
A deeper analysis into the 2019 figures revealed that this increase resulted from a substantial growth in gross arrears of €906 million during the year, that was partly set-off by increased amounts estimated as not collectable of €744 million over the same period. The Commissioner for Revenue (CfR) contributed to the bulk of this amount with an increase in its net collectable arrears of €154 million, followed by the Lands Authority at €7 million and the Ministry for Health at €5 million. Over the same period, some Departments also reported a decrease in their net collectable arrears, most notably the Judicial Department and the Malta Gaming Authority, which both reported decreases of about €3 million.

[1] Throughout this write-up, mention of Department refers either to the Ministry, Department, Authority or Entity, as applicable.

[2] Revised 2018 figure of gross domestic product as reported in National Statistics Office News Release 142/2020.

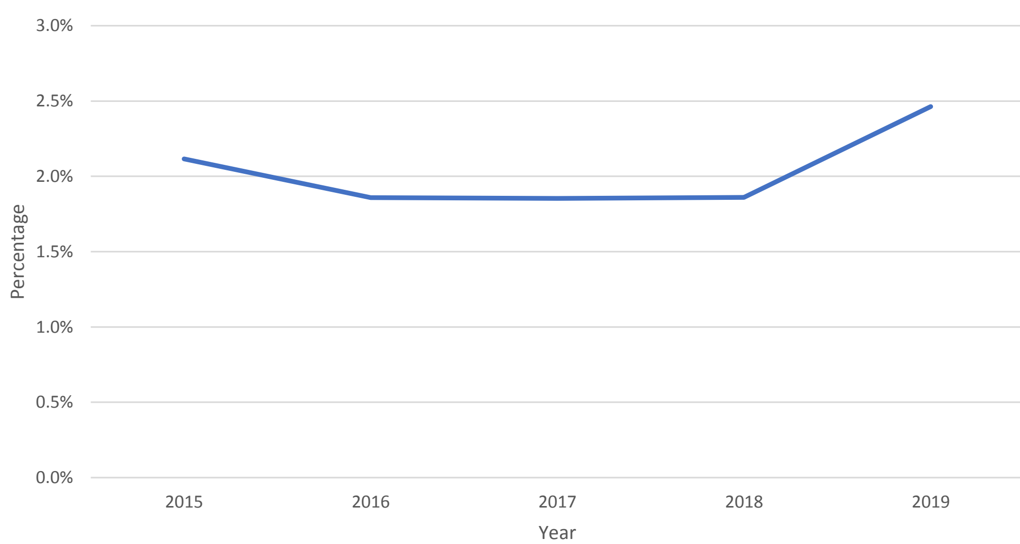
When taken as a percentage of the Gross Domestic Product (GDP), which recorded an increase of €3.7 billion since 2015, net collectable arrears fluctuated between 4.5% and 6.1% of this economic indicator. The increase has in fact been on an upward trajectory since 2017, as can be seen in Chart 1.

Chart 1: Net Collectable Arrears as Percentage of Gross Domestic Product



This rise in net collectable dues came about despite the fact that collected arrears increased over the 2015 to 2019 period. In fact, in 2019, collections amounted to €329,817,697 which was considerably more than the €204,286,659 reported in 2015; an increase of €97 million was recorded in 2019 alone. This upturn in collections is shown in Chart 2, which illustrates collected arrears as a percentage of GDP. To this effect, collection has been a constant 1.9% of GDP over the past three years, rising to approximately 2.5% in 2019.

Chart 2: Collected Arrears as a Percentage of Gross Domestic Product



From the additional analysis of the statement of arrears of revenue on the 2019 year-end balances (Table on page 76), it was estimated that, out of the total reported gross arrears of revenue:

- €166,563,141 were statute-barred;
- €330,440,736 were under contestation and pending court action;
- €3,259,928,661 were under contestation but not pending court action;
- €489,664,798 were deemed recoverable by departmental action; and
- €805,662,766 were considered recoverable.

Returns

Details of arrears of revenue included in the Table on page 72 have been compiled from the returns forwarded to the National Audit Office (NAO) by Treasury. Departments not featuring in this Table have submitted Nil returns.

Notes and Comments on Major Balances of Arrears of Revenue

Ministry for Health

The gross closing balance of €21,319,653 was reported by the Ministry for Health as revenue in arrears as at 31 December 2019. It was made up of the following:

		€
a.	Central Procurement and Supplies Unit	7,613,794
b.	Hospital Fees: Mater Dei Hospital	7,937,990
c.	Sundry Bills: Mater Dei Hospital	1,279,011
d.	Resignations and Overpayments: Mater Dei Hospital	339,596
e.	European Union Countries E125 Claims	3,108,987
f.	Licences	31,235
g.	Ship Sanitation	10,889
h.	Breach of Contract	2,278
i.	Addolorata Cemetery	867,091
j.	Sir Anthony Mamo Oncology Centre	128,025
k.	Primary Health Care	757
	Gross Closing Balance	**21,319,653**

From the gross receivables at year-end, only €80,801 was estimated as not collectable, out of which, €80,403 related to the Oncology Centre and was statute-barred, whilst the remaining balance of €398, which related to Primary Health Care, has been long outstanding. Given that over €4 million has been due well over two years, NAO did not deem that this provision for doubtful debts was adequate. This left a net closing balance of €21,238,852, out of which, only the ageing of €11,682,256 could be analysed by NAO as explained further down.

	€
Amounts outstanding for less than one year (2019)	4,949,367
Amounts outstanding for over one but less than two years (2018)	2,525,919
Amounts outstanding for over two but less than five years (2015 – 2017)	4,171,784
Amounts outstanding for over five but less than ten years (2010 – 2014)	21,081
Amounts outstanding for over ten but less than fifteen years (2005 – 2009)	8,980
Amounts outstanding for over fifteen years (prior to 2005)	5,125
Net Closing Balance[3]	**11,682,256**

Central Procurement and Supplies Unit

The balance of €7,613,794 due to the Central Procurement and Supplies Unit at end of year 2019 related to the provision of medical supplies to the Active Ageing and Community Care[4], St. Vincent de Paul Residence and a private company offering home health care services. This has been increasing steadily since January 2015 without any reimbursements. Notwithstanding this, a provision for doubtful debts has not been made to this effect.

Following NAO's review, the return was revised to increase the outstanding balance with €230,231 relating to supplies provided to elderly homes and in respect of home patient treatment since these were previously omitted.

During a follow-up audit performed in 2020, NAO noted that the Unit's records as at the beginning of December 2019 also contained more than €16.6 million in pending arrears due from Steward Health Care Malta. This amount was not included in the return since it was claimed that following internal discussions at Ministry level, Management was informed that the respective debts will not be settled.

Furthermore, a number of corrections were made to the return; however, the final version submitted still did not include the required analysis of debtors. Management claimed that such requirement was not applicable since, although certain debtors were not recoverable, the Unit was still not authorised to write off these amounts.

Mater Dei Hospital

Debtors recorded as due as at year-end, which comprise hospital fees, sundry bills and overpayments, stood at €9,556,597. Of this amount, €2,047,600 was newly accrued. Notwithstanding that the balance recorded as due is increasing annually without collecting any past arrears, a provision for doubtful debts was not considered.

The Arrears of Revenue Return (ARR) submitted contained a discrepancy of €389,939 between the 2018 closing balance and the opening balance of 2019. It transpired that one of the categories, namely Hospital Fees (St. Luke's Hospital), was omitted whilst none of the balances pertaining to the other categories tallied. The figures in the ARR were also inconsistent with the debtors' return. Furthermore, information which was necessary as per circular's requirements, such as the analysis, which provides further detail on amounts reported, was left blank. Notwithstanding repeated communications by NAO, a revised return was not submitted by the time this write-up was concluded.

[3] The net closing balance was €21,238,852; however, only the ageing of €11,682,256 could be analysed by NAO.

[4] The former Elderly and Community Care.

Ministry for Education and Employment

The original submission of the Ministry's ARR had to be revised twice; once as the opening balance contained considerable discrepancies from the previous year's closing balance and secondly because an amount was recorded as collected from previous years' balances when the respective category of debtors showed no opening balance. Upon enquiry, the officer in charge verbally confirmed that the amounts presented by different officers were reported as given. Moreover, documentation supporting the amounts reported were not made available for audit purposes.

From the gross opening balance of €945,510, the amount of €40,044 was recorded as collected whilst €388,097 was newly accrued. The net collectable amount of €1,286,221 was considered as recoverable without the need of any departmental action. The return contained an estimated amount considered as not collectable of €7,342 but no amounts were written off.

Education Division

From the gross opening balance of €298,489, the amount of €38,350 was collected whilst €112,573 was newly accrued. However, the reported figures were not substantiated. Furthermore, the underlying reason for the amount of €148,441 considered as not collectable, was not indicated. No amounts were written off during the year.

In conclusion, it was noted that both the Ministry and the Education Division have repeatedly failed to adequately record outstanding dues, hindering the Office from verifying the amounts reported as due. Thus, it is once again being reiterated that these shortcomings need to be addressed without further delays.

Ministry for Finance

Treasury – Salaries and Pensions Section

The outstanding balance reported as at 31 December 2019 by the Treasury, Salaries and Pensions Section consisted of:

		€
a.	Cost sharing regarding Treasury Pension[5]	40,720,943
b.	Refunds from Heirs of Deceased Pensioners	57,835
c.	Special Cases	8,994
d.	Overpayments to Pensioners	17,902
	Gross and Net Closing Balance	**40,805,674**

During the year under review the Salaries and Pensions Section collected a total of €2,473,848 from the amount of nearly €40 million in outstanding dues at the beginning of the year. This represented 6.2%, a decrease over the equivalent amount collected in the previous year, which amounted to 8.8% of the respective opening balance.

[5] Cost sharing consists of amounts due from Public Entities, to cover part of the treasury pension of their retired employees.

Ageing Analysis

The ageing of the respective debtors was categorised as follows:

	€
Amounts outstanding for less than one year (2019)	4,321,898
Amounts outstanding for over one but less than two years (2018)	1,875,876
Amounts outstanding for over two but less than five years (2015 – 2017)	10,496,556
Amounts outstanding for over five but less than ten years (2010 – 2014)	18,013,972
Amounts outstanding for over ten years (prior to 2010)	6,097,372
Gross and Net Closing Balance	**40,805,674**

Collection Efforts

According to the Salaries and Pensions Section, statements to the respective Public Entities were sent every year in February with regard to amounts under the category of cost sharing. Other individual cases were followed up by means of personal letters requesting payment of amounts due. However, no further action was taken.

Commissioner for Revenue

Inland Revenue Department

The Inland Revenue Department (IRD) reported a gross arrears balance of €1,330,624,698 as at 31 December 2019, classified as follows:

		€
a.	Pre ’99 System (Up to Year of Assessment 1998)	153,789,408
b.	Self-Assessment System (Post Year of Assessment 1998)	645,869,266
c.	Final Settlement System (Employers)	167,008,780
d.	Social Security Contributions Class 1 (Employers)	260,805,175
e.	Social Security Contributions Class 2 (Self-Employed or Occupied)	103,152,069
	Gross Closing Balance	**1,330,624,698**

Collectability of Arrears

Out of the gross closing balance, the amount of €996,858,754 was considered as not collectable, thus resulting in net collectable amount of €333,765,944.

As in previous years, the highest instance of non-collectability related to the Self-Assessment System, with €533,124,895 estimated as uncollectable out of gross total of €645,869,266.

Balances from the Pre ’99 System also had a high percentage of non-collectability, amounting to 90%, an estimated figure of €138,410,468.

The non-collectability amounts of the Final Settlement System and Social Security Contributions Class 1 stood at €116,906,146 and €121,594,186; thus, a provision of 70% and 47% respectively. All balances owed in relation to Class 2 Contributions that were older than five years, totalling €86,823,059, 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 (2019)	69,107,789
Amounts outstanding for over one but less than two years (2018)	46,111,928
Amounts outstanding for over two but less than five years (2015 – 2017)	81,205,898
Amounts outstanding for over five but less than ten years (2010 – 2014)	54,576,458
Amounts outstanding for over ten but less than twenty years (2000 – 2009)	59,989,462
Amounts outstanding for over twenty years (prior to 2000)	23,049,060
Net Closing Balance	**334,040,595**[6]

Collection Efforts

During 2019, the Department issued a total of 8,247 (2018: 9,751) notices in relation to various balances from the Final Settlement System. IRD also followed-up on the criminal proceedings with respect to 4,940 cases having unsettled amounts pertaining to the same system.

Moreover, the department issued 1,359 demand notices and 592 judicial letters in relation to individuals and/or companies. Action also included 486 remission of interest agreements, as well as numerous court cases.

Capital Transfer Duty Department

The gross closing balance as reported by the Capital Transfer Duty Department as at end December 2019 consisted of:

		€
a.	Duty on Documents	27,726,487
b.	Death and Donation Duty	4,614,066
	Gross Closing Balance	**32,340,553**

Out of this gross closing balance, of which €14,843,887 was reported as being under contestation, the amount of €22,925,867 was considered as not collectable, thus resulting in net collectable arrears pertaining to Duty on Documents and Death and Donation Duty of €8,538,013 and €876,673, respectively.

[6] The total of the ageing analysis differs from the net collectable arrears in the ARR by €274,651. This amount relates to payments collected by IRD in connection with the Pre '99 System.

Ageing Analysis

The outstanding balance was analysed as follows:

	€
Amounts outstanding for less than one year (2019)	4,379,655
Amounts outstanding for over one but less than two years (2018)	222,540
Amounts outstanding for over two but less than five years (2015 – 2017)	206,634
Amounts outstanding for over five but less than ten years (2010 – 2014)	235,354
Amounts outstanding for over ten but less than fifteen years (2005 – 2009)	767,213
Amounts outstanding for over fifteen but less than twenty years (2000 – 2004)	2,728,961
Amounts outstanding for over twenty years (prior to 2000)	876,673
Net Closing Balance	**9,417,030**[7]

Amounts under Contestation

The amounts under contestation were mainly made up of Duty on Documents (€13,074,739), the majority of which (68%) were statute-barred, comprising 984 cases amounting to €8,868,737. The likelihood of the non-collection of these amounts is very high. On the other hand, the remaining balance of €4,206,002 (relating to 612 cases) was either undergoing collection procedures or dealt with by the Administrative Review Tribunal at objection stage, thus their chance of collectability was more probable.

The remaining amount under contestation (€1,769,148) pertained to Death and Donation Duty, which remained the same as in the previous years. This was due to the fact that this legislation has been repealed and therefore no new claims were issued. The possibility that these amounts are collected is very remote.

Revisions

Downward revisions, mainly due to revaluations by architects of the Capital Transfer Duty Department during 2019, totalled €1,907,568. From this amount, €802,040 related to balances which were posted in prior years and subsequently cancelled.

Amounts considered as Not Collectable

The dues estimated as not collectable at the end of 2019 amounted to €22,925,867. This comprised a provision of 10% for newly accrued arrears and a gradual higher percentage reaching 80% of amounts due, depending on their ageing, including those statute-barred.

[7] The difference of €2,344 between the ageing analysis and the net collectable arrears mentioned above was due to timing differences between the two reports.

Collection Efforts

During 2019, the Department issued 2,151 reminders and submitted 269 letters from its Legal Unit to various debtors. Furthermore, it proceeded with 1,002 demand notes, 12 garnishee orders, 8 applications for withdrawal of funds and 23 legal action warnings.

This subject is discussed in further detail in a separate revenue audit of the Department on page 164 of this Report.

VAT Department

The net closing balance reported by the Value Added Tax (VAT) Department at year-end comprised:

		€
a.	VAT (1998)	272,540,976
b.	VAT (1995)	599,941
c.	Customs and Excise Tax	659,789
d.	Eco-Contribution	2,068,311
e.	Eco-Contribution (Environmental)	499,597
f.	Refund to Government on Stocks – 1997	620,381
	Net Closing Balance	**276,988,995**

An analysis carried out by the Department on the gross closing balance, totalling €3,530,563,612, to the amount of €3,253,574,617 (92%) was uncollectable, another €72,773,712 was pending court action, while an aggregate of €204,215,283 was recoverable by departmental action. The uncollectable figure represented estimated audit assessments, penalties and relative interest, generated when a taxpayer failed to submit a VAT return by the due date.

An ageing analysis of net collectable arrears was not provided by the VAT Department. Furthermore, as was reported last year, dues to the VAT Department did not feature in the debtors' return of CfR.

To recoup revenue in arrears, the Department sent requests for payment on a regular basis for VAT (1998) arrears and took legal action where deemed necessary. According to the Department, some amounts related to VAT (1995) and Customs and Excise Tax were recouped mainly through legal action and remission.

Moreover, CfR has been working on facilitating payments by online submission of returns, as well as through local postal branches to make it easier for taxpayers to comply with their tax obligations.

Department of Customs

The net closing balance reported by the Department of Customs at year ending 2019 consisted of:

		€
a.	Import and Excise Duties	10,498,430
b.	Licences, Taxes and Fines	414,338
c.	Reimbursements	622,322
	Net Closing Balance	**11,535,090**

Amounts under Contestation

The Department reported an aggregate of €7,895,019 as contested. Of this amount, €7,185,578 related to pending court cases while another €21,512 was considered as statute-barred. Notwithstanding this, 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 (2019)	3,736,446
Amounts outstanding for over one but less than two years (2018)	41,866
Amounts outstanding for over two but less than five years (2015 – 2017)	218,241
Amounts outstanding for over five but less than ten years (2010 – 2014)	1,007,347
Amounts outstanding for over ten but less than fifteen years (2005 – 2009)	6,377,902
Amounts outstanding for over fifteen but less than twenty years (2000 – 2004)	113,373
Amounts outstanding for over twenty years (prior to 2000)	39,915
Net Closing Balance	**11,535,090**

This Office conducted a separate audit on the reported debtors' balances as at 31 December 2019. Detailed findings are reported upon, in this publication, under the respective Ministry on page 178.

Ministry for Tourism

The Ministry for Tourism reported a gross closing balance of €1,385,005 for the year ended 31 December 2019, comprising:

		€
a.	Malta Tourism Authority	1,330,640
b.	Ex-White Rocks Holiday Complex	54,365
	Gross Closing Balance	**1,385,005**

The amount due to ex-White Rocks Holiday Complex, which has been outstanding pre-1995, was considered irrecoverable since the five defaulting agencies were no longer in operation. Authorisation to write off the amount, which was requested from the Ministry for Finance (MFIN) since August 2019, was obtained in February 2020.

The balance of €1,330,640, which related to unpaid licences to the Malta Tourism Authority, can be categorised as shown below. Although the latter's reporting system generated an aged debtors' list, all the debts relating to 2016 and prior years were shown as one aggregate figure.

	€
Amounts outstanding for less than one year (2019)	459,661
Amounts outstanding for over one but less than two years (2018)	110,082
Amounts outstanding for over two but less than three years (2017)	88,418
Amounts outstanding for over four years (prior to 2017)	672,479
Net Closing Balance	**1,330,640**

The amount due to the Authority was recorded as recoverable without the requirement of any departmental action; however, a recent NAO audit in respect of Licences to Hotels and Catering Establishments, write-up on page 188, revealed that revenue in arrears was being actioned upon by a Division which was specifically set up for this purpose.

During 2019, the Authority's Internal Audit Committee had approved a number of write-offs which did not feature in the return. Similarly, during January 2020, the Arrears Division had earmarked amounts which were to be brought to the attention of the same Committee, but these did not feature under the column considered as not collectable.

Institute of Tourism Studies

During 2019, an amount of €238,821, representing all pending dues with respect to the period prior to the one under review, was reported as estimated as not collectable. As a result, the net collectable balance of debtors of €43,430 consisted of only those relating to 2019. On the other hand, in the analysis of debtors, it was reported that the amount of €59,321 was recoverable. An explanation to this effect was not provided.

Furthermore, a discrepancy of €3,925 between the reported 2018 year-end balance and the 2019 opening balance remained unresolved; this notwithstanding enquiries from NAO and Treasury.

Ministry for Justice, Culture and Local Government

Judicial

The Court Services Agency[8] reported a gross closing balance of €10,355,823 as at 31 December 2019, an increase of 2% over the amounts due at the beginning of the year. The amount was analysed below:

		€
a.	Fines: Criminal – Judges Superior Courts	3,305,582
b.	Fines: Criminal – Magistrates Inferior Courts	4,770,622
c.	Fines: Civil – Superior Registry	39,757
d.	Fines: Civil – Inferior Registry	35,672
e.	Fees	2,204,190
	Gross Closing Balance	**10,355,823**

Arrears collected during the year under review amounted to €1,373,552. Newly accrued debtors totalled €2,240,342, with 54.4% of this amount relating to the Inferior Criminal Courts. Write-off approvals were obtained from respective level of authority for the amount of €190,159.

[8] Previously Courts of Justice; the Agency was set up in August 2019.

An aggregate amount of €2,839,967, i.e. 27.4% of the said gross closing balance, was considered recoverable through departmental action, whilst no action was deemed necessary to recoup the amount of €3,500,000 (33.8%).

A further €4,015,856 (38.8%), which included fines amounting to €3,533,176 to be converted into imprisonment, were estimated as not collectable at year-end. There was a sharp increase when compared to the corresponding amount of €524,789 reported in the previous year.

The ageing of net debtors as at year-end can be analysed as follows:

	€
Amounts outstanding for less than one year (2019)	2,240,341
Amounts outstanding for over one but less than five years (2015 – 2018)	1,956,835
Amounts outstanding for over five but less than ten years (2010 – 2014)	649,675
Amounts outstanding for over ten but less than fifteen years (2005 – 2009)	480,584
Amounts outstanding for over fifteen but less than twenty years (2000 – 2004)	619,788
Amounts outstanding for twenty years and over (1978 – 1999)	392,744
Net Closing Balance	**6,339,967**

Court Fines

Criminal – Judges Superior Courts

The opening balance of €3,026,877 was revised upwards by a net amount of €95,371. This was mainly due to adjustments, whereby revoking prison sentences into fines, together with fines imposed, exceeded the conversion of fines to prison sentences.

During 2019, only the amount of €293,950 (9.7%) from past arrears was collected. Arrears newly accrued amounted to €489,239 while an aggregate amount of €11,955 was written off.

Criminal – Magistrates Inferior Courts

The total of €944,841, which is equivalent to 18.2% of the gross opening balance of €5,188,364, was collected during 2019, mostly relating to amounts due from the previous six years. The amount of €1,218,687 accrued during the year under review, while an aggregate amount of €125,915 was written off. The latter included an amount of €33,672 which was fines due by a foreigner who was deported.

The opening balance was revised downwards by a net amount of €565,673. This comprised various adjustments amongst which €454,275 relating to fines which were either converted into imprisonment or revoked.

Civil – Superior Registry

The opening balance of €29,937 was revised downwards by a net amount of €220 representing revoked fines. A total of €10,240 accrued during the year under review, while €1,060 was considered as not collectable. Only €200 from the opening balance was collected, resulting in an outstanding net balance of €38,697.

Civil – Inferior Registry

The opening balance of €47,478 was revised downwards by €9,056, mainly due to revoked fines, appeals decided in favour of third parties, or fines paid that were not entered into the system during 2018. The amount of €10,460 (22%) was collected from past arrears, whilst the amount of €7,710 accrued during the year. The net collectable arrears as at 31 December 2019 stood at €35,672.

Court Fees

The opening balance of €1,861,386 was revised upwards by €4,729. During 2019, past arrears collected totalled €124,101 while €514,466 was newly accrued. The amount of €52,289 was written off and an aggregate of €299,371 was estimated as not collectable. The amount of €225,391 from the uncollectable figure related to court registry fees due by a foreigner; despite an attempt to send two judicial letters, the individual remained untraceable.

Ministry for the Environment, Sustainable Development and Climate Change

The Ministry for the Environment, Sustainable Development and Climate Change reported a gross balance of €1,384,472 as revenue in arrears as at end 2019. Out of this amount, €847,162 was reported as being under contestation, whereas €49,634 was considered as not collectable. The net closing balance of €1,334,838 was split under the following categories:

		€
a.	Fish Market	292,116
b.	Public Abattoir	254,748
c.	Plant Protection	1,321
d.	Paying Agency	207,987
e.	Aquaculture	66,271
f.	Refund of Salaries	59,363
g.	Hard Standing Facilities	453,032
	Net Closing Balance	**1,334,838**

The ageing of the net collectable arrears as at the year-end can be analysed as follows:

	€
Amounts outstanding for less than one year (2019)	235,161
Amounts outstanding for over one but less than two years (2018)	219,495
Amounts outstanding over two but less than five years (2015 – 2017)	298,885
Amounts outstanding over five but less than ten years (2010 – 2014)	485,947
Amounts outstanding over ten years (prior to 2010)	95,350
Net Closing Balance	**1,334,838**

Amounts considered as Not Collectable

The amount of €49,634 that was considered as not collectable related to various long outstanding cases and hence were likely to be time-barred, with the exception of €4,500 which was subject to an ongoing dispute at the Malta Arbitration Centre and was at appeal stage at time of this publication.

Amounts under Contestation

The amount of €847,162 reported as amounts under contestation, was made up of the following:

a. €408,857 pertaining to Hard Standing Facilities. Judicial letters were sent regularly to try and recoup €313,666 from two vessels' owners, whilst discussions were ongoing with the aim of recouping €95,191 from another vessel's owner;
b. €198,466 contested amounts due to the Paying Agency;
c. €165,873 dues to the Public Abattoir. Even though a court sentence was decided in favour of the Ministry, amount was still pending;
d. €66,271 related to Aquaculture on which legal action was still in progress; and
e. €7,695 Refund of Salaries, €3,206 of which was undergoing court proceedings and €4,490, which at the date of this publication was at Attorney General's Office.

Collection Efforts

Various measures were taken to collect outstanding arrears, such as contacting debtors personally, issuing reminders, as well as taking legal action where necessary with the assistance of the Attorney General.

Furthermore, in line with the Fish Market Regulations, the respective Department precludes defaulters from making further purchases. Similarly, when it comes to the Public Abattoir, debtors can be prohibited from slaughtering at the abattoir until the payment of all invoices is effected.

Ministry for Transport, Infrastructure and Capital Projects

Transport Malta

The ARR submitted by Transport Malta for the year ended 31 December 2019 included a gross and net collectable balance of €39,825,408, which incorporated the following two revenue categories:

		€
a.	Vehicle Licence	39,063,018
b.	Driving Licence	762,390
	Gross and Net Closing Balance	**39,825,408**

For 2019, the Authority showed amounts of past arrears collected of €1,106,106, newly accrued arrears of €6,476,257 as well as write-offs of €1,183,207.

A thorough review of the debtors' balances pertaining to Transport Malta was conducted by NAO and a full write-up is available on page 289.

Lands Authority

The Lands Authority reported a gross and net closing balance of €39,640,805 in the ARR for the year ended 31 December 2019.

The Authority proceeded on the data cleansing exercise on properties allocated to Government Departments, Parastatal Entities and Local Councils initiated in the previous years, in order to have a clear picture of the amounts owed to it in this respect. In the case of Government Entities, discussions with MFIN were concluded. This resulted in an aggregate amount of €2,920,565 that was received in 2020 to cover outstanding balances from three main accounts.

Ageing Analysis

The revenue in arrears can be analysed as follows:

	€
Amounts outstanding for less than one year (2019)	14,227,082
Amounts outstanding for over one but less than five years (2015 – 2018)	14,086,418
Amounts outstanding for over five years (prior to 2015)	11,327,305
Gross and Net Closing Balance	**39,640,805**

Collection Efforts

During 2019 a credit control manager was engaged within the Finance Directorate of the Lands Authority, thus increasing its effort on the collection of revenue. The latter focused on dues that were close to prescription and judicial letters were issued to prevent the lapse of this period.

In order to recoup outstanding arrears, the Authority sent statements to defaulters, followed by reminders. During 2019, personalised letters were also sent with scheduled appointments to enter into a repayment agreement with the respective tenants. Officers within the Enforcement Section also contacted defaulters personally in order to settle their balances. In the eventuality that the individuals still failed to pay, legal action was initiated to avoid prescription. The closing balance included the sum of €2,100,175 that was declared as statute-barred; however, the Lands Authority did not report any amounts that were considered as not collectable in its ARR. It was claimed that all the outstanding dues were continually chased, even if these were time-barred or under contestation. It was satisfactorily noted that during 2019, the debtors' report was updated to provide balances up to 10 years[9] to reflect the prescription period.

[9] Previously, balances were provided for up to five years.

Write-off Approvals

The approval from the respective Permanent Secretary was not sought by the Authority in respect of three transactions totalling €17,366 that were written off. The latter stated that a new proposal policy will be presented to the Board of Governors for its consideration. The approval of MFIN and Ministry for Transport, Infrastructure and Capital Projects will subsequently be sought as necessary.

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

Social Security Benefits

The Department of Social Security (DSS) reported a figure of €26,825,330 as gross revenue in arrears in relation to Social Security Benefits as at end 2019.

The amounts pertaining to each benefit or assistance can be summarised as follows:

		€
a.	Social Assistance	12,453,180
b.	Age Pension	3,040,837
c.	Retirement Pension	2,983,573
d.	Children's Allowance	2,591,658
e.	Medical Assistance	2,022,581
f.	Widows Pension	1,724,450
g.	Invalidity Pension	597,017
h.	Short Term Benefits	327,993
i.	Disability Pension	302,333
j.	Non-Contributory Bonus	300,691
k.	Supplementary Assistance	242,744
l.	Energy Benefit	166,712
m.	In-Work Benefits	48,585
n.	Senior Citizen Grant	22,712
o.	Contributory Bonus	264
	Gross Closing Balance	**26,825,330**

Of the total outstanding balance, an amount of €3,450,022 was estimated as uncollectable. According to DSS, this calculation was based on amounts which were either cancelled or withheld during the year under review.

Ageing Analysis

A detailed analysis of gross collectable arrears was provided by DSS as follows:

	€
Amounts outstanding for less than one year (2019)	6,188,074
Amounts outstanding for over one but less than two years (2018)	3,755,243
Amounts outstanding for over two but less than five years (2015 – 2017)	6,955,034
Amounts outstanding for over five but less than ten years (2010 – 2014)	6,476,957
Amounts outstanding for over ten years (prior to 2010)	3,450,022
Gross Closing Balance	**26,825,330**

Collection Efforts

Action to recoup overpayments was taken by the Department in the form of letters requesting the repayment of the respective amounts. DSS stated that if dues remained unrecouped, these are then followed-up. In certain instances, agreements between the Department and the individual were entered into to ensure reasonable and timely repayments through monthly instalments.

Elderly and Community Care

The Active Ageing and Community Care reported a closing outstanding balance of €281,261 at end 2019, which incorporated the following revenue categories:

		€
a.	Revenue Account (Account 471)	194,194
b.	Staff Salaries Overpayments (Account 12)	83,229
c.	Commission Receivable (Account 22)	3,838
	Gross and Net Closing Balance	**281,261**

The opening balance of €247,611 as reported in the 2019 ARR did not tally to the closing balance as at 31 December 2018, which stood at €4,320,659. A closer analysis revealed that the main difference related to staff salaries; this was reported as €4,188,045 in December 2018 but was listed as €118,898 in the 2019 opening balance. According to Management, the difference emanated from dues to St. Vincent de Paul Residence which were part of Active Ageing and Community Care up to end December 2018, before the former was set up as a separate Entity under the same Ministry as of beginning 2019.

No amounts were written off during the year or reported as estimated as not collectable. A balance of €70,793 was recouped during the year, which was almost equally divided between the Staff Salaries Overpayments and the Revenue Account.

Detailed analysis of this return, as well as the underlying debtors' balances as at 31 December 2019, was conducted by NAO and the relevant findings can be found on page 315 of this Report.

Conclusion

This Office has highlighted concerns in previous years in relation to the volume of arrears estimated as not collectable, which have been increasing on a yearly basis. In this regard, NAO has favourably noted that during 2019, following a discussion on this issue during a Public Accounts Committee meeting, MFIN proposed a way forward, as duly endorsed by this Office, which was presented to the Chairman of the Public Accounts Committee in a letter dated 4 August 2020. As indicated by the foregoing proposal, the Ministry intends to commence a clearance exercise in relation to revenue in arrears that is considered as uncollectable which generally pertains to estimations, deceased persons, companies which are defunct or have been struck off, companies in liquidation, contested amounts, as well as amounts which are time-barred.

MFIN is proposing that an analytical report is drawn up, highlighting the nature of the arrears reckoned as uncollectable. This report, together with recommendations on how to proceed, which action plan was agreed to by NAO, will be discussed at Public Accounts Committee level. The aim of this exercise is to put in place a policy detailing a procedure for the structured and controlled clearance of arrears certified as uncollectable. Full documentation will be kept throughout this process, which will be subject to NAO's scrutiny and be duly reported upon.

Arrears of Revenue 2019[a]

Department		Gross Outstanding on 31/12/2018 [b]	Collected during 2019	Written off 2019	Revisions 2019	Arrears 2019
Office of the Prime Minister [c]	€	10,251,731	7,043	-	-	215,331
Department of Information	€	21,986	21,986	-	-	22,435
Government Printing Press	€	525,138	198,381	-	-	216,598
Malta Gaming Authority [d]	€	5,036,768	3,648,295	-	-	1,644,935
Malta Communications Authority	€	208,024	204,399	-	-	1,107,641
Ministry for Health [e, f]	€	15,532,157	1,435,382	-	225,911	6,996,967
Ministry for the Economy, Investment and Small Businesses						
Commerce	€	2,147,819	40,608	-	(33,972)	6,250
Ministry for Education and Employment	€	1,243,999	78,394	-	-	500,670
Ministry for Energy and Water Management	€	3,283	3,283	-	-	7,820
Ministry for European Affairs and Equality						
Industrial and Employment Relations	€	291,212	2,930	-	-	-
Ministry for Finance	€	34,036	6,240	-	-	44,544
Treasury (Salaries and Pensions Section)	€	39,746,411	2,473,848	-	(1,039,212)	4,572,323
Commissioner for Revenue:						
Income Tax	€	753,967,479	14,621,160	-	(313,591,928)	373,904,283
Social Security Contributions: Class 1 and Class 2	€	318,579,114	104,798,835	-	(92,024)	150,268,989
Final Settlement System	€	134,937,944	95,941,253	-	(234,436)	128,246,525
Duty on Documents	€	27,098,328	1,900,205	2,888	(1,907,568)	4,438,820
Death and Donation Duty	€	4,614,066	-	-	-	-
VAT	€	2,761,625,535	84,770,764	542	(719,126,640)	1,572,836,023
Department of Customs [e]	€	11,872,949	3,908,245	2,329	(155,182)	3,736,446
Contracts	€	163,723	-	-	-	-
Ministry for Tourism	€	1,155,029	166,452	-	(63,233)	459,661
Institute of Tourism Studies [e]	€	246,467	7,646	-	-	43,430
Ministry for Home Affairs and National Security	€	26,351	18,128	-	-	5,012
Armed Forces of Malta	€	181,755	67,427	-	-	25,771
Police	€	455,569	97,891	11,837	-	143,596
Correctional Services	€	56,376	28,426	-	-	33,466
Civil Protection	€	11,320	11,320	-	-	61,154
Ministry for Justice, Culture and Local Government	€	5,798	3,739	-	-	80,862
Judicial	€	10,154,042	1,373,552	190,159	(474,850)	2,240,342
Attorney General	€	375,085	105,177	61,111	48,722	86,535
Notary to Government	€	7,637	7,637	-	-	5,793
Ministry for the Environment, Sustainable Development and Climate Change	€	1,216,789	73,029	53	205	240,560
Ambjent Malta [g]	€	12,569	12,492	77	-	52,525
Ministry for Foreign Affairs and Trade Promotion	€	204,896	101,197	3,055	-	143,476
Ministry for Transport, Infrastructure and Capital Projects	€	1,023,017	701,693	30,604	(27,054)	340,930
Cleaning and Maintenance Department [h]	€	134,000	27,103	-	-	80,508
Transport Malta	€	35,639,712	1,106,106	1,183,207	(1,248)	6,476,257
Lands Authority	€	33,001,025	7,560,913	17,401	97	14,217,997
Ministry for Gozo [e]	€	675,452	68,553	-	5,423	15,701

Gross Outstanding on 31/12/2019	Gross Variation	Amounts Est. as not Collectable	Net Collectable Arrears as at 31/12/2019	Net Collectable Arrears as at 31/12/2018	Net Variation	Due from Govt. Depts. and Para. Bodies	Due from Individuals and Private Cos.	Amounts Coll. during January 2020	Balance as at 31/01/2020
10,460,019	208,288	4,008,973	6,451,046	6,242,758	208,288	-	6,451,046	211,588	6,239,458
22,435	449	-	22,435	21,986	449	22,435	-	14,677	7,758
543,355	18,217	-	543,355	525,138	18,217	540,343	3,012	-	543,355
3,033,408	(2,003,360)	2,589,193	444,215	3,278,264	(2,834,049)	30,094	414,121	1,368,183	(923,968)
1,111,266	903,242	-	1,111,266	208,024	903,242	39,700	1,071,566	-	1,111,266
21,319,653	5,787,496	80,801	21,238,852	15,830,887	5,407,965	10,762,275	919,981	8,372	21,230,480
2,079,489	(68,330)	2,076,789	2,700	40,556	(37,856)	-	2,700	2,493	207
1,666,275	422,276	155,783	1,510,492	1,092,815	417,677	-	1,510,492	-	1,510,492
7,820	4,537	-	7,820	3,283	4,537	7,031	789	214	7,606
288,282	(2,930)	206,238	82,044	84,974	(2,930)	-	82,044	250	81,794
72,340	38,304	-	72,340	34,035	38,305	39,125	33,215	-	72,340
40,805,674	1,059,263	-	40,805,674	39,746,410	1,059,264	40,720,943	84,731	-	40,805,674
799,658,674	45,691,195	671,535,363	128,123,311	119,917,667	8,205,644	-	128,123,311	1,326,362	126,796,949
363,957,244	45,378,130	208,417,245	155,539,999	132,297,990	23,242,009	-	155,539,999	5,004,838	150,535,161
167,008,780	32,070,836	116,906,146	50,102,634	40,481,383	9,621,251	-	50,102,634	1,532,041	48,570,593
27,726,487	628,159	19,188,474	8,538,013	8,400,482	137,531	-	8,538,013	248,475	8,289,538
4,614,066	-	3,737,393	876,673	876,673	-	-	876,673	-	876,673
3,530,563,612	768,938,077	3,253,574,617	276,988,995	164,550,471	112,438,524	-	276,988,995	-	276,988,995
11,543,639	(329,310)	8,549	11,535,090	11,864,400	(329,310)	8,750	11,526,340	3,223,978	8,311,112
163,723	-	20,510	143,213	143,213	-	-	143,213	-	143,213
1,385,005	229,976	54,365	1,330,640	1,100,664	229,976	-	1,330,640	93,019	1,237,621
282,251	35,784	238,821	43,430	47,614	(4,184)	9,690	33,740	6,452	36,978
13,235	(13,116)	-	13,235	26,350	(13,115)	10,034	3,201	-	13,235
140,099	(41,656)	86,817	53,282	100,136	(46,854)	22,863	30,419	-	53,282
489,437	33,868	19,701	469,736	435,868	33,868	8,134	461,602	36,453	433,283
61,416	5,040	-	61,416	56,376	5,040	60,798	618	-	61,416
61,154	49,834	-	61,154	11,320	49,834	41,389	19,765	-	61,154
82,921	77,123	-	82,921	5,798	77,123	80,861	2,060	38,484	44,437
10,355,823	201,781	4,015,856	6,339,967	9,629,253	(3,289,286)	-	6,339,967	186,355	6,153,612
344,054	(31,031)	95,140	248,914	317,662	(68,748)	-	248,914	7,724	241,190
5,793	(1,844)	-	5,793	7,637	(1,844)	5,793	-	921	4,872
1,384,472	167,683	49,634	1,334,838	1,199,597	135,241	1,922	1,332,916	234,846	1,099,992
52,525	39,956	-	52,525	- [g]	- [g]	40,460	12,065	-	52,525
244,120	39,224	-	244,120	204,896	39,224	187,140	56,980	61,221	182,899
604,596	(418,421)	21,135	583,461	975,827	(392,366)	536,159	47,302	10,038	573,423
187,405	53,405	-	187,405	- [h]	- [h]	187,405	-	-	187,405
39,825,408	4,185,696	-	39,825,408	35,639,712	4,185,696	-	39,825,408	391,242	39,434,166
39,640,805	6,639,780	-	39,640,805	33,001,025	6,639,780	16,075,280	23,565,525	3,889,007	35,751,798
628,023	(47,429)	116,200	511,823	769,604	(257,781)	237,876	273,947	-	511,823

Arrears of Revenue 2019[a] *cont./*

Department		Gross Outstanding on 31/12/2018 [b]	Collected during 2019	Written off 2019	Revisions 2019	Arrears 2019
Ministry for the Family, Children's Rights and Social Solidarity						
Social Security Benefits	€	25,867,263	4,135,177	80,335	(56,288)	5,229,867
Elderly and Community Care [e, i]	€	247,611	70,793	-	-	104,443
ex-Ministry for Social Dialogue, Consumer Affairs and Civil Liberties	€	1,425	1,425	-	-	475
ex-Ministry for European Affairs and Implementation of the Electoral Manifesto [j]	€	10,570	10,570	-	-	15,823
Totals [k]	**€**	**4,198,611,460**	**329,817,697**	**1,583,598**	**(1,036,523,277)**	**2,278,870,784**

a. Figures may not add up due to rounding.

b. Opening balances reported as featuring in last year's Annual Audit Report, unless otherwise specified.

c. Includes figures for the Television Licensing Unit.

d. The negative balance as at 31 January 2020 is due to amounts collected following a legal overhaul exercise performed during 2018.

e. Opening balance 2019 did not tally with closing balance 2018 (vide comments where applicable).

f. Figures for Mater Dei Hospital which featured under the Ministry for Health's ARR were incomplete. Further details available in the arrears of revenue write-up, under the pertinent heading.

g. Arrears for this Department are being shown for the first time.

h. Previously shown as part of the Ministry for Transport, Infrastructure and Capital Projects.

i. The return did not specify from where the arrears were due.

j. Includes figures for the Ministry for European Affairs and Equality.

k. Totals are incomplete in view of f, g and i above.

Gross Outstanding on 31/12/2019	Gross Variation	Amounts Est. as not Collectable	Net Collectable Arrears as at 31/12/2019	Net Collectable Arrears as at 31/12/2018	Net Variation	Due from Govt. Depts. and Para. Bodies	Due from Individuals and Private Cos.	Amounts Coll. during January 2020	Balance as at 31/01/2020
26,825,330	958,067	3,450,022	23,375,308	23,147,259	228,049	-	23,375,308	1,087,719	22,287,589
281,261	33,650	-	281,261	4,320,659	(4,039,398)	-[i]	-[i]	31,848	249,413
475	(950)	-	475	1,425	(950)	-	475	-	475
15,823	5,253	-	15,823	10,570	5,253	-	15,823	-	15,823
5,109,557,672	**910,946,212**	**4,290,653,765**	**818,903,907**	**656,650,661**	**162,013,316**	**69,676,500**	**739,389,550**	**19,016,800**	**799,887,107**

Arrears of Revenue Analysis of the Outstanding Balance as at 31 December 2019[a]

Department		Net Collectable Arrears as at 31/12/2019	Amounts Est. as not Collectable	Gross Outstanding on 31/12/2019	Analysed as follows: Statute-barred	Under Contestation: Pending Court Action	Under Contestation: Not pending Court Action	Deemed Recoverable by Dept. Action	Considered Recoverable
Office of the Prime Minister [b]	€	6,451,046	4,008,973	10,460,019	4,008,973	-	-	6,451,046	-
Department of Information	€	22,435	-	22,435	-	-	-	22,435	-
Government Printing Press	€	543,355	-	543,355	-	-	-	543,355	-
Malta Gaming Authority	€	444,215	2,589,193	3,033,408	-	2,310,979	-	722,429	-
Malta Communications Authority	€	1,111,266	-	1,111,266	-	-	-	-	1,111,266
Ministry for Health [c, d]	€	21,238,852	80,801	21,319,653	80,403	-	398	1,021,582	3,046,879
Ministry for the Economy, Investment and Small Businesses									
Commerce	€	2,700	2,076,789	2,079,489	1,853,604	-	221,935	1,250	2,700
Ministry for Education and Employment	€	1,510,492	155,783	1,666,275	-	-	-	155,783	1,510,492
Ministry for Energy and Water Management	€	7,820	-	7,820	-	-	-	-	7,820
Ministry for European Affairs and Equality									
Industrial and Employment Relations	€	82,044	206,238	288,282	-	4,135	-	273,376	10,771
Ministry for Finance	€	72,340	-	72,340	967	11,159	3,600	56,614	-
Treasury (Salaries and Pensions Section)	€	40,805,674	-	40,805,674	-	-	-	40,805,674	-
Commissioner for Revenue (including Capital Transfer Duty)	€	343,180,630	1,019,784,621	1,362,965,251	150,583,569	241,897,659	-	203,721,307	766,762,716
Commissioner for Revenue (VAT)	€	276,988,995	3,253,574,617	3,530,563,612	-	72,773,712	3,253,574,617	204,215,283	-
Department of Customs	€	11,535,090	8,549	11,543,639	21,512	7,185,578	709,441	71,048	3,556,060
Contracts [e]	€	143,213	20,510	163,723	-	-	-	143,213	-
Ministry for Tourism	€	1,330,640	54,365	1,385,005	-	-	-	-	1,385,005
Institute of Tourism Studies	€	43,430	238,821	282,251	134,167	-	88,763	43,615	15,706
Ministry for Home Affairs and National Security	€	13,235	-	13,235	-	-	-	13,235	-
Armed Forces of Malta	€	53,282	86,817	140,099	-	5,677	101,477	13,407	19,538
Police	€	469,736	19,701	489,437	160,913	14,733	16	292,032	21,743
Correctional Services	€	61,416	-	61,416	-	-	618	60,798	-
Civil Protection	€	61,154	-	61,154	-	-	-	61,154	-
Ministry for Justice, Culture and Local Government	€	82,921	-	82,921	-	-	-	2,060	80,861
Judicial	€	6,339,967	4,015,856	10,355,823	4,015,856	-	-	2,839,967	3,500,000
Attorney General	€	248,914	95,140	344,054	-	-	-	344,054	-
Notary to Government	€	5,793	-	5,793	-	-	-	5,793	-
Ministry for the Environment, Sustainable Development and Climate Change	€	1,334,838	49,634	1,384,472	49,634	694,560	152,602	37,354	450,322
Ambjent Malta [f]	€	52,525	-	52,525	-	-	-	-	52,525
Ministry for Foreign Affairs and Trade Promotion	€	244,120	-	244,120	-	-	-	87,958	156,162

Arrears of Revenue Analysis of the Outstanding Balance as at 31 December 2019[a] *cont./*

Department		Net Collectable Arrears as at 31/12/2019	Amounts Est. as not Collectable	Gross Outstanding on 31/12/2019	Analysed as follows:				
					Statute-barred	Under Contestation		Deemed Recoverable by Dept. Action	Considered Recoverable
						Pending Court Action	Not pending Court Action		
Ministry for Transport, Infrastructure and Capital Projects	€	583,461	21,135	604,596	21,135	10,636	16,949	266,632	289,244
Cleaning and Maintenance Department [g]	€	187,405	-	187,405	82,211	-	-	105,194	-
Transport Malta [c]	€	39,825,408	-	39,825,408	-[c]	-[c]	-[c]	-[c]	-[c]
Lands Authority	€	39,640,805	-	39,640,805	2,100,175	5,171,582	4,993,575	22,745,595	4,629,878
Ministry for Gozo	€	511,823	116,200	628,023	-	16,639	64,670	-	546,714
Ministry for the Family, Children's Rights and Social Solidarity									
Social Security Benefits	€	23,375,308	3,450,022	26,825,330	3,450,022	343,687	-	4,525,257	18,506,364
Elderly and Community Care [c]	€	281,261	-	281,261	-[c]	-[c]	-[c]	-[c]	-[c]
ex-Ministry for Social Dialogue, Consumer Affairs and Civil Liberties	€	475	-	475	-	-	-	475	-
ex-Ministry for European Affairs and Implementation of the Electoral Manifesto [h]	€	15,823	-	15,823	-	-	-	15,823	-
Totals [i]	**€**	**818,903,907**	**4,290,653,765**	**5,109,557,672**	**166,563,141**	**330,440,736**	**3,259,928,661**	**489,664,798**	**805,662,766**

a. Figures may not add up due to rounding.

b. Includes figures for the Television Licensing Unit.

c. Did not submit all or part of the submissions required by Treasury Circular No. 2/2020.

d. Difference in the figures for the Ministry for Health pertains to figures for the Central Procurement and Supplies Unit as well as Mater Dei Hospital for which no analysis was provided.

e. Similar to last year's return, the balance of €20,510 under Contracts is a balancing figure.

f. This Department is being shown for the first time.

g. This was previously shown as part of the Ministry for Transport, Infrastructure and Capital Projects.

h. Includes Ministry for European Affairs and Equality.

i. Totals are incomplete in view of c, d and e above.

Office of the Prime Minister

Malta Financial Services Authority

Expenditure

An audit at the **Malta Financial Services Authority** revealed concerns related to procurement, such as resorting to direct orders without the necessary approvals and services not supported by agreements. Governance issues were also identified in so far as donations to various beneficiaries were concerned.

Background

The Malta Financial Services Authority (MFSA) was established in 1994, essentially to act as the single regulator of financial services in Malta. Its main functions include the protection of consumers, integrity of financial markets, financial stability and the supervision of all financial services activities. MFSA also holds an advisory role to Government in the formulation of policies on matters relating to the financial services industry.

According to the 2019 Financial Estimates, MFSA was provided with a budgeted contribution of €12.7 million under Recurrent Vote 5, Contributions to Government Entities, Line Item 6847, to cover its operational expenditure. This initial budget was augmented through the issue of a warrant of €10.24 million to mainly cover unforeseen expenditure to implement the Authority's strategic plan[1], to take enforcement action and to address the recommendations[2] put forward by the International Monetary Fund and MONEYVAL[3].

Consequently, the actual Government subvention was €24,764,770, amounting to 69% of MFSA's total income in 2019. MFSA's revenue during the year under review decreased by 31% and operating expenditure increased by 46%; yet, the Authority still reported a surplus of €749,361, compared to a deficit of €7.8 million in 2018.

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1 Strategic plan for the period 2019 to 2021 outlines the Authority's roadmap vis-à-vis supervisory standards, governance, conduct and innovation for the upcoming years, as well as a technology and data management strategy.

2 Measures to administer Satabank plc, while consultancy services were obtained to set-up and resource the new financial crime compliance function, to significantly enhance the anti-money laundering supervision.

3 MONEYVAL is a permanent monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism, as well as the effectiveness of their implementation. It also makes recommendations to national authorities in respect of the necessary improvements to their systems.

Audit Scope and Methodology

The main scope of the audit was to verify whether procurement procedures adopted by MFSA complied with the Public Procurement Regulations (PPR), to determine the level of existing internal controls over travel related expenditure.

An introductory meeting was held with Senior Management within MFSA to discuss the audit objectives, to obtain a general understanding of the expenditure incurred and the relevant procedures adopted. During the audit, further meetings were held as necessary. The National Audit Office (NAO) also conducted a systems overview to comprehend procedures and policies adopted by MFSA, in particular those relating to procurement and travel abroad.

NAO also looked into MFSA's audited financial statements for 2019, as well as the list of quotations, tenders and Direct Orders (DOs) relating to contracts awarded or in force during the same year. Considering that expenditure on overseas meetings and conferences amounted to €540,065[4], compliance with MFSA's travel policy and procedures, as well as those for the public sector in general was also verified. An amount of €88,077 given out as donations was also scrutinised.

During 2019, procurement consisted of 43 DOs, 7 negotiated procedures, 9 tenders and 169 other contracts which either spilled over from previous years or acquired in the year under review direct from the open market. A risk assessment was carried out and rated accordingly. This formed the basis of sample selection. To this effect, 30 contracts were chosen, consisting of 6 DOs, 1 negotiated procedure, 1 tender and 22 from the other remaining contracts.

Likewise, a total sample of 15 travel transactions was selected on the basis of an assigned risk weighting.

Key Issue

Resorting to Direct Orders without the necessary Approvals

Procurement procedures within MFSA were not entirely in line with PPR, since a number of sampled goods and services were procured directly from the open market without the necessary approvals, as detailed below.

Strategic Consultancy

Since August 2018, MFSA started procuring the services for strategic consultancy direct from the open market without the Ministry for Finance (MFIN) approval. From inception of service until mid-July 2020 when the audit was in progress, a total amount of €519,200 was paid to the service provider. MFSA confirmed that this service was still ongoing and was to be terminated once the new Authority fee structure was eventually completed and launched.

[4] MFSA's Directorates are members of various European Supervisory Authorities, such as European Central Bank, European Banking Authority, European Insurance and Occupational Pensions Authority, European Securities and Markets Authority, and according to MFSA, they are required to attend and participate physically in regular meetings abroad as organised by such Committees.

Procurement for an Application Delivery Controller

In September 2018, MFSA procured an application delivery controller, with three years' pre-paid maintenance and support until September 2021. This amounted to €97,139 excluding Value Added Tax (VAT). However, this was only approved by the Chief Executive Officer without the respective authorisation from MFIN.

Recruiting Services

The Authority entered into an agreement with a service provider for the provision of recruiting services in March 2018. From inception of service until 6 July 2020, MFSA paid €67,167 to the service provider for the related services without MFIN approval.

Security Systems Maintenance

In July 2003, MFSA signed an indefinite maintenance agreement for a network and security system. Initially, the contract was signed for a period of five years, to be automatically renewed for periods of one year thereafter. The annual fixed maintenance rate was set at €17,429 (VAT excl.). No evidence was provided that the applicable procurement procedures were followed to acquire this service which was still being provided when the audit was underway. It was only in June 2020, that approval covering a DO of one year was obtained from MFIN. The aggregate amount not covered by the necessary approval totalled €278,864 (VAT excl.).

Recommendations

Bypassing procurement regulations results in unfair competition between other potential service providers. Thus, procurement by DO should be limited to exceptional cases and, if deemed justified, approval is to the be invariably sought from MFIN before any commitment is entered into.

Management Comments

In November 2019, MFSA introduced new procurement procedures to improve procurement governance and controls. These procedures, which were implemented in line with PPR, have enabled MFSA to have a set of procedures to govern all procurement with the respective system of escalation and approvals. A fully dedicated team has also been assigned on procurement governance. As regard the recruiting services, these have been regularised, since in March 2020, they were brought in line with Procurement Policy Note No. 32 – 'Direct Orders below the local threshold'.

Control Issues

Procurement

No Agreements in place for Services provided

No agreements were found to be in place to regulate the provision of four separate information technology related services, which amount totalled €327,342.

According to MFSA, the relative quotations and purchase orders were used as a reference to regulate the services; however, these did not include the related terms and conditions.

Recommendation

An agreement with the service provider is to be in place to regulate the provision of the respective service, highlighting the applicable terms and conditions.

Management Comments

Relevant terms and conditions will be included with purchase orders or letters of engagement.

Procurement through Expired Contracts

In 2019, MFSA made arrangements with a service provider to engage two individuals in managerial grade for a period of six months. The respective agreements were at a charge of €3,200 and €2,400 per week, (both VAT excl.), and expired on 31 September and 19 November 2019, respectively.

However, MFSA continued to receive services based on the foregoing agreements, even though these were no longer valid. Although the service provider eventually had to be paid, on 24 February 2020, DO Office within MFIN informed the Authority that it was not in a position to grant retrospective DO approval; the respective invoices amounted to €69,179 (VAT excl.).

Recommendation

Expiry dates of all contracts are to be monitored in order for the provision of services to be acquired in line with PPR, which is then expected to be duly backed up by a valid agreement.

Management Comments

MFSA's Procurement Function carried out an exercise between February and July 2020 to collect and review all contracts at MFSA. A total of 237 contracts were reviewed. The Authority has implemented a contracts management database containing this information and a conditional formatted expiry field that is highlighted four months before a contract expires. This is maintained on a daily basis by the Procurement Function.

MFSA is also working to identify and implement a new contracts management system which will further enhance efficiency and governance in procurement activities and workflows.

Performance Guarantee not in place

As per contract signed by the Department of Contracts, on behalf of MFSA for the provision of cleaning services, a performance guarantee of €2,183, equivalent to 4% of the amount of the contract price per year, had to submitted. However, a six-month period starting from 29 July 2019 was not covered accordingly.

Recommendation

MFSA is to ensure that a valid performance guarantee is in hand for the duration of the contract, to provide adequate safeguard in case of default by the contractor.

Management Comments

In March 2020, a spreadsheet was created wherein information on all guarantees was introduced. This includes conditional formatting to highlight expired guarantees so that the appropriate action can be taken. When a guarantee expires and a renewal is required, the Procurement Function contacts the relevant bank so that the guarantee is renewed.

Donations by the Authority

During 2019, MFSA contributed €88,077 in donations to various beneficiaries. According to the Authority, donations were given following specific requests it received for assistance. Internal Audit within MFSA claimed that these were subsequently approved by the Chief Executive Officer.

Recommendation

MFSA is to ensure that good governance is safeguarded at all times when effecting disbursements from public funds. The Authority is reminded that the Good Causes Fund, now named Social Causes Fund, was specifically created for this purpose. NAO feels that such donations, which should ideally be kept to a minimum, should be duly regulated.

Management Comments

Details of donations were also presented to the MFSA's Audit Committee meetings held on 16 September and 1 November 2019. The total donations' amount was also included as part of the management accounts submitted to the Audit Committee.

Cap. 438 of the Laws of Malta, which established the National Lottery Good Causes Fund, was repealed by virtue of Act of Parliament XVI of 2018[5]. Notwithstanding, MFSA noted NAO's recommendation and the governance on donations will continue to be adhered to but will also have a new donations policy in place.

Travel

Shortcomings related to Expenditure on Travel

The Authority has its own travel policy and procedures wherein it pays for the respective accommodation, unless the expense is borne by the host. Employees receive a fixed daily subsistence allowance of €75, irrespective of the destination country and whether lunches and dinners are paid for by the host. This contrasts with the per diem rates issued by MFIN, which allowance varies according to destination, 30% of which should cover meals (including breakfast) to travelling officers.

[5] Referred to in Article 16 of this Act as the Social Causes Fund.

Moreover, MFSA does not utilise the Corporate Travel Management System, which is the official standard Government web-based system that administers public officials' travelling abroad and wherein it incorporates all related documents.

Recommendation

MFSA is expected to adopt the travel policy applicable to the public sector in general.

Management Comments

In accordance with Article 3(4) of the MFSA Act, the Authority is exempt from Article 77 of the Public Finance Management Act, which is given below for ease of reference:

"77. (1) The Minister responsible for finance, or any person, body or unit delegated on his behalf, may, notwithstanding any other law, issue directives as provided in sub-article (2) to any authority, board, foundation, corporation, institute, agency, commission, company or any other entity fifty-one per cent (51%) or more of which is held in ownership by the Government or over which the Government has effective control, or where fifty-one per cent (51%) of its income comes from public monies or from monies it receives by virtue of any law.

(2) The directives referred to in sub-article (1) may regulate:
(a) the recruitment of employees and, or their remuneration;
(b) the procurement of fixed assets, services, consultancies, contracts of whatever type or nature relating to operational and, or administrative expenses, and, where such directives are issued, the Board of Directors or other Board responsible for the affairs of the entity shall ensure that the decisions taken at Board and at management level respect such directives."

In view of the above and particularly Article 77(2)(b), the Authority considers that it is not obliged to implement the Public Sector Travel Policy given the provision in the MFSA Act.

Compliance Issues

Fiscal Receipts obtained during the Audit

Fiscal receipts, supporting three sampled payments in 2019 for cleaning services, amounting to €58,851, were only obtained in September 2020, towards the end of this audit.

Recommendation

MFSA is to ascertain that appropriate fiscal documentation is obtained upon making the respective payments for the purchase of goods or services in line with VAT legislation.

Management Comments

In previous years, suppliers' fiscal receipts were not being chased by MFSA. As from September 2020, the latter is ensuring that it is invariably issued with a fiscal receipt by suppliers who have been paid for goods or services provided by them. In the case of VAT registered companies, a tax invoice is to be provided in lieu of a fiscal receipt.

In the absence of a fiscal receipt after two weeks of payment being transferred, a reminder is being sent from the Finance Department. Failure to receive the requested fiscal receipt would then be subject to reporting on the next quarterly list of defaulters. In view of this, the Authority will be discontinuing the purchase of goods or services from such defaulters until the matter is rectified.

List of Defaulters not compiled

Following NAO's queries, MFSA confirmed that defaulters were not being reported to the VAT Department, in line with pertinent circulars. The Authority stated that action would be taken to become compliant with immediate effect.

Recommendation

Quarterly returns with details of defaulters are to be submitted to the VAT Department on a quarterly basis, as required by the circulars.

Management Comments

As per NAO's observation, we reconfirm that defaulters were not being reported to the VAT Department. As from September 2020, MFSA started to chase for any missing fiscal receipts and those who are in default are automatically reported in the quarterly list of defaulters which will be submitted to the Audit and Assurance Section of the VAT Department.

Awarded Contracts not published in the Government Gazette

In line with pertinent circular and PPR, Heads of Departments are obliged to publish every six months in the Government gazette a full list of contracts awarded with a value exceeding €5,000 (VAT excl.), including procurement effected through DOs procedure, as well as variations which exceed the original contract value by more than 5%. However, no evidence could be obtained that a variation to the sampled contract amounting to €39,300, for the lease of two additional vehicles was published.

Recommendation

For transparency purposes, variations are expected to be published in the Government gazette.

Management Comments

MFSA confirmed that contracts variations are now[6] being published.

[6] Management comments submitted on 15 October 2020.

Ministry for Health

Mater Dei Hospital - Maintenance of Medical Equipment

Expenditure

In general, procurement relating to the **Maintenance of Medical Equipment** located at **Mater Dei Hospital** was carried out in line with the requirements of the public procurement regulations. However, the audit revealed instances of lack of certification of invoices prior to effecting payments, as well as acquisitions not supported by a goods received note.

Background

Mater Dei Hospital (MDH) is the main entity providing acute health care services within the Maltese public health care system. Apart from inpatient services, the hospital also offers an extensive range of specialised services as well as emergency, day care, outpatient and diagnostic services, many of which are carried out through the use of specialised medical equipment.

Affected by various factors, including ageing, chronic diseases, technology and the growing expectations of the population, the health care system is amongst the most important priorities of the country. Thus, the Government allocates a good portion of its budget to health; undertakes substantial capital investments, including the purchase of sophisticated medical equipment with the intention of having an effective health service delivery.

Audit Scope and Methodology

This audit focused on state expenditure incurred during financial year 2019 from Vote 10, Programmes and Initiatives, Line Item 5508 – Maintenance of Medical Equipment. The budget earmarked in this respect for the year under review stood at €5 million, which amount was fully utilised. As at time of audit, the aggregate value of medical equipment installed at MDH for the provision of health care services stood at around €100 million.

The main objective of the audit was to ascertain whether state expenditure incurred during 2019 with respect to the maintenance of medical equipment located at MDH was carried out in line with the provisions of the applicable rules and regulations; in this case, public procurement regulations. The audit also established whether payments made were supported by the necessary documentation and that verifications, including confirmation of invoiced amounts against contracted rates, were being undertaken ahead of effecting the respective payments.

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

A sample of 16 payment vouchers, collectively amounting to €891,593, and representing 25% of net expenditure incurred up till the beginning of October 2019[1], formed the basis of substantive audit testing. Two of the sampled payment vouchers were specifically chosen due to the materiality of the amounts paid to the respective suppliers, while the remaining fourteen were selected on a random basis.

Control Issue

Lack of Adequate Verification

From review of the documentation provided for audit purposes it was noted that invoices were not always marked as certified correct by the responsible officer, implying that the necessary checks were not carried out ahead of effecting the respective payments. Moreover, at times, acquisitions were not supported by a Goods Received Note (GRN). This hindered the Auditors from confirming whether MDH was actually in receipt of all items invoiced.

Recommendations

Documentation supporting payments expensed from public funds is to evidence that the necessary vetting has been undertaken. This will also enhance audit trail as well as facilitate external verifications. Ideally, all procurement is backed up by a GRN, confirming that all goods and/or services ordered and invoiced have actually been received. Moreover, amounts invoiced are to be invariably verified and certified correct by the responsible officers prior to processing payments.

Management Comments

From this point onwards, MDH will endorse the invoice ahead of effecting the respective payment. Moreover, invoices concerning services or repairs will be certified correct by the respective officer once the service has been provided to the Biomedical Department’s satisfaction. It will also be ensured that all invoices for stock items are covered by a GRN issued from the stock control system.

[1] Since the audit was carried out during the period October and November 2019, the sample selected was based on net expenditure incurred up till beginning of October 2019, which amounted to €3.5 million.

Conclusion

The equipment owned by the hospital is largely proprietary in nature and is sometimes considered as lifesaving, thus necessitating immediate intervention. In light of such circumstance, it could be noted that, in general, the internal control procedures in place with respect to the area under review were adequate.

Procurement was effected in line with the provisions of the public procurement regulations; requests for direct orders or negotiated procedures were substantiated by valid reasons. These were also sought and approved by the appropriate authority, ahead of the commitment to purchase. Moreover, necessary vetting to ascertain whether items procured were of a proprietary nature, technically acceptable and quoted at fair and reasonable prices, was accordingly carried out by the responsible department within MDH prior to requesting the aforementioned approvals.

This Office emphasises on the importance of effecting procurement through direct order and negotiated procedures with due diligence, especially vis-à-vis repeat suppliers, thereby reducing, to the least extent possible, any inherent risks associated with acquiring goods and services from an uncompetitive market.

Management Comments

The Biomedical Department ascertains that this method of procurement will indeed be utilised with great care and only when necessary and/or inevitable.

Mount Carmel Hospital

Capital Expenditure

An audit on capital expenditure incurred by **Mount Carmel Hospital** identified internal control weaknesses in various areas leading to non-compliance with standing laws and regulations, as well as delays in presenting audited financial statements and management accounts. It was also noted that since 2008, the hospital had been operating continuously with a running deficit. Throughout the years this had accumulated to €11,451,862 in negative reserves and an adverse working capital of €11,824,230 was registered at end of 2018. This situation led to the continuous deferment of payments.

Background

Since its establishment in 1861, Mount Carmel Hospital (MCH) has served as the main institution dealing with mental infirmity and assisting persons who require specialised treatment and care, as well as support for their social network.

During 2019, with the intent to complement the launching of the 10-year Mental Health Strategy, Government devised a plan to improve the hospital's physical environment by addressing serious infrastructural problems and modernising the current wards. In addition, it is envisaged that within a period of 10 years, a new mental hospital for acute cases will be built next to Mater Dei Hospital (MDH).

For financial year ending 31 December 2019, under Capital Vote IV, MCH was originally allocated the amount of €6,500,000 under Line Item 7172 – Mount Carmel Hospital - Upgrading works and equipment. These funds were to cover the cost of refurbishment works on the kitchen, the replacement of air-conditioning units and changes to the variable refrigerant volume system, inspection of roof structures together with an overhaul of electrical and water system, plumbing, and the installation of boiler plant. However, since most of the aforementioned works did not materialise, the estimate was revised downwards to €1,500,000, of which only €906,803 was expensed during the same year.

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, as well as to ensure efficient administration of public funds, in line with standing laws, regulations, policies and procedures, also making recommendations where warranted.

Other objectives were to assess the reliability and adequacy of information available for decision-making and accountability purposes, as well as to ascertain that resources were used judiciously. To this effect, sample selected was qualitative and 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. A total of 60 transactions bearing an aggregate value of €424,287 (i.e. 47% of the entire expenses paid out from the control account under review up to 6 January 2020) were scrutinised, whereby audit trail was analysed from inception up to the final payment. These transactions were selected randomly, based on the materiality of the aggregate amounts paid to the respective service providers during the year under review.

Limitations on Scope of Audit

Audit testing in the following areas was hindered since MCH did not provide the relevant documentation or explanations to the audit queries within a reasonable timeframe.

Provision of Civil Works as part of the refurbishment of the Hospital

During 2019, a negotiated procedure was entered into with four service providers for civil works, including the demolition and structural alterations as part of the refurbishment at MCH. Requests for further clarifications in view of the following queries remained unanswered.

a. The basis on which the four services providers were selected and why rates charged by each contractor for homogenous work carried out was not the same.

b. Related bills of quantities dated in 2017 were manually amended in 2019 and included charges which were neither quoted for in the bid nor included in the contract. Payment was still approved by MCH and processed accordingly, but a justification was not traced in file.

c. No confirmation was provided as to whether MCH was covered by the necessary performance guarantee and insurance policy. Furthemore, justification why MCH did not apply the retention money clause stated in the respective contract was not given.

Management Comments

All invoices referred to were certified by the then contracted architect and MCH relied on his certification. As regards the performance guarantee and insurance policy they were not included in the request for procurement as at that time. MCH lacked staff with the necessary expertise to highlight such shortcomings.

Provision for Structural Engineering Designs for Male Ward 2

In 2018, a direct order approval for the provision of structural engineering designs for Male Ward 2 for the amount of €88,300 excluding Value Added Tax (VAT) and a rate of €70 (VAT excl.) per hour for any additional structural engineering work was approved by the Ministry for Finance (MFIN). Following payments of €63,700 (VAT excl.) for services rendered in 2018, in April 2019 MCH decided to discontinue the working relationship with the respective company, notwithstanding that the contract covered all phases of the project.

In this regard MCH did not provide:

a. feedback as to whether the amount of €63,700 (VAT excl.) paid during 2018 incorpated any designs that had to be discarded in view that the service provider did not approve the use of these designs; and

b. clarification as to why the contract with this service provider was terminated prematurely.

Management Comments

Point not addressed.

Key Issues

Weak Internal Controls

During audit testing it was noted that internal controls in various areas as highlighted hereunder were lacking, indicating that little or no monitoring was in place to ensure efficient financial management. Below are instances of internal control failure identified during audit testing. Each issue will be explained separately further down in the write-up, under the pertinent observations.

a. Invoices without substantiating documentation certified correct by various officers.
b. Lack of compliance with standing rules and regulations.
c. Delays in presenting the audited financial statements and management accounts.

Recommendation

Lack of appropriate internal controls hinders MCH from being in a position to identify errors and irregularities and take the necessary corrective action in a timely manner. Thus, Management is to ensure that ongoing monitoring, to evaluate and improve the design, execution and effectiveness of internal controls, is duly carried out.

Management Comments

The Finance and Accounts Sections are continuously increasing their internal control structures. Suffice to say, all payments being processed are checked for:

- *approval of expenditure by the respective officer, in line with one's authority limit;*
- *checks are performed to ensure that all invoices are in line with the specific provisions in the respective contract, approved direct order and the Purchase Order (PO) which is subsequently issued;*
- *mathematical correctness;*
- *correctness of allocation in the accounting system; and*
- *review of the allocations in the accounting system are made on a regular basis and, where necessary, the respective corrections are made following discussions with the Financial Controller.*

As regards financial statements, the last audited accounts, finalised by January 2019, were for the year ended 2015, which were signed on the 29 August 2016. During the year 2019, the backlog, i.e. the audit for 2016, 2017 and 2018, were concluded. The audit for 2019 could not commence in early 2020 since the tender for the appointment of a new Auditor was still in progress. This was concluded and awarded in June 2020. Currently[1] the audit on the year ended 2019 is being carried out.

With regard to the delays in presenting management accounts, MCH first prioritised the process of putting all the accounts in order. Bank reconciliations and reconciliation of suppliers' statements were all brought up to date. Following that, the first recent set of management accounts for the six-month period ending 30 June 2020 was issued on 17 July 2020. Monthly management accounts will ensue accordingly.

Deferment of Payments

The audit report prepared by the private audit firm for financial year 2018[2] highlighted that, since 2008, the hospital had been operating continuously with a running deficit, which throughout the years this had accumulated to €11,451,862 in negative reserves and an adverse working capital of €11,824,230 was also registered. This situation led to the continuous deferment of payments, mainly to the Commissioner for Revenue (CfR) with regard to the income tax and social security contribution deducted from the employees' salaries. A total of 8% (€35,372) of the selected sample also related to payments effected in 2019 for invoices dated during the preceding financial year. As at 31 December 2019, outstanding net creditors totalled €15,333,878, of which the amount of €11,564,461 was due to CfR and €2,069,648 to the Lands Authority.

With the scenario becoming increasingly critical, in 2019, the Financial Controller requested the suppression[3] of funds (€5 million) from Capital Vote IV Line Item 7172 and an equivalent, additional amount to the Recurrent Vote 10, Line Item 6029 – Mental Health Services under Contributions to Government Entities, to pay-off part of the outstanding liabilities.

Recommendations

Claims spilling over from one year to the next should be kept at the absolute minimum, limited to that which is absolutely unavoidable. Furthermore, Management is to ensure that no commitments are entered into before it ascertains that sufficient funds are available.

Management Comments

The issue on the running deficit since 2008 was highlighted in early 2019 and a meeting with MFIN took place in September 2019 after earlier attempts did not materialise, owing to unforeseen circumstances.

The issue of financial support to cover long outstanding debts, in particular the amounts due to CfR and the Lands Authority, were discussed, including the need to boost MCH's yearly financial allocation. It was agreed that MFIN would

[1] This was by the time a reply to the management letter was submitted, i.e. end of July 2020.

[2] Being the last available audited financial statements at time of audit.

[3] This comprised of two warrants aggregating to €4,739,000 and a virement of €261,000.

help MCH settle the amount due to the Lands Authority. Since agreement was reached in 2019, it was accounted for in that same year. The funds were then forwarded to MCH in 2020 and the liability was effectively settled in 2020.

With regard to the amounts due to CfR, to date an agreement is still pending. MFIN established the condition of settling the 2020 monthly FS5 Payer's Monthly Payment Advice on a regular basis so as not to increase the balance due. MCH agreed, consequent to which the amounts due on each FS5 started to be paid, as from payroll 01 of 2020.

With respect to the other suppliers MCH first initiated the task of reconciling suppliers' statements with MCH's accounting systems. Statements which were not received in first instance were immediately requested. This is being done to ensure that the target 30-day credit period is not exceeded.

Fixed Assets Register not updated

Although an inventory database was available, this had not been updated at least for the last four years, i.e. since 2016. Consequently,

a. certain capital assets acquired during the last four years and which were in use were not recorded in the respective database;
b. it still included items that were disposed of in preceding years;
c. a number of assets were not assigned an asset identification number and tagged accordingly, thus impinging on the necessary verification of their physical existence and condition; and
d. statutory returns in respect of assets falling under the entity's responsibility, as well as additions to fixed assets, were not submitted to the Auditor General as required in terms of MF Circular No. 14/99 – 'Government Accrual Accounting – Revised Inventory Control Regulations'.

This lack of inventory management does not provide the comfort that the assets net book value of €1,880,937 as shown in the audited financial statements for the year ended 31 December 2018 is correct and reliable. Despite this concern, the audit report was not qualified on this basis.

Recommendations

Government's assets are to be adequately safeguarded. To this effect, adherence to inventory control regulations is solicited. This entails the compilation of a reliable and complete database, identifying all assets falling under MCH's remit, as stipulated in MF Circular No. 14/99. It is pertinent that this exercise is carried out without further delay. Statutory returns are to be duly compiled and submitted to pertinent Authorities.

Management Comments

The project of taking stock of current fixed assets within MCH was earmarked to start in June 2020. Owing to COVID-19 demands, the project was put on hold to address more urgent priorities relating to health, safety and well-being. Management is discussing a way forward, starting with the set-up of the teams and software required to achieve this goal. The task will be initiated in September 2020.

Control Issues

Weak Internal Control in Procurement

Testing carried out revealed the following shortcomings in the procurement process.

a. Closure of the Inhouse Procurement Section

Up to late 2018, MCH had its inhouse procurement section; subsequently, procurement was being handled by the Central Procurement and Supplies Unit (CPSU), and MCH was invoiced for the respective goods provided. Management at MCH perceived that this system had actually weakened the procurement process and in certain circumstances the latter resorted to procurement through direct orders, mainly when:

- contracts handled by CPSU expired and new ones were not concluded on time;
- refurbishment of wards so that patients were relocated to new wards which were in line with the medical brief were not treated with urgency; and
- there were changes to the original structural plans on refurbishment works which were required to be compliant with the medical briefs.

b. Goods Received Note raised Days After the Receipt of Invoice

At times the goods received note was raised days after the receipt of the respective invoice. This course of action did not provide the necessary comfort that, upon delivery, items received were reconciled to those listed on the PO and certified as correct before the invoices were processed for payment.

Recommendations

Procurement is to be planned well ahead, allowing enough time to follow the appropriate procurement procedures. If Management at MCH is concerned on how central procurement is proceeding, it is encouraged to discuss the matter with the right level of authority.

To serve its purpose, goods receipt notes are to be raised by the supplier and certified correct by the receiving officer, after checking that the items delivered are in line with those ordered, before the respective invoice is processed for payment.

Management Comments

MCH does not have staff with the necessary technical competences to raise product specification or the competent administrative staff to follow up procurement issues with the respective CPSU unit staff at MCH. Management has discussed with CPSU the required procurement set up that MCH should have in place, in order to ensure that procurement procedures are invariably followed. Pursuant to such, MCH Management has initiated a plan of action which includes the recruitment of personnel with the required expertise.

Lack of Good Governance

Non-adherence to pertinent regulations and guidelines resulted in lack of good governance as highlighted hereunder.

a. It was noted that in the majority of the cases, estimated contract prices for procurement were being set at €4,999 or €9,999 (both VAT excl.) thus bypassing the need to issue a public call for quotations or tender respectively.

b. Works carried out in relation to electrical works, amounting to €13,800 (VAT excl.) were not covered by a performance guarantee in line with Procurement Policy 22 issued by the Department of Contracts on 30 November 2015. This specifies that a 4% performance guarantee is to be obtained for all contracts with a value between €10,000 and €500,000 (both VAT excl.).

c. In line with pertinent regulations, biannually all Government entities are expected to publish in the Government gazette a list of all direct orders, departmental contracts awarded, as well as variations exceeding 5% of contract values. Besides that no evidence of such publication was forthcoming in relation to 2019, it was noted that the list of direct orders that MCH forwarded to CPSU for publication, covering the last six months of the year, did not include one of the sampled contracts, namely that for the electrical works, thus the respective list was considered incomplete. In addition, lists covering procurement undertaken by direct order during the first six months of the year were not provided.

d. A review of extracts from the evaluation report[4], relating to a call for quotes for the supply and installation of network points for MCH, revealed that this was not in line with the applicable guidelines issued by the Department of Contracts. The following relate:

   - Only two persons were nominated as evaluators when the cited guidelines specify that the evaluation committee is to be composed of three or an odd number of evaluators.

   - Relevant documentation was not traced. This included, a timetable indicating meetings held following the opening of the tender and the respective minutes, a copy of the complete evaluation report, confirmation of acceptance from the evaluation committee members, their curriculum vitae, as well as the necessary declarations.

Recommendations

The public procurement regulations are to be invariably complied with. As far as possible, needs for goods and services are to be determined at an early stage, allowing enough time to follow the appropriate procurement procedures.

A performance guarantee, which serves to mitigate the risks in case the selected bidder does not deliver up to the expected standards, is to be requested in instances where the contract value exceeds €10,000 (VAT excl.).

[4] The respective extracts were found in the related file provided for audit testing.

The evaluation committee is expected to be formed in line with the guidelines issued by the Department of Contracts and the relevant documentation duly filed.

Management Comments

All procurement is being channelled through CPSU (MDH), in line with procurement procedures. MCH is moving away from the use of direct orders and only in emergency situations the delegated authority of the Chief Executive Officer is used to procure through direct orders.

No Basis for the Certification of Invoices

Due to an unnoticed error in the price quoted on the PO, covering the procurement of three air conditioners, an aggregate overcharge of €1,142 was incurred. Action was only taken by MCH to recoup the amount in question when this was flagged by the National Audit Office (NAO) during the audit and a credit note was issued by the supplier.

The tender for these three air conditioners was cancelled three times. However, the reason behind these cancellations and whether a public call for quotations was issued in respect of this procurement costing €7,109 (VAT excl.), were not provided.

A total of nine air conditioners, all of them being of the same brand, were purchased within a period of two months. However, the warranty period disclosed on the invoice was not the same; four units indicated three years while the remaining indicated four years.

Recommendation

POs, as well as invoices, are to be thoroughly checked by two independent officers to minimise the possibility of any undetected errors.

Management Comments

Action was taken. The error was on the supplier's side. Subsequently, the Accounts Section (MCH) contacted the supplier who rectified the matter. NAO was informed accordingly through the channels of communication.

Shortcomings in Procurement made through Mater Dei Hospital

A review of payments issued during 2019 in favour of MDH, for items procured by CPSU on behalf of MCH revealed the following deficiencies.

a. Items ordered by MCH were delivered directly to the respective wards and consequently were not recorded in the stock system.

b. POs and delivery notes for ironmongery items in the audit sample, received by MCH in 2018, were only raised in April 2019 following the physical stock take. It was claimed that MDH did not provide the respective invoices upon delivery of the goods.

c. MCH adopted a first in first out policy for the purpose of stock control, with valuation being based on average cost. However, different source documentation was used for the allocation of cost to items on the PO and the delivery notes respectively, leading to inconsistency in recording the cost of the items in the system. Whilst cost on PO was based on the prices invoiced by MDH, those on the goods received note raised by MCH were as per supplier's invoice.

Recommendations

Besides providing the necessary proof that adequate authorisation for procurement was sought prior to the placement of an order, POs should be the source which can be used to compare amounts ordered with actual delivery. Thus, for the sake of transparency and accountability, the PO is to be raised before the actual order is placed.

In addition, though not required, if prices are disclosed on the goods received note, these are to be consistent with those on the respective PO and items acquired recorded accordingly in the system.

Management Comments

The substance of this recommendation is already being carried out by the Accounts Section, whereby all invoices received are checked against the PO issued and the relative authority for procurement. This task was and still is being carried out meticulously since 2019.

Delays in the Awarding of Tenders

From the sample of contracts reviewed, it was noted that the respective tenders were not always awarded within a reasonable timeframe by CPSU, in a particular instance, the contract was awarded more than nine months after the closing date of the tender and in the interim the service was acquired by direct order from a different supplier. Table 1 refers.

Table 1: Delays between Public Call for Quotes or Tender's Closing Date and Awarding

Call for Quotes or Tender	Closing Date	Date of Contract or Letter of Award
Call for quotes for the supply and installation of oxygen control panel and associated equipment for Male Ward 2 at MCH	12 Jul 2018	4 Jan 2019
Tender for the service and repair of air conditioning units at MCH (including Dar Kenn Għal Saħħtek)	6 Dec 2018	18 Sep 2019

Recommendation

CPSU is to ensure that the adjudication process is carried out within a reasonable timeframe and any justified delays are duly documented.

Management Comments

The main reasons for such delays related to:

- *MCH Engineer was not always available to carry out evaluation.*
- *Change in the chairmanship.*
- *Secretary of the evaluation committee was transferred from MCH to MDH.*
- *In the case of the second tender, an issue arose with the cheapest supplier refusing to sign the contract.*

Secondment not substantiated by a Contract for Service

From an e-mail correspondence it was noted that with effect from 11 March 2019, Head of Architecture and Civil Engineering was transferred from the Foundation for Medical Services (FMS) to MCH. However, an agreement outlining the terms of his transfer, including a job description, was not made available.

Recommendation

With the aim of enhancing internal controls, it is to be ensured that secondment of employees is supported by an agreement clearly indicating each party's rights, duties and obligations.

Management Comments

The fact that MCH did not have professional people (such as architects) to help in the planning of the works required at MCH has been constantly highlighted. Discussions were held with the Chief Executive Officer (FMS), who eventually supported MCH by transferring the Head of Architecture and Civil Engineering under the same terms and conditions of employment with FMS.

With regard to the agreement between FMS and MCH, a meeting between the two sides is underway, so as to formalise an agreement.

Compliance Issues

Financial Statements not compiled on Time

The requirement for the preparation of a set of audited financial statements within a stipulated timeframe and the submission thereof to Parliament usually emanates from the law regulating the specific entity. However, in this case, no source documentation was traced spelling out this obligation. Furthermore, although Management had commissioned an annual audit, no evidence was provided that the respective audit reports were ever presented to the Minister and tabled accordingly.

It was also noted that the annual audit for financial years 2016 and 2017 were both finalised in June 2019. During an introductory meeting held on 13 January 2020, the Financial Controller confirmed that the audited accounts for 2018 were still awaiting certification. These were endorsed later, backdated 16 December 2019.

In addition, by the conclusion of the audit for financial year 2019, i.e. mid-April 2020, the management accounts for same period were not yet finalised and thus did not serve their purpose.

Recommendations

Management is expected to prepare the respective financial statements in a timely manner and formally submit a request for these to be duly audited. A legal notice highlighting this requirement is also solicited. Furthermore, timely management accounts are important to assist Management in reaching the financial targets.

Management Comments

The audit for financial year 2018 was concluded on 16 December 2019. The Auditor did not present his audit report pages (to be annexed to the financial statements) until after 13 January 2020. This was beyond Management's control. It should be noted that a number of phone calls and an email (followed by a number of reminders) were made and sent to the Auditor.

The management accounts for 2019 could not be fully completed unless the results for the prior years were entered since, through any audit adjustments, the values quoted in the accounts would have generated false opening balances.

Non-abidance with Pertinent Circulars

In breach of MF Circular No. 5/2002 – 'Submission of Fiscal Receipts to Government Departments', stipulating that, for ease of reference, fiscal receipts received from suppliers are to be attached to the relative original payment vouchers, such receipts were not traced. Thus, it was not possible to confirm that suppliers were abiding with fiscal legislation.

Furthermore, defaulters' lists, as required by the cited circular, were not compiled and forwarded to MFIN to report cases of non-compliance.

Recommendations

Officer in charge of Accounts is to ensure that fiscal receipts are attached to the respective payment. In cases where suppliers fail to adhere to VAT regulations, defaulters are to be reported to the VAT Department.

Management Comments

Taking on board NAO's recommendation, the next step for MCH will be the reporting of defaulters to MFIN. Following a meeting between the Accounts Section Head and the Financial Controller, it was agreed that the first report to MFIN should cover all the defaulters that have not served MCH with a fiscal receipt, covering payments up to 30 April 2020. Defaulter reporting is planned as follows: for the payment run of May 2020 by end of August 2020, for the payment run of June 2020 by end of September 2020 and maintaining the same pattern on a monthly basis.

Mater Dei Hospital - Purchase of Supplies and Medical Equipment

Expenditure

An audit on the **Purchase of Supplies and Medical Equipment** at **Mater Dei Hospital** revealed that except for a few instances, the public procurement regulations were duly followed.

Background

The present health service in Malta can essentially be considered as hospital-based, with Mater Dei Hospital (MDH) being the main service provider. In addition to inpatient services, the hospital offers an extensive range of specialised services, as well as emergency, day care, outpatient and diagnostic services.

Propelled by the ever-increasing demand for new technologies and treatments, modern lifestyle challenges and the requirement and expectation to deliver a high-quality service, the Government is continually allocating a substantial portion of its budget to cover significant investment on the necessary medical equipment.

This audit focused on amounts incurred on materials and supplies by MDH during financial year 2019, from expenditure under Operational and Maintenance (line item 22[1]), Programmes and Initiatives (line item 5506[2]) and Capital Vote (line item 7402[3]). The aggregate budget earmarked in respect of the said line items for the year under review stood at €14.8 million, with actual net expenditure incurred totalling approximately €5.8 million.

Audit Scope and Methodology

The main scope of the audit was to assess whether expenditure incurred during 2019 with respect to purchases of routine supplies and medical equipment was compliant with the provisions of the applicable rules and regulations; in this case, the public procurement regulations.

The objectives of the audit included ascertaining whether:

a. procurement was conducted with integrity and in a transparent manner;
b. expenditure incurred was backed up by the necessary supporting documentation; and
c. adequate verifications were carried out before the respective payments were effected.

[1] Materials and Supplies.
[2] Mater Dei Hospital Non-Medical Equipment Facilities Management.
[3] Replacement of Equipment at End-of-Life.

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

A sample of nine payment vouchers, collectively amounting to €416,759, and representing 7% of net expenditure incurred up till the end of 2019, formed the basis of substantive audit testing and was randomly generated from the respective transaction listings.

Control Issues

Unclear Tender Specifications resulting in Substantial Variations from Budget

Review of the tendering process to purchase two ultrasound machines revealed that the respective specifications were changed by the Evaluation Committee during the adjudication process. There was a total of four bidders and the contract was awarded to the cheapest bidder. Although the winning bidder met the revised specifications, he would not have been compliant with the original technical specifications had these been retained. This triggered an appeal filed by one of the bidders.

Following its review, the Public Contracts Review Board (PCRB) concluded that the respective changes during the evaluation process were not permitted. Accordingly, the decision taken by the Evaluation Committee was revoked. The Board instructed that the tender was to be evaluated again by a new evaluation committee.

Following re-evaluation, it transpired that the cheapest technically compliant offer (€227,056 VAT excl.) was 67% higher than the estimated budget allocated to this tender (€135,593 VAT excl.) and 50% higher than the original selection (€151,742 VAT excl.). Direction was given to proceed with the respective procurement on the basis that, as claimed in the evaluation report, the costs involved were deemed to be fair and reasonable.

Recommendation

Once technical specifications are published in the tender document, these cannot be changed unless the tender in question is cancelled and a new tender is issued. This will ensure transparency and fairness.

Management Comments

The original Evaluation Committee had concluded that the cheapest offer was technically acceptable on the basis that the model offered was functionally equivalent to what was requested in the published specifications. In truth, the original and cheapest offer accepted was not perfectly compliant to the published specifications, but it did meet all the operational requirements that were required. This principle of evaluation is described as operational equivalence.

In this tender, the Contracting Authority followed this principle of operational equivalence on the basis of a previous decision that was taken by PCRB where it had actually accepted such principle when evaluating offers received.

It is however acknowledged that the conclusion by PCRB, although relevant, cannot be used as a policy or change in regulation. Changes in specifications or requirements should trigger a cancellation and republication of the tender, as recommended by the National Audit Office.

Agreements covered by an expired Performance Guarantee

Two of the performance guarantees provided for the agreements falling within the audit sample had expired and did not cover the full period of the contract.

Recommendation

Valid bank guarantees are to be duly provided and filed accordingly, since the lack of such documentation would limit the action which may be taken by the contracting authority in cases of default by the service providers.

Management Comments

Recently, MDH has established a Contracts Portal. This will ensure that all documentation is stored in a central repository and tracked accordingly. The portal issues automatic alerts to ensure that expiring documents are renewed in a timely manner.

Procurement effected under an Expired Agreement

The supply of deep brain stimulators was initially procured by negotiated procedure and an agreement was signed for three years, with effect from 25 June 2015. When the contract period expired, approval was obtained to extend the agreement for a maximum period of one year, given that the maximum contract value was not exhausted. Thus, the contract was extended up to 25 June 2019, or until such time a new tender was issued and awarded, whichever came the earlier. However, testing revealed that, at least up till the first quarter of 2020, procurement was still being effected from the same supplier on the basis that the maximum amount payable under the renewed agreement was not yet exceeded. The related approvals were not traced in file.

Recommendations

Public procurement regulations are to be invariably adhered to. Approval to purchase by direct order is expected to be obtained before the actual commitment. This would ascertain transparency and fairness, as well as ensure that, as far as possible, the most competitive prices are obtained.

Management Comments

When considering all the invoices that were paid after the contract extension had been endorsed, it is evident that the renegotiated amount of €320,000 (VAT excl.) was not exceeded up to 25 June 2019.

Compliance Issue

Direct Order not published in the Government Gazette

The direct order for the supply of high absorbance nappies, for the sum of €42,750 (VAT excl.), which was awarded in September 2018, did not feature in the Government gazette issue showing the list of direct order contracts awarded by the Central Procurement and Supplies in line with the pertinent regulations.

Recommendation

For the sake of transparency, it is to be ensured that a comprehensive list of direct orders awarded is published in the Government gazette as per standing regulations.

Management Comments

As stated by the National Audit Office, the abovementioned direct order was not published in the Government gazette. Any direct orders of supplies, works or services are now being published every six months in the Government gazette.

Ministry for the Economy, Investment and Small Businesses

Malta Industrial Parks Ltd

Inventory

An audit of the revenue generated by **Malta Industrial Parks Ltd** from leases, ground rent and encroachment fees among other issues revealed that a contract was not in line with the approval of the Allocations and Compliance Committee. In another instance, NAO could not confirm whether the Company performed any monitoring on a particular project which was to be undertaken by a tenant in line with the contract signed. It was also noted that deadline for the Board's approval of the Company's financial statements for 2018 was exceeded by more than six months.

Background

Malta Industrial Parks Ltd (MIP) was registered in Malta as a limited liability company under the Companies Act (Cap. 386) in November 2001 and commenced its operations in January 2004. It is responsible for the allocation and management of Government owned industrial estates located across Malta and Gozo. The Company administers 16 industrial zones, spread over a footprint of approximately four million square metres, with more than 800 tenants operating within these zones. MIP undertakes its activities predominantly through emphyteutical deeds and lease agreements.

The Board of Directors, which is appointed by the Minister for the Economy, Investment and Small Businesses, is composed of a non-executive Chair, a vice Chairperson, five Directors and a Secretary to the Board. The Company is managed by a Chief Executive Officer who reports to the Board of Directors.

Audit Scope and Methodology

The scope of this audit was to assess whether the necessary controls were in place to ensure that all invoices raised by MIP in respect of leases, ground rent and encroachment fees were issued in a timely manner and in line with the pertinent regulations, that the revenue collection process was adequate and the respective revenue was appropriately accounted for. In this regard, the procedures in place were analysed to assess adequacy and compliance in order to ensure completeness of revenue. The audit also sought to establish whether MIP's efforts to collect outstanding dues were adequate.

Meetings were held with senior officials to discuss the audit objectives and obtain a general understanding of the revenue generated, as well as the relevant procedures adopted. In view of information provided during the introductory meeting and walkthrough, the following risk-based audit sampling method was adopted.

Emphyteutical deeds, lease agreements and encroachment agreements signed during the last five years, that is, from the 2015 up to 2019, were assigned a risk rating based on the following four criteria:

a. the value per square metre for built up areas;
b. the annual agreement value;
c. number of days since last payment; and
d. debtors' category.

The weighting assigned by the National Audit Office (NAO) represented the Office's understanding of the risk associated with the particular criterion. The allocation of the sample across each category[1] was chosen proportional to size, by considering the number of contracts per category in relation to the total number of contracts. The agreements with the highest risk ratings from each category were selected for further analysis. A sample of 10 agreements was chosen based on this risk rating.

Limitation on Scope of Audit

Aged Analysis not made available

An aged analysis of debtors, amounting to €12,226,911 as at year end, was not made available for audit purposes. From the information provided, NAO could not establish the actual ageing of amounts which were due before 2019.

Management Comments

MIP's debtors are distinguished according to categories. Most notably is the C category, which includes tenants against whom legal action is being taken, and the R category, which includes tenants with whom a repayment agreement for arrears is in place. In both cases, by their nature, these categories clearly imply that the amounts are abnormally aged.

The bulk of the tenants are in the A category. Most do not feature in the debtors' list because they are prompt payers. With respect to the other tenants in this category, who fall behind and become debtors, the standard operating procedure is rigorously applied. However, although the standard operating procedure stipulates that a letter is sent after the third invoice is due, in the case of large amounts, the procedure is accelerated. On the other hand, in the case of very small amounts (say ground rents of €200 annually), it is not cost effective to chase legally until the accumulated amount due becomes substantive.

The current ageing classification (between 30 and +365 days) satisfies our requirements as checks and controls are conducted frequently as part of our day to day operations. In cases whereby the balance is listed under the +365 days, the system provides detailed transaction analysis.

[1] There were also five agreements categorised as Other which were considered immaterial for the purpose of the sample as the income derived from such contracts made up less than 1% of the annual income derived from contracts signed from 2015 until 2019.

Control Issues

Contract not in line with the Allocations and Compliance Committee Approval

On 23 April 2019, the Allocations and Compliance Committee approved the lease of a factory in San Ġwann industrial estate for a term of 10 years, with the tenant's option to extend the lease by a further identical term. On the other hand, the signed contract dated 26 July 2019, stated that the respective agreement could be extended for up to an aggregate period of 65 years. NAO brought this matter to the attention of MIP and Management intended to seek retrospective ratification from the Committee during the following meeting.

Recommendation

Management is to ensure that all the terms and conditions of the contracts are duly supported by the approval of the Allocation and Compliance Committee.

Management Comments

MIP acknowledged. However, it is to be clarified that the Allocations and Compliance Committee includes the notaries who draw up the deeds and they do not proceed unless the necessary authority is officially provided by the Committee.

The observation was clearly an exceptional oversight that have since been ratified. Going forward, emphasis on internal controls prior to contract execution is being enhanced.

Lease Contracts not drawn up

Transport Malta

A lease contract for office premises in Luqa was entered into between MIP and Transport Malta in March 2015. It was valid for six months and could be extended by another identical term. However, no further contracts were subsequently drawn up, although the said tenant occupied the premises until the end of year 2018 and was invoiced accordingly on the basis of the expired contract.

Moreover, notwithstanding that Transport Malta left the premises end 2018, MIP continued to charge the former for the lease of premises, at least up to the beginning of July 2020, when the audit was in progress, showing an amount of €120,493 still due as at said date.

Infrastructure Malta

The same premises mentioned above, previously used by Transport Malta, were occupied by Infrastructure Malta since 1 January 2019. However, a lease contract was not undertaken and the new tenant was never invoiced. MIP Management claimed that technical concerns kept it from signing the lease contract with the new tenant; however, these have now been settled and the matter was being given priority.

Recommendation

MIP is to ensure that valid contracts are in place throughout the entire occupancy. This also applies whenever there is a change in tenant, even when it is a Government entity.

Management Comments

Infrastructure Malta and Transport Malta are both Government entities which happen to fall under the same Ministry. Therefore, the physical move for them was simply an internal matter. As maybe evidenced from the e-mail communications (excluding the various verbal calls), this situation was being followed up closely to ensure that the formal contracts are executed.

MIP could have taken a more stringent approach to ensure alignment, however it considered the holistic aspects, especially those related to the fact that the structure of these entities are essentially Government, hence the sensitivity. MIP does take timely actions across its tenant portfolio.

Lack of Monitoring on the Obligations emanating from Contract

Through a contract dated 17 January 2017, MIP assigned a plot of land on a 65-year lease to a foreign pharmaceutical company, for the annual consideration of €57,085 as ground rent. The pharmaceutical company was to develop the site, incurring a cost of not less than €2,205,000 (VAT excl.).

Detailed plans of such development were to be forwarded to MIP for approval within a month of the signing of the contract. Subsequently, the tenant was responsible to apply for permits in order to perform the necessary works. In actual fact, work on this development never materialised and the project was abandoned. Moreover, no documentation was made available by MIP to confirm that any monitoring on this project had actually been performed.

Pending ground rent due in this respect, which at time of audit stood at €156,983, related to the period starting 1 January 2018 until end September 2020. According to MIP, representatives of the foreign company had travelled to Malta to conclude the deed of reversion, but this remained unsigned because MIP insisted that the ground rent was payable until such date. On the other hand, the tenants objected as they claimed that, in 2018, they had indicated that they were no longer interested in this project.

Recommendation

Effective monitoring to confirm that the tenants adhere to the conditions of the contract is solicited. This would ensure that any problems are identified at an early stage and corrective action taken immediately.

Management Comments

Effective monitoring of the conditions of the contracts are in place and letters of breach are issued if tenants do not meet the deadlines stipulated in the contracts with respect to:

a. *provision of the necessary plans to MIP for approval to build the land allocated;*

b. *application to the Planning Authority after no objection is provided by MIP for the above; and*

c. *development within the prescribed timeframes after the permit from the Planning Authority is issued.*

The case referred to is an international tenant (foreign direct investment type based in India) who decided not to proceed with the project after the deed was entered into. MIP is presently[2] *in contact via video link and awaiting confirmation of his full and final settlement offer of €50,000, which will be presented to the Board of Directors for their consideration.*

Inaccurate Information

NAO also noted the following inconsistencies in the information provided:

a. A contract with respect to a property, for which a deed of reversion was signed on 20 November 2018, still featured as being effective until 2082 in the list of agreements provided to NAO. It transpired that this occurred because a credit note, amounting to €857, remained pending on this property.

b. Recent contracts require tenancy payments to be made through direct debit mandate. In this regard, NAO also noted an anomaly in the system whereby, on an attempt to transfer funds, the data field recording the number of days since last payment would automatically be updated although the transaction itself would fail. When NAO brought this matter to the attention of MIP, Management stated that it needed to consult the software provider. NAO is not aware of any developments as no communication was received in this regard by the time of writing of this write-up.

Recommendation

MIP is to act upon these inconsistencies in a reasonable time in order to ensure that management information is as accurate as possible.

Management Comments

Whilst taking note of the recommendation, Management is indeed after mitigating and eliminating any inconsistencies. With respect to the credit note issue, whilst rents are payable in advance, this credit note was specific to an overpayment by the specific tenant. Therefore, the account could not be closed until such time MIP settles the overpayment through a refund.

With respect to the observations regarding the software and the relationship to the direct debit mandate process, Management is looking at the software and whether this maybe improved or mitigated.

No Revision of Estate Scoring

In line with the memorandum addressing the rent policy regime dated 24 July 2012, the estate scoring, which is one of the factors determining the lease computation, was subject to an annual revision every November. This was

[2] Management comments were received on 8 October 2020.

to be agreed on the basis of a factual analysis between Malta Chamber, Malta Enterprise, MIP and the respective tenants' association.

However, MIP claimed that the scoring given in 2012 was still considered practical, equitable and suitable for MIP's requirements, therefore the necessary reviews were never undertaken. On the other hand, no documentation was made available to confirm that the respective parties ever considered this issue.

Recommendation

When it is agreed that a revision of the estate scoring is not deemed necessary, the respective decision between the parties involved is to be documented. This will confirm that the matter has been revisited periodically to consider any developments.

Management Comments

The scope of the memorandum with the Malta Chamber and the tenants' association is essentially a formal document that lists down the baseline of the rental policy and is there to protect its members' interests. Discussions with both the Chamber and Ministry are kept on-going periodically and in a timely manner. The discussions held so far did not trigger the necessity to review the estate scoring. That said, MIP takes on the recommendation to maintain a more formal approach and record same accordingly (going forward).

Compliance Issue

Late Approval of Annual Accounts

Sub-article 182(2)(a) of the Companies Act (Cap. 386) requires the annual audited accounts of a private limited company to be approved during a general meeting within 10 months of the financial year end. However, the financial statements for 2018 were only approved by the Board of Directors in May 2020, while those for 2019 were still in the process of being audited as at the beginning of September 2020.

Recommendation

Management is expected to comply with the reporting requirements accordingly.

Management Comments

Whilst MIP acknowledges and is aware of Article 182 of the Companies Act (Cap. 386), it is indeed most unfortunate that at the time, there was the need to change the audit firm as per guidelines issued by the Ministry for Finance. The procurement and appointment process took more time than expected and hence the delay. It also happened that the appointment of the new auditors coincided with the timing of the physical relocation of MIP's head offices.

The financial statements for 2018 were approved in May this year and subsequently the exercise for those pertaining to 2019 was immediately embarked upon. It is anticipated that these are completed this year. MIP is committed to ensure that timelines are adhered to with respect to this obligation going forward.

Ministry for Education and Employment

Foundation for Tomorrow's Schools

Capital Expenditure

Public procurement regulations were not always followed by the **Foundation for Tomorrow's Schools** when designing and building the new primary school in Marsascala. Furthermore, by end of September 2020, the respective school had not yet been officially transferred to the Ministry for Education and Employment, despite that this was inaugurated in February 2019. This resulted in several shortcomings in the respective assets control management.

Background

The Foundation for Tomorrow's Schools (FTS) was set up in May 2001 by the Government of Malta to design and build new schools. It is also held responsible to refurbish and maintain state-owned schools as required from time to time and to undertake minor projects at various educational facilities. The Foundation's involvement starts from the conceptual stage of the respective schools up to the eventual commissioning and handover to the Department of Education. However, it is not involved in the decision of where schools are to be built. One of the latest projects designed and built by FTS related to St. Joachim Primary School in Marsascala, which was inaugurated prior to the commencement of the audit.

The capital expenditure is financed through hedged loans facilities, the repayments of which are provided to FTS by Government in the form of an annual allocation. During the year under review, €14.5 million was allocated to the respective capital vote to cover the loan repayments.

Audit Scope and Methodology

The main scope of the audit was to verify that public procurement procedures were adhered to when incurring capital expenditure for the construction of the primary school in Marsascala[1]. Payments which were effected in this respect by at least 23 April 2020[2], totalled €5.7 million. Whilst school operations from the new premises commenced in January 2019, the school was officially inaugurated in the following month on 20 February 2019.

The necessary internal controls overseeing this project were to be verified, including quantity surveying and quality certifications. Verifications of the inventory control measures, implemented both at FTS offices and the school in question, were also to be carried out.

[1] The building also includes a childcare centre which, according to FTS, will eventually be transferred to the Foundation for Educational Services.

[2] This is the cut-off date for selecting sample; other payments for substantial amounts were still outstanding.

In order to obtain an overview vis-à-vis the procedures in place relating to capital expenditure, the National Audit Office (NAO) held meetings with officials at FTS. A site visit with four officers who were responsible for the project was held in July 2020. The necessary documents required for audit testing were requested and analysed accordingly. The sample of transactions selected, amounting to €4,861,683 (85%), was mainly based on materiality, but it also included a number of other minor expenses, as well as all cash payments. Inventory management was also reviewed. The main agreements reviewed for audit purposes covered the following categories of expenditure (Diagram 1 refers):

Diagram 1: Agreements reviewed and the respective Value[3]

Limitation on Scope of Audit

Documentation requested for audit purposes in April 2020 was provided relatively late, at end September 2020 when the audit was concluded; thus the foregoing documentation was not reviewed. These related to transactions for soft flooring, amounting to €46,365, representing 43% of total payments made to a local supplier.

[3] All amounts quoted in the diagram are exclusive of VAT. Furthermore, the contract for the provision of security services also covers Qawra school but quoted amount relates only to services provided at Marsascala school.

Key Issues

Non-adherence to Public Procurement Regulations

Audit testing revealed that Public Procurement Regulations (PPR) were not always followed. The following related issues encountered during the audit are outlined in more detail further down in this write-up:

a. Variations not approved by the Department of Contracts (DC).
b. Submissions to DC to approve the required modifications were forwarded prior to obtaining senior management's approval for the necessary changes.
c. Performance guarantees not requested.
d. Reasons when requesting approval for a direct order not considered justified.
e. Agreement extended beyond its validity period.

Recommendations

PPR are to be invariably complied with and terms and conditions in the respective agreement duly followed. Proper needs for goods and services are to be determined at an early stage, allowing enough time to follow the established procurement procedures.

Official Hand Over not yet given

Assets in relation to construction and finishing phases were fully financed by FTS, whilst other educational furnishings, such as interactive whiteboards, were procured directly by the Ministry for Education and Employment (MEDE). Notwithstanding that more than 20 months had elapsed since when the first students were welcomed in the new school[4] at Marsascala, at least up to end September 2020, the hand over process from FTS to MEDE had not yet materialised. The latter confirmed that it still did not have, at its end, a list of inventory items procured and financed by FTS for the school in question. The only inventory list in hand related to the assets expensed by the Ministry itself. This means that whilst the latter is responsible for the day to day operations of the premises and the safeguarding of the related inventory, to-date the respective ownership still rested with FTS.

The Foundation justified its position by stating that the related information may be extracted from the nominal ledger. However, considering that payments were made in a staggered manner, coupled with the fact that the nominal ledger did not indicate details, such as the quantity of items procured, this approach did not provide reliable data for the sake of inventory control.

Recommendations

Unless MEDE is fully aware of all the related assets, it cannot exercise adequate control over them as required by pertinent regulations. Thus, FTS is expected to hasten the handover process. Inventory list is to be invariably compiled and updated, ensuring accountability and ownership, even in view of the Government's transition towards accrual accounting and in order to be readily available for the eventual transfer.

[4] This school opened its doors to students in January 2019.

Control Issues

Memorandum of Understanding not in place

Notwithstanding that the Foundation has been in existence for almost 20 years, a memorandum of understanding with MEDE was still not in place to define the ensuing procedure for the transfer of assets from FTS to MEDE, following the conclusion of a particular project.

Recommendation

A memorandum of understanding is beneficial to both parties as it will outline the applicable rights, obligations and procedures to be followed, whilst reducing potential disputes.

Shortage of Staff

The high employee turnover experienced by FTS throughout the implementation of this project, mainly relating to architects and quantity surveyors, led to an unsustainable workload on quantity surveyors still in office and to the outsourcing of architectural services. Certifications were delayed, constraining the Foundation to authorise payments on account in favour of the appointed contractors to ensure that works do not come to a halt.

As per the organisation chart provided during the audit, the posts of a number of architects were still vacant. Meanwhile, a new Chief Executive Officer was appointed in May 2020 to fill the post that had been vacant since February 2019.

Recommendations

Considering the number of projects requested from MEDE and their magnitude, measures must be taken to address staff turnover and attract new entrants. This will enable Management to meet its targets while limiting payments on account. FTS is to consider employing architects which is likely to be more cost effective.

Variations not authorised by the Department of Contracts

Approval from DC, as required by standing regulations, was not obtained prior to the execution of variations totalling €241,750, in respect of finishing works. Variations of €16,266 relating to construction works were also not duly authorised. DC refused to approve these variations retrospectively, which were then approved by the Board and paid accordingly following legal advice sought from the Attorney General.

Other variations, amounting to €27,150, related to mechanical and electrical services. NAO was not provided with any information indicating who gave the go ahead to the contractor to execute the additional works in question. These variations were only approved retrospectively by the Board members.

Recommendations

Necessary approvals are to be invariably obtained prior to the implementation of additional works. In addition, every effort is to be made in order to minimise the number of variations.

Invalid Justification for Direct Order

Subsequent to soft flooring works carried out at the kindergarten section, which procurement was obtained by direct order approved by the Ministry for Finance (MFIN)[5], another request dated 7 August 2019 was made to MFIN for similar works at the childcare area, for the amount of €49,985 excluding Value Added Tax (VAT). In this request, it was stated that this facility had to open in September 2019, so the items were extremely urgent. However, at least by 9 July 2020[6], the childcare was not yet operational. Furthermore, such item cannot be considered as unforeseeable for childcare areas.

Recommendation

Foreseeable works are to be properly planned for and direct orders are only to be resorted to in exceptional cases. FTS could have benefitted from better prices had a tender been issued, covering both areas. This would have also enabled transparency and fair competition in public procurement.

Shortcomings in the Construction Contract

Following a public call for tenders, on 30 January 2017, an agreement with a value of €1,194,279 (VAT excl.) was entered into for the construction of the new primary school in Marsascala. The implementation of the project was characterised by a number of staggered variations and procurement of repeated items aggregating to €613,404, which when netted off against savings that resulted from re-measured works, amounted to €159,266 (VAT excl.). This augmented the total construction costs to €1,353,545 (VAT excl.). A review of the respective file revealed the following shortcomings:

a. Approval from the Foundation's senior management, namely the Chief Executive Officer, Chairman and Permanent Secretary MEDE, for the foregoing variations, was formally sought following requests filed with DC, upon the latter's instructions.

b. The last set of modifications was approved by DC in July 2019, i.e. eight months after the issue of the respective final payment certificate and six months following the commencement of school operations.

c. Section 14 of the special conditions governing the contract agreement required the contractor to insure, in the joint names of the contracting authority, the works against loss and damage for the full value plus 15% of all the works executed and all unfixed materials intended for, delivered to, or placed on, or adjacent to the works. In addition, the contractor was also obliged to issue a third party policy of not less than €1,200,000. However, copy of the respective policies was not provided for audit purposes. Thus, NAO could not ascertain that the respective clauses were complied with.

[5] As indicated under Limitation on Scope of Audit, this direct order was not reviewed by this Office.

[6] Being the date of the site visit.

Recommendations

Pertinent regulations and guidelines are to be invariably complied with. For good governance, projects are to be properly planned so that modifications are kept to a bare minimum and envisaged at an early stage. This would avoid unnecessary delays whilst ensuring that these are properly approved in due time prior to the execution of the related works.

If checks are not in place to ascertain that the obligations on the bidder are being honoured, they will be rather meaningless. Hence, the Foundation was expected to request a copy of the related insurance policies and ensure that these were duly renewed upon expiration so that FTS would not be exposed to unnecessary risks, such as in case of accidents.

Issues relating to the Procurement of Security Services

Following a call for quotations, an agreement bearing the value of €54,344 (VAT excl.) was entered into with the winning bidder in March 2018 for the provision of security services[7] at Marsascala and Qawra sites pertaining to FTS, for a four-month period, with the possibility of a further two-month extension. However, the agreement continued to be renewed until end of August 2019. The following shortcomings relate:

a. No approvals were sought from MFIN for expenditure incurred during the two-month extension and an additional period of four weeks in the month of February 2019[8], aggregating approximately to €14,672.

b. Service provided between 1 March and 8 July 2019 was not covered by a valid bank guarantee.

c. FTS was not in possession of a copy of the renewed security guard licence of certain officers working at Marsascala.

Recommendations

For the sake of transparency and good governance, agreements are not to be extended beyond their validity period. Besides losing on more favourable terms that other potential service providers could be willing to provide, unfair discrimination could be claimed by the latter. Thus, FTS is to ensure that PPR are duly followed by planning ahead as far as possible.

Performance Guarantee not requested or extended

Besides that for security services mentioned above, performance guarantee was also not requested from two private entities, for the provision of soft flooring and architectural services, despite that the procurement, amounting to €49,985 (VAT excl.) and €59,714 (VAT excl.) respectively, required a performance guarantee equivalent to 4% of the contract value.

[7] Services started being provided as from 12 April 2018.

[8] Remaining periods were covered by an approval, as applicable.

Meanwhile the bank guarantee covering the supply of school furniture was entirely released despite that the respective furniture, which value is much greater than the performance guarantee, was not received according to specifications. FTS claimed that replacement was expected to take place at a later stage, during vacation period when the school is not operational. At least by 11 September 2020, the supplier was still replacing furniture which was not up to specifications.

Recommendation

Performance guarantees are a means to ensure that the contractor fulfils his obligations in terms of the contract. Hence, in line with pertinent guidelines, it is important that this is in place prior to the commencement of works and continues to be renewed until the contract is fully honoured. Given that a performance guarantee mitigates certain inherent risks, it is not to be considered as an option in the contract, since retention monies do not always suffice in case of default.

Penalties for Delays in the Execution of the Contract not imposed

Leniency for the imposition of late penalties was noted in cases where the stipulated period for the execution of the respective work covered by the sampled contracts was exceeded, namely the installation of two passenger lifts and the supply, delivery and installation of school furniture.

Recommendation

Management is expected to penalise those suppliers who do not abide by the agreed terms.

Hall built on the Top Floor

The school hall was built on the third floor, being the top floor, notwithstanding that if this was built at ground floor it would have been more practical for everyday use, as well as when this needs to be used by third parties outside school hours. Furthermore, during the site visit, NAO was informed that plans were underway to again build a new hall at ground level in order to replace the hall on the third floor, following clearance of an adjacent land owned by the Archdiocese of Malta. No explanation was given as to why it was not initially decided to build the hall at ground floor within the school precincts to avoid unnecessary costs.

Recommendations

Proper plans are expected to be made at the outset in order to avoid unnecessary disbursements from public funds while also being more practical.

Prior Approval for the working of Overtime not traced

Overtime work performed during weekends at various schools by MEDE employees who were seconded to perform duties on FTS projects, in the sampled month of October 2019, was not covered by a formal approval from the Permanent Secretary. Whilst acknowledging that the Public Service Management Code Section 2.2.7 allows the Permanent Secretary to delegate authority in writing to approve overtime, no such delegation was provided for audit purposes. Furthermore, besides his endorsement, the Head of Division was also endorsing the related overtime timesheets on behalf of the respective manager. This weakens the internal control in place. In addition, the timesheets reviewed did not provide the comfort that overtime was approved beforehand.

Recommendations

Necessary approvals from the right level of authority are to be obtained prior to the commencement of overtime work. Furthermore, unless the Permanent Secretary approves overtime, delegation of authority to this effect is to be obtained in writing from the foregoing to suitable public officers within the Ministry, not below salary scale 5.

Compliance Issue

Returns of VAT Defaulters not submitted

Quarterly returns with details of VAT defaulters were not sent to the VAT Department in line with pertinent circulars. This issue was also raised by the private auditors of FTS.

Recommendations

A list of defaulters, or a nil return as applicable, is to be submitted to the VAT Department on a quarterly basis in line with the pertinent circulars. FTS is also to consider discontinuing purchases from defaulting suppliers until the matter is rectified.

Management Comments

The only Management comment received relevant to this write-up, related to the observation on penalties for delays in the execution on the contract that were not imposed, where it was stated that given that the contract of school furniture was not yet concluded, FTS did not rule out applying any applicable penalties.

Institute for Education

Revenue and Expenditure

The audit at the **Institute for Education** revealed lack of action taken as regards defaulters of fiscal obligation, as well as insufficient verification in the payment of subsistence allowance which resulted in overpayments. Furthermore, income from course fees was not being recognised on an accrual basis.

Background

The Institute for Education was originally set up in 2015 as an Institute, subsequently reconstituted as an Agency managed by a Chief Executive Officer (CEO) and falling under the direct responsibility of the Permanent Secretary within the Ministry for Education and Employment (MEDE). The role of the Agency is to create high level accredited and non-accredited courses, while collaborating with the Education Department, colleges and other schools and institutions. It provides initial teacher training, as well as professional development to enhance skills and competences into educators at all levels of leadership, while infusing equity and social justice within all programmes. Its programmes are flexible and are provided through different modes of delivery, such as face-to-face lectures, online and blended learning.

The budget allocation for 2019 under Recurrent Vote 13, Line Item 6828 was €2 million; however, the Institute received only €1,250,000 in subvention from the Ministry for Finance, while another €109,640 was directly transferred to the Institute's line item by MEDE, for a total amount of €1,359,640. Following a request made to the Ministry for Finance for the remaining funds, the Budget Affairs Division refrained from transferring the last subvention tranche on the basis that the Institute was already in a position to cover its current activity level.

Apart from the subvention and the funds received from MEDE, the Institute generated other income of €167,117, mainly from course fees, as well as amounts received from Erasmus that were netted off against the respective expenditure. In 2019, it had a total of €1,526,757 at its disposal but only €703,941 was spent, ending the financial year with a surplus of €822,816.

Audit Scope and Methodology

The scope of the audit was to determine the level of internal controls in relation to income and expenditure relating to the organisation of courses, as well as direct and administrative expenditure. It was also verified whether the applicable regulations were being followed.

A virtual introductory meeting was held. Substantive audit testing was performed in respect of a number of income and expenditure items, including payments made to course co-ordinators (€53,560) and lecturers (€90,267) engaged on a contract for service basis, cleaning costs (€36,745), hospitality (€10,260), refurbishment costs (€73,771) and travel (€7,351), amongst others.

Control Issue

Inaccurate Subsistence Allowance

Review of a sample of four out of five overseas trips undertaken by staff of the Institute during 2019 revealed that there were instances of non-compliance with the pertinent regulations, resulting in overpayments. Shortcomings noted included accommodation and meals, paid by the host or the Institute, not deducted from the subsistence allowance and payment of allowance based on an additional extra night.

Recommendations

The Manual on Transport and Travel Policies and Procedures, which is to be invariably adhered to, regulates official travelling and incorporates entitlements for officers while travelling abroad on official duty. Ideally, allowances paid are to be independently checked for accuracy. Refunds of any overpaid subsistence allowance are to be requested.

Management Comments

Management discussed the above cases with the persons involved. It was evident that the discrepancies arose due to lack of administrative capacity at that time and surely without any ulterior motives.

The CEO and Head of Finance went through the circumstances of each case and decided to take action accordingly. As from now on, the CEO will be approving the scope of travel while the Head of Finance will be ensuring that the subsistence paid is calculated in accordance with the Manual on Transport and Travel Policies and Procedures, before approving actual payment. For this purpose, the administrative officer assisting Head of Finance will be given adequate training on travel policies so she may prepare the subsistence workings accordingly for Head of Finance approval.

Compliance Issues

Income from Course Fees recognised on a Cash Basis

The Institute recognises income from course fees on a cash basis. This procedure goes against the policies of International Financial Reporting Standards, on which its annual financial statements are reportedly based.

Testing carried out by this Office revealed that the related reported figure of revenue in 2019, amounting to €99,018 was overstated by approximately 5%. This difference is currently not considered material; however, once the Institute introduces more courses, the variance will become more significant.

Recommendation

The Institute is expected to recognise all its income based on the accruals concept.

Management Comments

Centre Administration Department will inform Head of Finance about the beginning and end date of each award (short, accredited) course. With regard to qualifications, Head of Finance will be informed that the start date is 1 September and end date is 31 August. In this way, income from courses may be spread over the duration of the course rather than recognised when received.

VAT Regulations not adhered to

No fiscal receipts were provided for the eight sampled invoices relating to cleaning services and twelve hospitality related invoices, in total amounting to €34,251 (€29,372 and €4,879 respectively).

Furthermore, the Institute was not aware that a defaulters' list was to be submitted to the Value Added Tax (VAT) Department for the necessary action.

Recommendations

Accounting officers are to ensure that they are invariably issued with a fiscal receipt by suppliers who have been paid for goods or services.

Suppliers who are exempted from registering for VAT are to be requested to furnish a declaration with any other type of receipt, confirming also that they are exempt for VAT purposes.

The Institute is obliged to report any defaulting suppliers to the Inland Revenue Department on a quarterly basis.

Management Comments

The Administration Department will include this in the standard operating procedures and inform all suppliers to issue a fiscal receipt, where applicable, each time a payment is effected. A note to this effect has already been included in local purchase orders being issued.

Furthermore, the Human Resources Department will include a clause in future contracts for service and engagement forms, reminding service providers of their obligation to furnish the Institute with a fiscal receipt or tax invoice. In cases of service providers who are exempted from registering for VAT, the clause will also remind them to issue a receipt, which in this case is not a fiscal receipt or tax invoice. In such cases, the clause will also specify that service providers will be requested to furnish a declaration with respective receipts confirming also that they are exempt from registering for VAT.

The Finance Department shall include any defaulting suppliers and service providers in the quarterly submissions required to be sent to the Inland Revenue Department as per pertinent circulars.

Public Procurement Regulations not strictly followed

Since the setting up of the Institute in 2015, refurbishing works were carried out in order to make the lecturing environment a welcoming place for prospective educators. During 2019, a total of €73,771 was incurred on services procured from 19 different suppliers.

The audit revealed that one of the sampled five suppliers was a contractor from whom the Institute purchased more than €41,000 worth of goods and services through several direct orders, by obtaining quotations by email for individual works, within a five-month period. This notwithstanding that it would have been more appropriate to issue a departmental tender considering that the aggregate amount involved exceeded the threshold of €10,000 (VAT excl.) established by the Public Procurement Regulations (PPR).

Recommendation

Considering that most refurbishment works are projected in advance, the Institute is expected to plan ahead and issue a departmental call for tenders, whereby more bids are likely to be received, possibly resulting in better prices while ensuring compliance with PPR.

Management Comments

A lot of the work had to be done in a very short timeframe due to the fact that courses had to be delivered without any delay. The method adopted was still a transparent one and did not go against PPR. However, now that the Institute has recruited a Procurement Manager, the recommendation given will be followed.

Malta College of Arts, Science and Technology

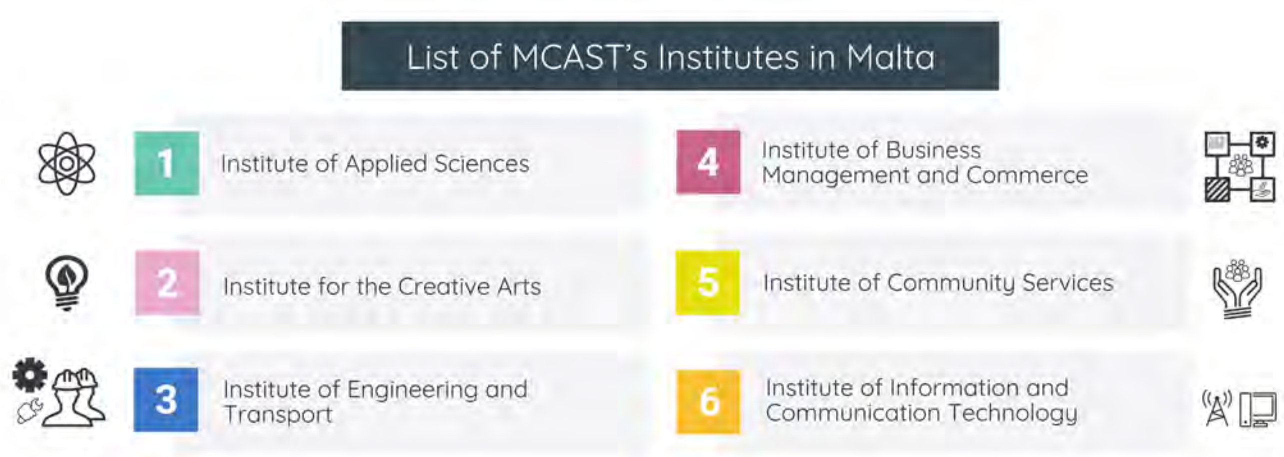
Personal Emoluments

The audit of personal emoluments at the **Malta College of Arts, Science and Technology** revealed various shortcomings, including lack of internal controls on the number of hours worked and inaccurate payments, as well as others which could not be validated since no applicable policy or addendum was in place. Weaknesses were also noted with regard to the work resources allowance, which entitles academics to buy devices and supplies related to their work.

Background

The Malta College of Arts, Science and Technology (MCAST), was established in 2001, to provide vocational and professional education and training with an international dimension, responsive to the needs of its students and the economy at large. The College offers both full time and part time courses ranging from certificates to master's degrees, through the following six Institutes in Malta and the Gozo campus:

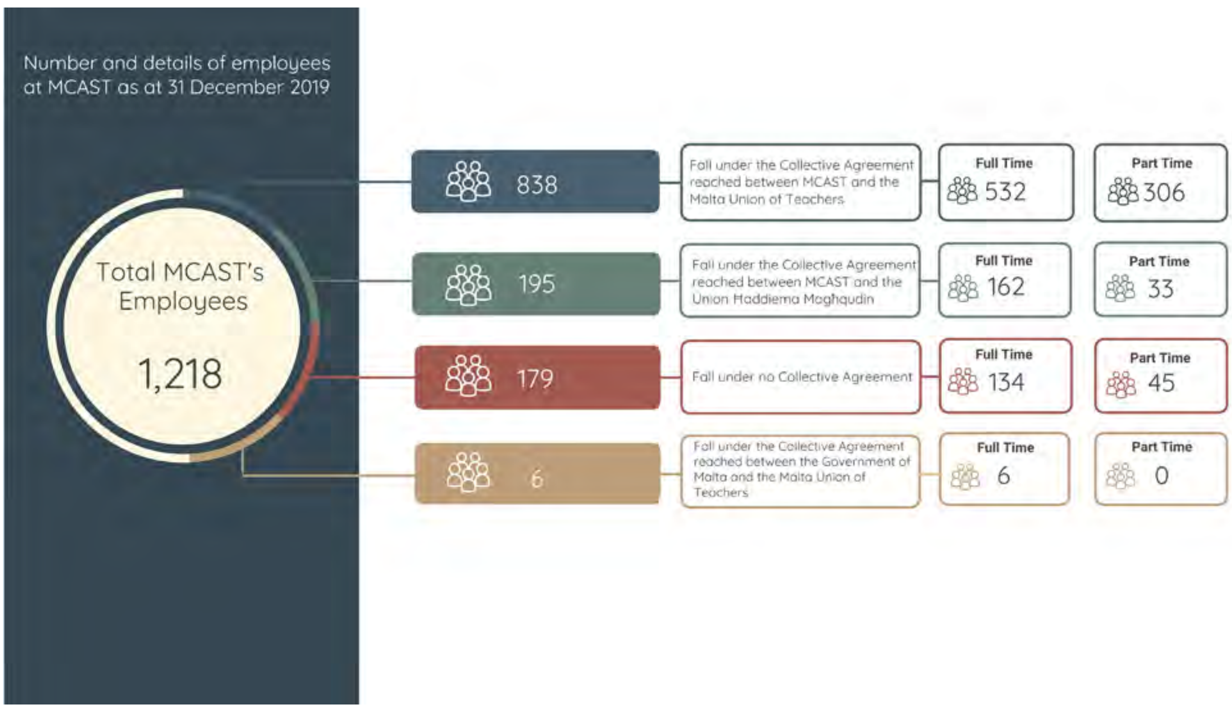
Figure 1: The Six Institutes in Malta



The MCAST Gateway to Industry (MG2I), which is the College's commercial arm, identifies and addresses the training needs and requirements of any type of manufacturing and service environments. It also provides training courses tailormade to meet the customer's necessities.

The allocation under Vote 13, Line Item 6457 – Malta College of Arts, Science and Technology, within the Ministry for Education and Employment for 2019 amounted to €28 million. This was meant to cover MCAST's recurrent expenditure. Following a request for further funds, in November 2019 an additional €4 million was transferred to MCAST. The major part of the recurrent costs of MCAST were personal emoluments which during 2019 amounted to €30.7 million. Figure 2 depicts details of the payroll as at 31 December 2019.

Figure 2: Payroll Information as at 31 December 2019



Audit Scope and Methodology

The scope of the audit was to determine the level of internal controls in relation to the calculation and payment of personal emoluments to employees covered by the collective agreement that was reached between MCAST and the Malta Union of Teachers (MUT) on 27 July 2018[1]. It also included verification on whether the applicable regulations and the provisions in the respective collective agreement were being followed, mainly with regard to payments of allowances and extras[2]. Payment of Work Resources Allowance (WRA), received by academics to buy devices and supplies related to their work, was analysed to ensure adherence to the applicable policy. Testing was extended to the accuracy of Government bonus and other allowances given to MCAST employees.

[1] Verification of payments was mainly carried out up to payroll 9.

[2] Extras relate to payments made to lecturers to compensate for extra hours worked apart from their normal obligatory hours of work as per the collective agreement. These can also include hours worked with MG2I.

An introductory meeting was held at MCAST and walkthroughs, both at the Finance and Human Resources Departments, were held by the National Audit Office (NAO) in order to obtain an overview vis-à-vis the procedures in place. Audit testing was carried out, mainly to determine whether there was an effective system of internal controls throughout the payroll process.

Key Issues

Discrepancies and Undocumented Changes in Basic Salary Payments

In line with the collective agreement, entered into between MCAST and MUT in July 2018, lecturing staff were to be paid the difference in salary in arrears as from the year 2017 according to the scales of progression. However, MCAST was following instructions given by the then MCAST's President via email on 30 October 2018, based on a separate undated document, signed by MCAST's Vice Principal and MCAST's union representative, with colour coded salary progressions. This was not part of the collective agreement and was signed only by two signatories, rather than by all the officials who had actually signed the collective agreement.

Moreover, the highlighted unsigned addendum to the collective agreement triggered variances, since rather than going from one pay point to another following one's working anniversary, there were instances whereby pay points were skipped and progression was accelerated. A number of other errors in the calculation of salaries were also noted.

Recommendations

A collective agreement, which is usually concluded after long negotiations between the respective parties, is considered to be binding and, generally speaking, should not be envisaged to be altered within a short period of time. Furthermore, any progressions in salary scales are expected to be in line with the practice applicable for the public service. Timely negotiations of the collective agreements will avoid retrospective adjustment for salaries and the related risk of errors.

Management Comments

Accepted and errors not to be repeated in 2022 collective agreement.

Work Resources Allowance not adequately managed

In line with the WRA policy and the respective collective agreement, all lecturers and Learning Support Educators (LSEs) can avail themselves of WRA; the applicable amounts for 2019 were €2,000 for each lecturer and €300, €500 or €700 for those in the grades of LSE I, LSE II and LSE III respectively. A total of 447 academics in aggregate utilised €640,150 during the year under review.

Audit testing revealed various shortcomings with regard to the allowance in question; amongst others these included, key requirements not indicated in the policy, limited control over utilisation of funds and submission of reports, as well as incorrect amount allocated as WRA. These are shown separately and in more detail, further down in the write-up under the pertinent observations.

Recommendation

MCAST is to ensure that it implements adequate internal controls in order to mitigate misuse of WRA from public funds.

Management Comments

Accepted and action to be taken by the last quarter of 2020. A standard operating procedure is being drafted so that MCAST establishes a framework for the auditing of the documentation presented on a yearly basis by the lecturers to ensure adherence to the policy in place. Also, MCAST has started to discuss the possibility of using an electronic system whereby lecturers will be allowed to upload their receipts of purchases electronically immediately after the purchase. This will decrease the amount of paperwork received and the system will automatically record previous year and current records. As for the policy, MCAST has been requesting MUT to approve an amended policy, which was approved by the latter. The amendment includes an adjustment to time periods, an increase in allowable expenses and a clarification of expenses obtained from the various queries the committee receives.

Payment of Information Technology related Allowance not duly substantiated

During the year under review, 41 employees received the aggregate amount of €306,040[3] as a top up allowance. This allowance is paid to individuals lecturing the subject on information, communications and technology, to compensate them for the difference in salaries paid within the information technology industry. Eventually, the respective amounts are invoiced by MCAST to the Ministry for Education and Employment for reimbursement.

Documentation on this allowance available at MCAST was a cabinet memo dated in year 2006 and other related correspondence, recommending the introduction of such allowance to make up for the drop in the engagement of respective lecturers. However, the documentation made available did not specify the amount to be paid. Since an agreement to this effect was also not in place, the amount in question could not be validated.

Recommendation

If the payment of this allowance, which was discussed 14 years ago, is still justified, an addendum to the collective agreement is to be endorsed to this effect for the sake of transparency. This is to include effective dates, eligibility, amounts and the related terms and conditions.

Management Comments

Accepted. NAO's request requires a political decision to either confirm or terminate such allowance.

[3] Allowance of €8,160 annually, i.e. €680 monthly or pro rata.

Control Issues

Limited Control over Work Resources Allowance

a. Allocations in advance

As per MUT collective agreement "*by 1st January 2019, MCAST will be required to produce, issue and forward debit card to all relevant staff in order to enable direct payment*" in respect of WRA. This contrasts the approach taken prior to 2019, where all claims had to be assessed before the issue of the respective refund which was done annually. Besides the strain on the College's cash flow triggered by the advance allocation, this approach also impinges on the internal control over this expenditure. It is also worth noting that the lecturers' annual allowance was increased from €450 to €1,000 in 2018, doubled to €2,000 in 2019, with a further increase in the subsequent year, whilst that of LSEs rose by an annual amount of €100.

According to MCAST, thorough checks will be carried out on the documentation submitted for the year under review, being the first year when the debit card was introduced. However, given that eventually MCAST intends to check on a sample basis in line with WRA policy, there is the risk that misuse of funds may not always be detected.

b. Key Requirements not included in the Policy

The policy agreed upon between MCAST and MUT, governing the benefit of WRA, includes a list of approved work resource items that academics can purchase and the applicable criteria. However, the frequency of certain purchases, such as information technology devices, including mobile phones, tablets and laptops within the same year and/or consecutively, is not indicated. This is a concern, since the system is prone to abuse of public funds.

Recommendations

In view of the highlighted concerns and in order to strengthen controls, MCAST is to reconsider the adoption of the refund method following timely submission of the report and supporting documentation to back up the expenditure in question. NAO acknowledges that verifying every claim is time consuming, especially since this expenditure is increasing. However, ideally all documents are to be checked in order to ensure that only expenditure set out in the policy is ultimately expensed from public funds.

The policy is also expected to include reasonable limitations regarding the frequency certain items can be purchased, especially when these fall under the same category, such as the purchase of a laptop and a notepad.

Management Comments

The process of checking all the applications is very time consuming, as it is clearly being stated, and if the policy would be amended to allow such 100% check it would mean that MCAST would have to employ a person focusing only on the vetting of such documentation presented. On the other hand, there are instances in the policy where repeat purchases are allowed since items are consumed faster and recent technology is required for the lecturers to be able to teach their students. One is to highlight the fact that the aim of such resources is to ensure that the

College's lecturers are kept up to date and abreast with recent changes that may enhance their teaching skills. Hence, if all parties are in agreement, one should start thinking about a different way of paying out the allowance, whereas discussions will be held with the union, to agree on a new policy to limit control over WRA by the first quarter of 2021.

Inadequate monitoring to check timely submission of Reports

As per WRA policy, when the respective employee is retiring or terminating employment with MCAST, he is to submit the final expenditure report and return the card to the Finance Department at least four weeks prior to termination. Any overspent funds are to be refunded to MCAST. However, this requirement was not being adhered to. In fact, two out of three employees[4], one who resigned and the other one retired, both on 31 August 2019, were in default; the former submitted the necessary paperwork and paid back a trivial amount following audit queries, whilst the latter did not submit the report at least by end July 2020 when the audit was in progress.

Recommendation

Employees who fail to file the necessary report or submit it late and/or overspend funds should be requested to return their allocation to MCAST. The shortcomings can be avoided if a reimbursement system is adopted.

Management Comments

For the retired and resigned employees, MCAST is discussing a system whereby upon the submission of the resignation or retirement to the Human Resources Department, this same office triggers a process, whereby they are to inform the responsible person to stop immediately the bank card, hence inform the bank accordingly and it is blocked. Then this same person is to contact the lecturer and obtain the necessary receipt and report prior to the issuing of the last payroll. This is to be implemented by the first quarter of 2021.

Incorrect Allocation of Funds

Testing revealed that most LSEs were incorrectly given the allocation applicable to lecturers in 2019 while others were not in accordance to their grade as LSE. Similarly, the funds deposited to the account at the beginning of 2019, in respect of those individuals on a reduced timetable, were not always worked pro rata in line with the respective internal policy.

Recommendations

If the use of the debit card system is to be retained, it is to be ensured that allocations are properly calculated at the outset and any changes in the eligible amount of WRA is to be communicated instantly with the bank so that the respective amounts are adjusted accordingly. Moreover, MCAST is expected to recover any overpayments following a comprehensive exercise in this respect.

[4] A total of three employees received an allocation in this regard and terminated their employment during 2019.

Management Comments

Agreed and implemented. Allocations of WRA are confirmed yearly with the Human Resources Office prior to being paid through the bank card. Sometimes, lecturers and LSEs do change their hours due to their timetables and ending up in a different number of reduced hours. Hence from 2020, a new system has been adopted whereby on a monthly basis, people who are working on reduced hours and are on maternity leave, their allowance payment is revised and if an adjustment is required, it is done immediately. Also, the issue with LSEs was that they were awaiting progressions of their careers and hence a change in grade was required due to the qualification presented. From 2020 onwards, lecturers and LSEs who progress are notified immediately to the responsible person and an adjustment is worked pro rata.

Lack of Segregation of Duties

As stated by MCAST during the introductory meeting, the two officials within the Finance Department are considered as key persons for the preparation of salaries. They work separately on different areas and in the absence of one of them, the other is not in a position to cover such work. Under these circumstances, effective internal controls and segregation of duties cannot be adopted.

Recommendations

MCAST is to step up its internal controls and address the issue of lack of segregation of duties without undue delay. Continuation of the key process in case of absenteeism is also to be invariably ensured.

Management Comments

Agreed and to be implemented by the first quarter of 2021. At the moment[5]*, the Finance Office is working on issuing a standard operating procedure so that the payroll process is fully documented and hence, in the long-term absence of a member of staff, the necessary process will be in a position to continue. Another person has also been employed in the Finance Office, whereby she will be responsible of the preparation of data which will be inputted by the payroll officer, hence segregating duties. Also, MCAST is considering another two options at the moment*[5]*. First option is that of setting its separate Payroll Office, whereby a number of two or three employees will be directly working on the payroll, the system and lecturer queries. In this way, should anyone of the staff in this section be absent, there will still be continuity to the process. Second option is that of outsourcing the Payroll Section, where we will be benefiting from the expertise related to the payroll and all the taxation knowledge required but at a disadvantage since the College receives an amount of queries on a daily basis that would need to be handled personally. Also, we are still looking for the benefits being obtained since this is a costly approach.*

Lack of Control on the observance of Core Hours of Work by Lecturers

The collective agreement stipulates that lecturers are to be present at the place of work during the core hours from 10:00 to 15:00. Meanwhile, clause 11.6 gives the possibility to employees to request a two-hour flexitime window, as long as this is settled on the same day. From a general observation of the manual attendance sheets maintained by

[5] Management comments received on 4 September 2020.

different lecturers within different Institutes, it was evident that there was a number of lecturers who did not always stick to the core hours. However, the relevant approval was not being sought by the individual concerned. NAO is of the opinion that this system hinders MCAST from being able to keep control over the lecturers' working hours.

An MCAST official confirmed that it is "*difficult to state whether or not lecturers are actually staying on site between 10:00 and 15:00 on every College-day as provisions for flexibility as agreed in the collective agreement may allow for overlaps between responsibilities during core hours and other College-related duties*".

Recommendation

For internal control purposes, MCAST is to consider introducing a proper time and attendance mechanism to ensure that core hours as stipulated in the collective agreement are actually adhered to and flexibility afforded is within the parameters established in the said agreement.

Management Comments

Agreed. This requires continuous discussion with MUT, to clarify issues resulting from the collective agreement.

No Reconciliations between missed and replaced Hours

In view of the possibility of MCAST or MG2I organising additional courses specifically for industry or due to high demand for that particular course, lecturers may be required to carry out additional training courses during their core hours, at an extra payment of €26 per hour. However, NAO could not check whether any missed lectures were being replaced[6], in order for MCAST to fulfil its obligations to its day-time students.

Recommendations

Due to the large number of lecturing staff employed at MCAST, stricter controls are to be in place to ensure that in such instances, full-time students do not miss any lessons. Reconciliations, ideally on a monthly basis, between hours missed and those replaced are to be carried out as a normal procedure and signed by the lecturer and the Institute's co-ordinator.

Management Comments

Agreed and action to be taken by the first quarter of 2021.

No inbuilt validation in the Payroll System

MCAST confirmed that the payroll's inbuilt validation system does not function. As a result, if an obvious error is recorded, for instance, 100 hours of overtime are inputted by a lecturer for a particular day, this is not being automatically flagged by the system.

[6] Records of when lectures were missed and ultimately replaced were not maintained.

Recommendation

It is important that a functionable data validation system is in place to check the accuracy and quality of source data and any significant differences are investigated before the data is processed.

Management Comments

Agreed and to be implemented by the first quarter of 2021. MCAST is currently[7] working on finalising a system whereby extra hours and additional duties are updated automatically. Management has already invested in a student system whereby student attendance is recorded electronically. In the meantime, an already existing contract system is in place whereby lecturers who have been given agreements to perform extra hours or additional duties can electronically access the agreements, including the number of hours stated in the contract. Currently[7], MCAST is working on a link of the two systems whereby once the lecturer registers the students' attendance electronically, the system will automatically adjust the hours of the lecturer's agreement. The Institute Director or his Deputy would still need to perform random checks to ensure that the students have physically attended for lectures. Also, payment will only be authorised once the Director approves the hours already performed. This will give time to the Director to check the timetables of the lecturers. This system will help Directors to ensure that lecturers are at the Institute performing the hours as agreed, i.e. not doing extra hours or additional hours whilst they should be working their normal core hours, and if a lecturer misses a full time course lecture to work on a lecture for which he will be paid at the rate of €26 per hour, the system will trigger this since it is being updated automatically and includes immediate information.

Inaccurate Payments

Following a random test on a number of allowances and Government bonus paid to MCAST employees, various inaccuracies were noted. Although if taken individually amounts were not always material, the incidence of inaccuracies is of concern.

Recommendations

Internal controls are to be enhanced in order to ensure correctness of amounts paid. Furthermore, every effort is to be made to recover any overpayments, while also settling amounts underpaid to the respective employees.

Management Comments

Agreed and action to be taken by the first quarter of 2021. MCAST has recently[7] carried out a task, whereby all the employees' personal files have been studied and a task is being performed to ensure that employees are receiving the correct salary package, including qualification and coordination allowance and any other additional payments that are due to lecturers, as well the adjustment of the salary on the anniversary date as per the Union Ħaddiema Magħqudin collective agreement. Recently[7], the Human Resources and the Finance Offices have discussed and will be adopting a system, where the personnel in the Human Resource Office will be performing the workings for the employees and, so that the two-eye principle is adopted, such workings will be audited by the Finance Office and

[7] Management comments received on 4 September 2020.

a sample is checked to ensure correctness. The sample is being based on the checking of three out of ten workings and if these are found to have wrong computations, a further check of two workings will be done. Also, recently[8] the Finance Office has started discussions so that prior to issuing payments to lecturers, a 5% sample of payroll is audited to ensure accuracy of the payments, since it is deemed impossible for the personnel preparing payroll to check every payslip prior to sending the file to the bank for payment. As soon as these random checks prove positive results, the audit check will be brought down to 2%. Once approval is sought by Management, this will be performed at 2% from Human Resource Office and 3% from Finance Office.

No Policy for Travel Expenses

From the year 2009[9] up to February 2020, an aggregate amount of €29,059, was paid to Gozo Channel Company Limited to purchase 73 frequent traveller cards, in order to distribute to employees residing in Malta who were required to travel on a daily basis to lecture in Gozo. Cases of fuel reimbursement when lecturing in Gozo were also noted. However, MCAST does not have an official documented policy regulating such expense. Besides the foregoing amount, MCAST confirmed that reimbursements in this regard were also made directly through payroll.

Recommendation

An internal policy, in line with the Public Service Management Code, is recommended to be drawn up and duly endorsed by the officials at the right level of authority, in order to establish an efficient use of public funds for travelling, as well as to exercise effective internal controls thereto.

Management Comments

Accepted and an internal policy will be presented till last quarter of 2020.

Compliance Issue

Different Rate of Reimbursement when using Personal Cars for Official Duties

As per the Union Ħaddiema Magħqudin and MUT collective agreements, employees who opt to make use of their cars for official duties shall be paid an allowance as established from time to time by the Ministry for Finance. For 2019, the applicable rate as per Public Service Management Code was €0.33 per kilometre; however, MCAST was paying the rate of €0.37 per kilometre in line with an internal document dated 31 Oct 2008, even though during the said year the applicable rate as per the respective circular stood at €0.23 per kilometre.

Recommendation

MCAST is to ensure compliance with the respective provisions, namely that of paying officials the rate as established by Government, with immediate effect.

[8] Management comments received on 4 September 2020.

[9] According to MCAST, the first time when employees were informed that they had to work in Gozo was in 2009.

Management Comments

Agreed and to be implemented as suggested by NAO by the last quarter of 2020.

Additional Management Comments

Following an exchange of views on the issues raised by NAO and the management letter sent to MCAST, Management addressed the problem related to potential double payment to members of staff working on external projects assigned to MCAST as leader or partner. Evidence from documents at MCAST illustrate that staff members may be working during office hours on MCAST projects funded either through the European Union or other external sources. MCAST is duty bound to avert any potential or perceived double payments to members of staff in all grades, particularly in Management grades. Members of staff working various daily hours beyond their contractual obligations on such projects cannot be justified for additional payments, as long as addenda to the original contracts are not approved. As recommended by NAO, MCAST will issue a standard operating procedure in which members of staff embarking on externally funded projects may apply for remuneration under pre-defined conditions of work, averting any possible or perceived double payment.

Malta National Shooting Range

Capital Expenditure

Lack of ownership over the **Malta National Shooting Range** project was observed; according to SportMalta this was due mainly to lack of administrative capacity. Weak internal controls and procurement issues, such as works of substantial value acquired following a call for quotations, were also noted.

Background

The Malta National Shooting Range is situated in Ta' Kandja, limits of Siġġiewi. It was built on an Olympic size model and the range is certified by the International Shooting Sport Federation. The site is managed by SportMalta[1], the Agency responsible for ensuring the provision of resources, services and facilities for the promotion of sport in Malta.

According to SportMalta, the construction and administration of this project fell under its responsibility in June 2017. The building of the 300 metres ranges, which had extremely tight deadlines, was successfully completed in time for the hosting of the World Cup in June 2018[2]. In 2020, SportMalta commenced works on the second phase of the project, which entailed the setting up of indoor 25 metres and 50 metres target shooting ranges.

The 2018 and 2019 budget allocations for Line Item 7407 – Shooting Range, under Capital Vote VI, amounted to €3 million and €1.5 million respectively. In 2018 the budget was increased by a further €2 million. Total expenditure for both years, as recorded in the Departmental Accounting System, was €6.3 million.

Apart from this Capital Vote, SportMalta utilised funds (€3.1 million) allocated to another Capital Project, as well as internally generated funds, to finance the remaining Shooting Range expenditure.

Information provided by SportMalta indicated that, as at December 2019, the total contracted amounts for various goods and services relating to the Shooting Range project totalled €11.3 million. Up to this date, almost €9.7 million[3] were paid, while another €0.9 million[3] were outstanding, resulting in an aggregate cost of €10.6 million. The Agency intends to finance the remaining payments from the funds that it generates, or from any savings made from other line items relating to sport under the respective Capital Vote.

For 2020, SportMalta was allocated another €1 million for the Shooting Range, to finance the second phase of the project.

[1] This Government Agency falls under the responsibility of the Parliamentary Secretary for Youth, Sport and Voluntary Organisations within the Ministry for Education and Employment.

[2] Source: https://www.issf-sports.org/news.ashx?newsid=3071.

[3] NAO did not verify the correctness of these figures, which include variations.

Audit Scope and Methodology

The main scope of the audit was to verify whether procurement procedures adopted by SportMalta were in compliance with the public procurement regulations. The National Audit Office (NAO) also sought to determine the level of existing internal controls over this project, including the adequacy of certification prior to effecting the respective payments.

An introductory meeting was held with SportMalta officials and the Ministry for Education and Employment's Permanent Secretary, to discuss the audit objectives, and to obtain a general understanding on the execution of the project. In 2019, the audit team also carried out a site visit at the Shooting Range in Ta' Kandja.

From the list of agreements entered into by SportMalta for the Shooting Range project, NAO noted two major local service providers who were awarded contracts for the aggregate value of 59% (€6,717,311) and 6% (€662,427) respectively, of the project's total contracted amount (€11,322,360). A sample of three agreements[4], having an aggregate value of €3,297,812, and representing 29% of the total contracted value, was selected for audit testing. For the sampled contracts, NAO verified all amounts paid during 2018 and 2019, totalling €2,664,151[5].

In connection with the audit, NAO also held a meeting at the Ministry for Transport, Infrastructure and Capital Projects (MTIP), to obtain a better understanding on the processes adopted by the quantity surveyors in certifying the works carried out on the project.

Limitation on Scope of Audit

During the audit, NAO encountered problems in obtaining the required documentation and information, in particular that relating to the period of execution of the project works. Documentation was not kept in a centralised manner; as a consequence, NAO had to make various specific requests for records, such as the offers submitted by the contractors, evaluation reports, administrative orders, provisional acceptance certificates, as well as work programmes. Although NAO eventually managed to obtain most of the required information, this was made available in a staggered manner.

Furthermore, basic documentation which was requested at the start of the audit in August 2019, such as the relevant submissions made by the bidders, was forwarded to NAO two months later, while the last batch of supporting documentation relating to the procurement process, required for audit purposes, only reached NAO in the beginning of February 2020 following various reminders. This prolonged the audit unnecessarily and disrupted the performance of testing.

[4] The selection of two of these contracts was based on materiality, while the third was selected randomly.

[5] As per information provided by SportMalta, dated 10 October 2019.

Key Issues

Lack of Ownership over the Shooting Range Project

SportMalta was not in a position to provide NAO with basic information, such as the exact period of execution of the different project stages. Various requests for documentation were forwarded to the Quantity Surveyors[6], Site Manager[7], Projects Manager[8], as well as SportMalta's outgoing Chief Executive Officer, as applicable. The Projects Manager claimed that he was not always kept in copy with all correspondence by the Site Manager. On the other hand, SportMalta's efforts to contact the Site Manager during the audit were futile. At times, NAO received conflicting information.

Total reliance on third parties for retrieval of information indicates lack of ownership over the Shooting Range project. As a result, NAO does not have the comfort that the information and documentation made available for audit purposes was complete and accurate.

Furthermore, NAO has reservations on the extent of involvement of the Projects Manager, considering that he was not in a position to answer key questions relating to the project and at times provided incorrect information. This Office also questions SportMalta's enforcement of the related provisions in the Site Manager's contract for service, which included a clause stating that upon termination of his engagement, the Manager was to immediately deliver to SportMalta all correspondence, documents and property belonging to the Agency and which was in his possession.

Recommendations

SportMalta is expected to take ownership and assume control over the projects falling under its responsibility. All documentation pertaining to any project, including that prepared or held by consultants, site managers, architects, etc. engaged by the Agency, is to be centralised, thus facilitating future reference thereto. The responsible SportMalta officials are also to be duly kept in copy with all correspondence.

Management Comments

While SportMalta followed the public procurement procedures both during and after the project, the Entity established a general standard operating procedure that is knowledgeable to all employees and levels. Management has also given instructions in writing to the sub-contracted project managers in order to copy head of facilities and/or head of procurement in all correspondence with third parties. Moreover, SportMalta employees have been asked to sign an addendum to their contract, whereby upon termination of their employment, a backup of their emails is taken by the Entity for future reference. Important documentation is being filed in the project files.

[6] Employed within MTIP.

[7] Originally providing services to SportMalta from November 2017 to March 2018, but contract was extended up till end May 2018.

[8] Engaged by SportMalta in 2017 to provide project management contract administration and cost control. The Projects Manager was expected to overlook the Shooting Range project by taking minutes of progress meetings. At time of audit, this Manager was still providing his services to SportMalta.

Weak Internal Controls

Audit testing on the sampled contracts revealed weak internal controls over expenditure incurred on the Shooting Range project, as well as in the management of the project itself. The following shortcomings relate:

- **Works for a value of almost €4 million were not covered by performance guarantees or single bond** – SportMalta entered into five agreements with a single contractor for various works as part of the Shooting Range project for an aggregate contracted value of over €6.7 million, representing 59% of the total projected cost. The contractor had the option to provide the Agency with a single bond of €0.5 million[9], covering the performance guarantees for all contracts.

  However, SportMalta was in possession of only one performance guarantee for €200,000, partly covering the contract for the Construction of Berm Wall and Foundations, Shooting Tunnel and Foundations of Shooting Ranges, with the remaining contracts, having a total value of almost €4 million, not covered by performance guarantees or single bond.

  Up to time of audit, the contractor was paid an aggregate of €5,249,499[10] with respect to the five awarded contracts, in spite of the agreements stating that payments to the contractor were not to be effected until performance guarantees and/or single bond had been submitted.

- **No approval from the Department of Contracts was obtained for variations emanating from extra works carried out or additional quantities utilised by the contractors, which in aggregate totalled over €0.4 million** – When during the audit this shortcoming was brought to the Agency's attention, the latter checked contracts entered into with one of the major contractors of the project and found several payments in respect of variations which were not approved. This led to the immediate suspension of pending payments and SportMalta also requested a credit note of over €1 million[11] from this contractor.

  Furthermore, modifications to contracts were only to be made by an administrative order, and the contractors were to submit proposals for modification, including a description of the tasks to be carried out, as well as any adjustments to the contract price. However, SportMalta confirmed that administrative orders were given verbally on site and it was not aware if the contractors, whose agreements fell within the audit sample, submitted the necessary proposals for modification. Thus, NAO was not in a position to establish whether these variations were actually authorised by the right level of authority from within the Agency.

  By the time of audit fieldwork, SportMalta had already paid over 90%[12] of the unauthorised variations of over €0.4 million[13].

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9 Since the aggregate contract prices exceeded €5 million.

10 This figure includes variations.

11 NAO did not verify the accuracy of this figure.

12 As per document dated October 2019, compiled by SportMalta.

13 In spite of these variations, the total contract value of two out of the three sampled contracts was still not exceeded, since parts of the projected works as per agreement were not carried out.

- **The percentage pre-established capping of 15% for modifications carried out on the spectators' stand contract was exceeded** – Additional quantities utilised for this part of the project totalled €89,153[14], equivalent to 29% of the contract value. SportMalta was not in possession of documentation confirming that it obtained the necessary approval from the Department of Contracts (DC), both prior to ordering these additional quantities, as well as to exceed the capping for modifications established in the contract.

- **The agreement for the Construction of Berm Wall and Foundations, Shooting Tunnel and Foundations of Shooting Range, at a total contract value of €2,371,534 (VAT excl.), was signed after the commencement of works** – Although NAO was not informed of the exact commencement date of works[15], information obtained during the audit indicates that the respective agreement was entered into by both parties when works had already started. In the absence of an exact commencement date, NAO also could not establish whether the performance guarantee was submitted in a timely manner.

- **Authorisation from the right level of authority within SportMalta; namely from the Chief Executive Officer or Head of Finance was not evidenced, before payment was effected, on 10[16] out of the 15 paid invoices falling in the audit sample, for a total of €1,051,227**

- **Documentation such as the notification to commence works and work registers, required to be compiled as per the respective contracts, was not made available for audit purposes, either because it could not be traced, or it was not compiled in the first place** – The absence of related documentation shows SportMalta's lack of adequate monitoring over the Shooting Range project. Without these documents, NAO was not in a position to verify whether certain clauses of the sampled agreements were respected and that the individual projects were executed according to plan.

Recommendations

Apart from being in control of the projects for which it is responsible, SportMalta is to have adequate internal processes in place to ensure that all payments are duly authorised beforehand. The Agency is also expected to constantly monitor its projects, thus ascertaining that these are delivered according to the terms and conditions laid down in the respective agreements, which are to be entered into prior to the commencement of works, and that all contract clauses are adhered to.

Performance guarantees or single bonds (in case of multiple agreements with same contractor) are to be timely submitted as specified, thus ensuring that the Agency is covered in case the contractor fails to perform his contractual obligations in full. In the absence of guarantees or single bonds, SportMalta is not to effect any payment to the service provider. Management is also expected to timely obtain all the necessary approvals for modifications, repetition of works or services, and variations, in line with the applicable contract, as well as in accordance with procurement regulations.

[14] The variations of €27,827 are not included in this figure since these were for new works not part of the original contract.

[15] The Projects Manager informed the parties involved in this part of the project that the order to start works was reckoned to be 11 December 2017. On the other hand, a report indicating progress states that works started on 4 December 2017 and were 5% complete by time of signing of the agreement.

[16] Seven of these invoices were not endorsed by a SportMalta official.

Furthermore, in order to ensure ongoing management overview, officers entrusted with the execution of projects, including outsourced service providers, are to compile all necessary documentation in line with the respective contracts. Documentation is to be reviewed by SportMalta and duly filed for future reference.

With respect to the Shooting Range project, SportMalta is to review all contracts, identify any payments for unauthorised variations and modifications, and take corrective action as may be necessary.

Management Comments

Works not covered by performance guarantees *– This administrative oversight was a one-off occurrence which only happened because of the unique circumstances of the project, which had to be delivered in record time. SportMalta recognises that, although an external Projects Manager and Site Manager were appointed to oversee the project, there was a regrettable deficiency in the communication between Management and its external consultants. Nevertheless, SportMalta has taken note of NAO's recommendation and has established a procedure whereby it does not accept to start any works unless covered by an appropriate performance guarantee or single bond as per terms of contract.*

No approval from the Department of Contracts for variations *– SportMalta points out that this was just an administrative oversight and nothing more, considering that all variations to works, which arose from exigencies that cropped up during the construction of the Shooting Range, have been deemed necessary by the Project Architect. These works are verifiable on site and have been measured, certified and approved by MTIP, in order to ensure independence and transparency. Following NAO's Report, an exercise similar to the one mentioned under this heading was conducted for another contractor and no other paid unapproved variation was found, apart from the one identified by NAO for the sampled contract. A communication was immediately issued to the contractor, requesting a credit note.*

With regard to NAO's recommendation on SportMalta having more control over its projects, Management requested to increase its Human Resources capacity to reflect the needs that transpire from capital projects owned by the Agency. SportMalta retained its requests for added personnel that are competent in the overseeing the construction of sports facilities. This would have avoided reliance on external consultants, as happened with the construction of the Shooting Range. Nevertheless, SportMalta acknowledges this oversight and is already applying the recommendations made by NAO to present projects.

The percentage capping for modifications exceeded *– Once again it is clearly evident that the regrettable deficiency in communication between persons on site and the administration has led to this oversight, a one-off occurrence, since the works carried out have been deemed necessary by the Architect. Furthermore, works are verifiable and have been measured and certified by MTIP.*

Agreement signed after the commencement of works *– SportMalta would like to point out that it is true that this particular agreement was signed after the commencement of works, but not after their completion. The contract was signed following a proper procurement procedure and the attainment of all necessary approvals by the Board of Directors and DC. The works carried out reflect what was agreed in the contract and were monitored by SportMalta's external consultants on site. SportMalta confirms that works were completed well after the signing of the contract.*

All present projects are supported by a contractual agreement, clearly stipulating the parties' rights and obligations, amounts due, method of payment, period of execution of works, as well as workplans, which are endorsed by all parties prior to the commencement of works.

Authorisation from the right level of authority within SportMalta not evidenced before payment was effected *– SportMalta does not agree since all invoices mentioned have been certified by MTIP officials and Project Architect, or by Project Engineers prior to payment.*

Documentation not always in place *– Whilst acknowledging that the documentation could have been compiled better, commencement of works notices were indeed issued. However, SportMalta cannot agree with NAO's conclusions that there was lack of monitoring over the Shooting Range project. A Site Manager was specifically appointed to foresee the project. A Projects Manager was also appointed, whilst MTIP officials were engaged to assist in the certification process. Frequent on site meetings were held to track the progress of the project and to discuss and take decisions on any remedial or urgent matters that were required. Thus, SportMalta did its utmost, with the resources available, to monitor the Shooting Range project, which was delivered on time.*

Presently, all officers entrusted with the execution of projects, including outsourced service providers, are compiling all necessary documentation, in line with the respective contracts.

Shortcomings related to Procurement Procedures

For all the sampled agreements, the related tender documents, including designs, bills of quantities and estimates, were prepared by MTIP and forwarded to SportMalta. Notwithstanding that the respective amounts were well above the threshold applicable for a tender through DC, the contract for the construction and finishing of the spectators' stand, for the value of €262,990 (VAT excl.), was awarded following a call for quotations issued through the Electronic Public Procurement System. On the other hand, in the case of the construction of the berm wall (€2,371,534 VAT excl.), as well as alterations and finishes to the clubhouse building (€160,231 VAT excl.), SportMalta contacted three contractors for each task and asked them to submit their bids[17].

Following the drafting of the evaluation reports, whereby the cheapest technically compliant bidders were identified, SportMalta requested and obtained DC's approval to enter into negotiated procedures with the selected contractors for the three sampled agreements[18]. However, the respective quotes were not negotiated, and the contract prices matched exactly the bid amounts, even when these were higher than the estimate prepared by the Quantity Surveyors[19].

[17] The Agency referred to this procurement process as a negotiated procedure.

[18] The full details of this procurement process were forwarded to NAO late during the audit.

[19] As in the case of the alterations and finishes to the clubhouse building, whereby the bill of quantities prepared by the Quantity Surveyors estimated that the costs for works were not to exceed €126,160 (VAT excl.), while the cheapest compliant bidder quoted a price of €160,231 (VAT excl.).

Recommendations

NAO acknowledges that SportMalta faced tight deadlines for the execution of the Shooting Range project. However, since procurement was done through negotiated procedure, the Agency was expected to attempt to negotiate prices, particularly in those cases where these exceeded the estimates prepared by its Quantity Surveyors.

Management Comments

Negotiated procedures were the inevitable result of the tight deadlines. However, SportMalta still tried to adopt the most transparent method for the procurement of this project by having estimates being supplied by MTIP; thus ensuring independence and transparency in the compilation of the estimates, and showing diligence in its approach to carrying out the works and towards the use of public funds.

It is to be noted that at every stage of the procurement procedure, SportMalta sought DC's advice in order to apply a proper procurement mechanism. This collaboration with DC went to the extent that all major contracts pertaining to the project were drafted by the Ministry for Education and Employment or DC itself. It must also be acknowledged that following DC's permission, SportMalta adopted a tendering process, which included the submission of bids in a sealed box against a deadline, the analysing of bids by SportMalta's tender evaluation committee and the ranking of bids, with the cheapest compliant bid ranked first. It was at this stage that approval to enter into a negotiated procedure with the cheapest compliant bidder was sought and that works were awarded to respective contractor.

SportMalta feels that by adopting this procedure, and considering the limited time in which the project had to be completed, it acted diligently in its use of public funds, ultimately paying less than what an independent third party (MTIP) estimated that should have been paid.

Nevertheless, SportMalta has taken note of NAO's recommendations and will adopt them should any other negotiated procedure be entered into in the future. Currently, none of SportMalta's projects are being done through negotiated procedure, since no project carried the urgency of completion that was attached to the Shooting Range project.

Control Issue

Conflicting or Inconclusive Information on Timeline of Project Works

Since the files made available for audit review provided insufficient information on project timelines, NAO specifically requested SportMalta to indicate the commencement date for works relating to different parts of the project and the period of execution. Unfortunately, practically no information was forthcoming.

Upon further enquiry by NAO, information on the sampled contracts was obtained from the Projects Manager. However, this was either conflicting or inconclusive. Furthermore, since acceptance certificates were not made available for audit purposes, the completion date of each task was unknown to NAO. This hindered this Office from verifying whether the periods of execution stipulated in the sampled contracts were respected, and if penalties were to be imposed in case of delays.

Recommendations

Management is to invariably request all relevant documentation, as well as information, from its outsourced service providers to ensure that an adequate audit trail and complete records are kept. It is also important to keep track of notification to start works, as well as acceptance certificates, in line with the relevant clauses of the respective contracts.

Management Comments

Notification to start works, as well as acceptance certificates are being issued and documented, in line with the relevant clauses of the contract. In those cases where documented commencement date was not found for a particular contract, an exercise will also be undertaken to check if it is possible to determine such date. Following this, SportMalta will establish the execution period and check whether there were any instances when penalties should have been charged to the contractors for late workmanship. Corrective action will be taken if needed.

Ministry for Energy and Water Management

Energy and Water Agency

Expenditure

The National Audit Office positively noted that with the exception of minor shortcomings with respect to travel expenses, no other irregularities were found during an audit on recurrent expenditure at the **Energy and Water Agency**.

Background

The Energy and Water Agency within the Ministry for Energy and Water Management was established in terms of Legal Notice 340/2016 – 'Sustainable Energy and Water Conservation Unit (Establishment as an Agency) (Amendment) Order, 2016'. Set up in 2014, the Agency was tasked with formulating and implementing Government's national policies in the energy and water sectors, aimed at ensuring security, sustainability and affordability of energy and water in Malta.

During 2019, the Agency's operations included three main units, namely Water, Energy and Gas. Each of these units headed a number of projects, most of which were financed from the European Union.

According to the management accounts for the year 2019, the Agency received a subvention of €1.7 million from the respective Ministry during the year, in which it made a surplus of €554,830 and held a net asset position of €1.5 million at the end of the said period.

Audit Scope and Methodology

The main scope of the audit was to verify whether procurement procedures adopted by the Agency were in sound operation and complied with the public procurement regulations. The National Audit Office also assessed the adequacy of internal controls and ensured validity of specific elements related to personal emoluments.

An introductory meeting with officials at the Agency was held to discuss the audit objectives and obtain an overview of the relevant controls and procedures in place.

As part of this Office's understanding of the Agency and its role, walkthrough testing was carried out with the respective Head of the Water, Energy and Gas units. Queries were also made to the Procurement Officer in order to gain an insight of the centralised procurement processes and procedures in place within the Agency.

Extracts from the accounting system were requested in respect of salaries, professional and consultancy fees, as well as travel expenses, since these items were deemed to be of a material value in the 2019 management accounts. Substantive testing on these items was conducted.

Control Issue

Shortcomings related to Travel Expenses

Weaknesses encountered while verifying travel expenses, related to three out of the four trips tested, included the upkeep of the respective documents and calculation of the daily subsistence allowance. The following relate:

a. The boarding passes for flights departing from Malta to Sicily of two officers were not available in file. Moreover, one officer submitted the respective statement of expenses two months after returning to Malta.

b. When calculating the subsistence allowance of three officers travelling to Finland, deductions with respect to a dinner provided by the event organisers were not made.

c. Two officers travelling to Madrid were erroneously paid an additional allowance for early departure and/or late arrival to which they were not entitled.

Recommendation

Whilst acknowledging that the above shortcomings are not of a material nature, better understanding of the standing regulations regarding travelling is solicited. This includes the calculation of subsistence allowance due to travelling officers, as well as some fine-tuning in the upkeep of travel documents.

Management Comments

During the course of the audit, the officers handling travel related issues within the Agency attended specific training on the subject and internal procedures were corrected to address the issues highlighted. The upgraded internal procedures should ensure an improved adherence to the standing regulations.

Water Services Corporation

Expenditure

The audit revealed insufficient verification prior to the payment of allowances by the **Water Services Corporation**, as well as lack of control on overtime. Extension to the contracts for the lease of vehicles by the Corporation was not in line with the regulations.

Background

The Water Services Corporation (WSC) was set up in January 1992 by virtue of Act of Parliament No. XXIII of 1991 to produce and distribute potable water in the Maltese islands. In 2004, it also became responsible for the collection and treatment of wastewater. As at December 2019, WSC had 1,162 employees on its payroll.

The approved 2019 budget allocation for WSC under Vote 15, Line Item 6821, was €16 million. According to the management accounts for the year under review[1], the Corporation reported turnover of over €104.6 million, while expenditure stood at €91.2 million.

Audit Scope and Methodology

The main scope of the audit was to verify whether procurement by WSC was in compliance with public procurement regulations, as well as with standing internal policies. The National Audit Office (NAO) also sought to assess the level of internal controls over payments effected during 2019.

An introductory meeting was held with WSC's Management to discuss the audit objectives, as well as to obtain a general understanding of the entity's operations. NAO also enquired on the internal audits carried out at the Corporation during 2019.

Following a scrutiny of the Corporation's latest audited financial statements[1], as well as the management accounts, trial balance and nominal ledger for financial year 2019, salaries, amounting to €29.5 million, were identified as the most material expense, encompassing around 32% of total outflow for the year. Furthermore, a number of shortcomings were highlighted in WSC's internal audit report on payroll; thus, this expense item was selected for verification, with particular focus placed on allowance and overtime payments, which totalled €2.7 million and €1.9 million respectively.

[1] As at time of audit, i.e. third quarter 2020, the latest audited financial statements filed by the Corporation were those covering financial year 2017.

NAO selected the highest five total overtime payments effected in 2019, while in the case of allowances, the sample selection was based on the materiality of amounts paid and the nature of allowance. To this effect, testing was carried out on 11 allowances out of 25 different types paid by the Corporation.

Expenditure selected for verification also included transactions classified as other contractual services, hire of vehicles and fuel, which actually totalled €4,037,312, €830,999 and €677,494, respectively. These three accounts represented over 6% of WSC's aggregate costs for 2019.

Limitation on Scope of Audit

Whilst testing the amounts charged for leased vehicles by one of the suppliers, various discrepancies were noted. When brought to the Corporation's attention, the latter claimed that the information forwarded to NAO held incorrect details, providing a second and even a third list of leased vehicles. However, the information was still deemed unreliable. It was only at a later stage that WSC indicated that it checks invoices received for leased vehicles against a database, which included information related to each vehicle and the applicable rates "… *as stipulated prior 1 December 2018* …".

Since by then the audit was drawing to a close, this database was not requested; thus, NAO was not in a position to establish whether the information held was correct and if the discrepancies initially noted were factual.

Key Issues

Lack of Control on Overtime paid to seconded Employee

During 2019, an employee received overtime payments totalling €20,393[2] from WSC's budget. The Corporation confirmed that although this officer was on its payroll, he did not perform duties within WSC; however, no further information on his secondment was forthcoming except for attendance sheets endorsed by the Chief of Staff within the Ministry for Tourism.

A review of the sampled overtime payments effected to this officer revealed the following shortcomings:

- **Insufficient information regarding the need for overtime work** – The sampled three pay periods showed that, during 2019, the officer worked overtime on a regular basis, including ten hours on Saturdays and a further eight hours every Sunday. WSC did not have any documentation or explanations to substantiate these substantial additional working hours.

- **Overtime performed while on pre-retirement leave** – According to the respective payslips, the officer was on pre-retirement leave for 18 days in January and 19 days in February 2019. However, he was paid an aggregate amount of €2,660 for a total of 156 hours of overtime claimed as performed during these months. The respective payslips indicated that the officer reported regularly for work in the sampled pay periods falling after February 2019[3].

[2] This was the highest total overtime payment to an employee during 2019.

[3] WSC confirmed that, in May 2020, this officer was on pre-retirement leave.

- **Unreliable attendance records** – Although the officer's attendance was recorded manually, the daily details on the attendance sheets made available for audit purposes were prefilled electronically on a word processing document. The officer signed next to each date throughout, including days marked as public holidays, when on vacation leave, as well as on days where no time was indicated. Moreover, one of the sampled attendance sheets was endorsed prior to the end of the period covered by the same document.

- **Inadequate verification prior to payment** – From a three pay periods' sample, NAO noted discrepancies in the working hours recorded in the overtime sheets and respective attendance sheets on four instances. Moreover, two of the sampled overtime claim forms indicated that these were checked prior to the end of the respective period, further raising doubt on the effectiveness of verifications carried out and on the accuracy of overtime payments. In the circumstances, NAO could not confirm the claimed overtime hours.

Recommendations

WSC is to ensure that overtime paid to seconded employees on its payroll is based on accurate information that is supported by reliable documentation and certified correct accordingly before the salary is processed for payment.

Furthermore, Management is to ensure that the conditions and terms of pre-retirement leave, as per the Corporation's collective agreement, are duly followed.

Management Comments

In cases of secondment with other entities, WSC relied upon the authorisations by the respective entity's immediate Head, which was considered as final given the lack of visibility between the entities. As a default position, payroll of loaned and seconded employees will also start moving to the receiving entities. Thus, the latter will have more ownership of the payroll process and the control environment will be improved.

Extension to the Contracts for the Lease of Vehicles not in line with the Regulations

In the year under review, WSC leased vehicles mainly from three rental companies, for an aggregate of €828,911. Audit testing on this expenditure revealed the following:

- **Agreements and approvals covering the extension of services not in place** – According to information obtained, the agreements with the respective car rental companies expired in 2017. WSC obtained approval from the Department of Contracts (DC) to extend one of the agreements[4] up to June 2019, for a total value of €844,084 (VAT excl.). The vehicles from the other two companies continued to be leased by monthly purchase orders according to exigencies until a more permanent solution was decided upon by Management. Payments effected in 2019, totalled almost €570,000; these were neither covered by a formal agreement, nor approved by the Ministry for Finance (MFIN).

[4] Through a negotiated procedure.

- **Increase in number of leased vehicles** – The original contracts with the latter two companies, which expired in 2017, covered the lease of 31 vehicles. However, a total of 47 vehicles[5] were leased in 2019. No documentation was available confirming that the increase was authorised at least from the Corporation itself. According to WSC, these were either replacing vehicles whilst those owned by the Corporation were being repaired or in the case of other emergencies.

Recommendations

If, as a temporary measure, the Corporation urgently requires to continue making use of service providers after the expiry of their contracts, the necessary MFIN approval is to be obtained and the current agreements are to be formally extended, duly reflecting any changes agreed upon. Agreements are to be duly signed by all parties and filed for future reference.

Management Comments

When the leasing contracts expired, WSC chose to retain the services of the same companies for the following year on the basis that price was negotiated significantly downwards. However, this was done without the necessary MFIN approvals.

During the past months, WSC commenced a process to rectify this position. As a stop-gap solution, the Corporation applied for a one-year direct order (based on a cheaper leasing price) and is currently awaiting approval from DC. Additionally, Management is working on a long-term solution through a DC tender to replace WSC's current fleet.

Control Issues

Overtime Budget exceeded

During 2019, overtime expenses totalled €1,933,228[6]; an increase of 117% over the estimated cost for the same year (€891,200), and a 51% rise in cost when compared to the reported figure (€1,284,125) for the previous year.

Overtime work claimed by three sampled officers was in relation to weekends, as well as before and after normal working hours. In the absence of supporting documentation, NAO was unable to establish whether all overtime was the result of unavoidable and exceptional circumstances.

Recommendations

Considering the substantial increase in overtime expenses, WSC is to verify whether all overtime work is being performed in a cost-effective manner and is unavoidable. The possibility of less costly alternatives (for example, shifting working hours) are also to be considered.

Furthermore, to enhance control over this expenditure, divergences from the set budgets are to be analysed and duly authorised.

[5] Based on payments effected in 2019.

[6] As reported in the management accounts for December 2019, since the financial statements for the year were not available as at time of audit.

Management Comments

Controls will be put in place to strictly limit overtime as necessary according to the Corporation's work exigencies. Overtime occurrence will be scrutinised by the Payroll and Finance Office and an analysis of major overtime consumers on a per Section basis will be carried out periodically. Alternative arrangements will be considered as applicable.

Insufficient Verification before Payment of Allowances

WSC paid over €2.7 million in allowances to its employees during 2019. Testing carried out on 11 different types of allowances[7] paid to a sample of individuals revealed that adequate verification was not carried out before the respective payments were effected. The following refer:

- In June 2017, an officer was granted approval to receive a deputising allowance, for a period of six months, for carrying out duties above his grade. Notwithstanding that the collective agreement stipulates that the Corporation should endeavour so that the deputising allowance does not exceed one year, this allowance continued to be paid to-date for every pay period, translating into €1,867 per year. Furthermore, at one point the officer was promoted; thus, the eligibility for the deputising allowance was questionable.

- The aggregate transport allowance[8] paid to an officer during 2019, totalling €4,811 included mileage covered to travel from home to the workplace and vice versa.

- During 2019, an officer received an allowance totalling €2,510 for being on-call almost every day[9]. No official documentation, identifying the designated officer, was made available in support of WSC's claim that it required someone to access the stores on a 24/7 basis.

- Although in line with the collective agreement, the deep sewer allowance is to be paid for actual attendance to work, audit testing revealed two instances whereby this allowance was also given when, according to time records, the sampled officer did not report to work.

- Other incorrect payments noted during the audit included deep sewers allowance due to two officers paid twice for one of the sampled months, as well as exposure allowance based on 317.5 hours instead of 31.75 hours.

Recommendations

Allowances paid to officers are to be reviewed periodically to ascertain eligibility and that the circumstances triggering such payments are still in place. Management is also to ensure that all allowances are duly and timely authorised. In case of those allowances that are not specifically mentioned in employment contracts, the respective officers' entitlement is to be formally documented.

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[7] From 25 types of allowances paid during the year under review.

[8] Payable to employees making use of their own vehicle for the Corporation's business. The allowance is calculated on mileage covered.

[9] The sampled payments covered allowance for on-call duties performed between June 2018 and April 2019, as well during July and August 2019.

Furthermore, verification is to be stepped up; prior to endorsing documentation forming the basis for allowance payments, the responsible officers are to ascertain correctness of the information held.

Management Comments

Payment of allowances is done when the forms are endorsed by the Section Head and Manager or Chief Officer. Payroll employees relied upon those endorsing such forms to action any allowances due.

Management is working on having clear and regular liaison between the Human Resources and Payroll Sections. To this effect, the Corporation shall move to absorb the Payroll Office as a function of the Human Resources Department. Periodic reviews of any allowances being paid and referral of these allowances to respective Heads of Sections or Chief Officers for justification will also be carried out. WSC will implement additional system controls to monitor and review irregular allowance payment claims. Furthermore, two authorisations shall be required for new allowances' requests, some of which may also need the approval of the Chief Officer responsible for Human Resources and/or the Chief Executive Officer.

Rates charged by Co-operative performing Emergency Works and other Ancillary Services not formalised[10]

During 2019, a co-operative[11] was paid €925,154 for emergency works, minor pipe works, trenching works and other supplies. The invoice falling within the audit sample related to services carried out in 2017, which amount was paid in the year under review. The rates applied during this period were presented as a bill of quantity on an electronic spreadsheet. No further supporting documentation, indicating that these rates were agreed upon by both parties were provided for audit purposes. A similar situation prevailed as regards the 2019 rates[12].

Recommendation

The procurement of goods and services of substantial value is to be supported by an agreement between the contracting parties, clearly indicating the chargeable amounts and/or rates, method of payment, as well as other relevant terms and conditions.

Management Comments

The co-operative was created by WSC employees on the basis that the same employees had throughout the years accumulated enough knowledge to be entrusted with emergency and critical road works. For this reason, the Corporation subcontracted directly to this co-operative at pre-determined market rates for emergency works.

An agreement binding the two parties will be drawn up to cover the mentioned works and also to be in line with all public procurement mechanisms.

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[10] This observation was made without prejudice as to whether the works were awarded according to the pertinent regulations, as well as WSC's policies.

[11] Composed of four WSC employees.

[12] Correspondence between a member of the co-operative and WSC confirmed that the rates were approved, but no reference was made as to which rates were in fact applicable.

Insurance Policy not made available for Audit Purposes

In November 2018, WSC entered into an agreement with a local service provider for the execution of minor pipe and road works, covering a duration of 12 months, for a total of €82,603. According to the agreement, the contractor was required to take a combined insurance policy[13] against any loss or damage for which he was liable under the contract. However, this was not provided for audit purposes.

Recommendations

WSC is to ensure that it is duly covered with the respective insurance policy. All relevant documentation is to be retained and duly filed for future reference.

Management Comments

WSC is covered by a number of insurance policies which give adequate cover both to its officials, as well as the liability it holds to third parties. Moreover, all WSC initiated contracts stipulate that suppliers and contractors are to be covered by their own insurance policy. Contract project leaders will ensure that contracts are covered by an adequate insurance cover.

Inappropriate recording of Expenditure

In reviewing the Corporation's trial balance and nominal ledger, NAO noted that a considerable number of transactions, totalling €4,037,312, were posted in the account titled other contractual services. The nature of transactions included a range of both operational costs and administrative expenses, which expenditure should have been disclosed in specific accounts.

Recommendation

Expenditure is to be properly classified to facilitate budgeting and control while assessing the Corporation's financial performance for decision making.

Management Comments

Recording of expenses in the general ledger account other contractual services typically included all contracted services which the Corporation could not carry out with its own resources. Naturally, these included both operational and administrative subcontracting.

Moving forward, this account will be used entirely for operational subcontracting services and any administrative expenditure will be reclassified to more relevant general ledger accounts. Backdated reclassifications as from December 2019 are being implemented.

[13] Covering both the service provider and WSC.

Ministry for European Affairs

and Equality

Malta-European Union Steering and Action Committee

Financial and Compliance

The procedures and internal controls in relation to the areas tested were found to be adequate and in sound operation at the **Malta-European Union Steering and Action Committee**.

Background

The Malta-European Union Steering and Action Committee (MEUSAC) was initially set up in 1999 to engage stakeholders in the negotiations on Malta's accession to the European Union (EU). When reactivated in 2008, MEUSAC was also entrusted with the role of disseminating EU-related information and with assisting local councils and non-governmental organisations to access EU funds.

In July 2017, MEUSAC was reconstituted as an Agency in terms of the Public Administration Act (Cap. 497)[1], Legal Notice 154 of 2017 Malta-EU Steering and Action Committee - MEUSAC (Establishment as an Agency) Order, 2017. It seeks to bring EU closer to civil society, citizens and other stakeholders in Malta by steering a consultation process on EU policy and legislation, circulating EU-related data and providing assistance on EU funding programmes.

During the year under review, i.e. 2019, the Agency fell under the responsibility of the Ministry for European Affairs and Equality and had a budget of €870,000, under Recurrent Vote 16 Line Item 6840 – Malta-EU Steering and Action Committee.

Audit Scope and Methodology

The audit scope was to obtain reasonable assurance on the adequacy and effectiveness of governance and control procedures to ensure that revenue and expenditure were properly accounted for. The adequacy of procedures in the payroll process, as well as the safeguarding of assets, was also determined.

An introductory meeting was held with Management in order to obtain an overview of the Agency's functions and accounting procedures. Since the audit commenced prior to the year-end, the nominal ledger was extracted from the Agency's accounting package for the period January to October 2019 and duly analysed.

[1] In 2019, this Chapter was updated and replaced by Chapter 595 of the Laws of Malta.

A qualitative sample comprising a mix of 34 transactions, based on materiality and their nature, which were posted to the Other Income, Expenditure and Fixed Assets nominal accounts, was selected for testing to assess the effectiveness of the internal controls. Inventory records were checked to confirm that these included accurate details of five laptops bought during the year under review and a physical inspection of these assets was also performed. No shortcomings were noted.

All employee contracts were reviewed and their respective salaries recomputed to ensure correctness and eligibility. A sample of attendance records was examined to verify that these were duly signed by employees and endorsed by a senior officer. The necessary controls in this area were in place. The only shortcoming is indicated hereafter.

Control Issue

Employee assigned to Agency not on Payroll

The Agency's staff comprised 21 employees, two[2] of whom were engaged on a person of trust basis by the Ministry for European Affairs and Equality and assigned to MEUSAC. The salaries of the foregoing two employees were paid by MEUSAC. One of the employees in question, a driver working at MEUSAC since 26 August 2019, was not on the latter's payroll since the respective contract was not yet received from the Ministry.

Recommendation

The Agency is to persevere with its attempts to obtain a copy of the contract from the Ministry in order to substantiate the appointment and include the driver on its payroll. Besides providing a complete audit trail, this will also ensure that the applicable employment terms are adhered to.

Management Comments

The Office of the Prime Minister accepts the National Audit Office's audit and will strive to implement the respective recommendation as soon as possible.

[2] To carry out the duties of a driver and an executive assistant respectively.

Ministry for Finance

Duty on Documents

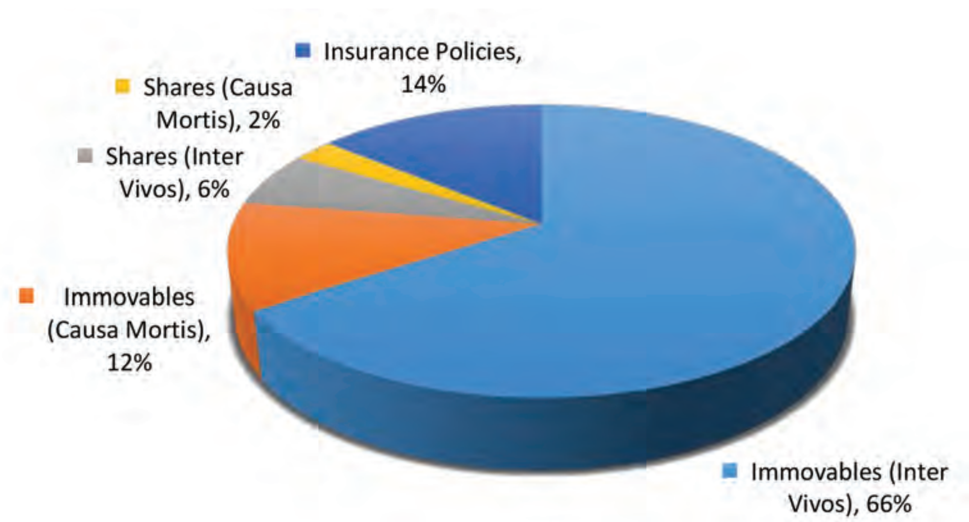
Revenue

Timely enforcement action by the Capital Transfer Duty Department, in the collection of revenue from **Duty on Documents**, was not always performed effectively during the last years. This resulted in gross outstanding balances of over €27 million. Insufficient control over the assessment of property transfers documentation was also noted.

Background

The Duty on Documents and Transfers Act is administered by the Capital Transfer Duty Department (CTD). It caters for transfers of immovables done by way of a deed inter vivos and by a declaration causa mortis. As shown in Chart 1, CTD also receives duty paid on share transfers[1] and insurance policies.

Chart 1: 2019 Revenue from Duty on Documents



According to the Financial Estimates, approximately €185 million was to be collected in 2019 from duty on documents under Line Item 0232; this target was reached. Table 1 shows the duty on documents collected in the last five years[2].

[1] Both inter vivos and causa mortis.

[2] This also included revenue from legal fees, penalties and late filing by notaries.

Table 1: Revenue from Duty on Documents for the Period 2015 to 2019

Description	2015	2016	2017	2018	2019
	€	€	€	€	€
Immovables (Inter Vivos)[3]	74,021,950	86,664,195	98,636,887	127,427,754	121,508,171
Immovables (Causa Mortis)[3]	11,791,048	12,709,467	15,879,977	20,698,750	21,548,360
Interest on Property Transfers (Causa Mortis)	26,376	44,366	35,509	-	-
Shares (Inter Vivos)	3,713,693	7,050,930	4,391,003	13,852,117	11,323,309
Shares (Causa Mortis)	540,048	795,521	1,157,099	2,777,672	4,560,128
Emphyteutic Grants	1,723,331	5,182,230	3,640,517	-	-
Partition	267,808	149,061	64,039	-	-
Exchange	241,189	175,971	251,904	-	-
Donations	3,152,500	3,181,895	3,390,060	-	-
Insurance Policies	15,594,123	19,300,390	21,908,538	23,483,214	25,836,473
Legal Fees	28,992	23,543	20,600	8,398	9,199
Penalties and Late Filing	31,833	48,259	85,579	65,872	152,897
Totals	**111,132,891**	**135,325,828**	**149,461,712**	**188,313,777**	**184,938,537**

(Source: Capital Transfer Duty Department)

Audit Scope and Methodology

The main scope of the audit was to determine the level of controls over the collection of revenue due to Government from duty on documents, ensuring that revenue is correctly recorded and processed by CTD.

An introductory meeting was held with Management to discuss the audit objectives and obtain a general understanding of the various types of revenue earned. During the audit, further meetings were held and information was obtained from the officers concerned as necessary.

A systems overview and walkthrough tests for each main procedure were conducted, in order to assess the internal controls in place and any potential risks involved. Areas reviewed included property transfers, share transfers, insurance policies, enforcement and legal action, refunds and cash management.

A combined risk assessment was performed by analysing the inherent and control risks for each of the above procedures. Based on such assessment, further tests of control were conducted as follows:

- Considering that inter vivos property transfers represented 66% of revenue collected during 2019, a sample of 30 transfers was randomly selected for testing.

- Samples of five share transfers and five insurance companies[4] were chosen.

[3] A reclassification of accounts was effected as from 2018, whereby Emphyteutic Grants, Partition, Exchange and Donations were merged with the Immovables (Inter Vivos), whilst Interest on Property Transfers (Causa Mortis) with Immovables (Causa Mortis).

[4] The sample was selected on the basis of frequency of payments made by insurance companies, whether monthly, quarterly or one-off policy.

- A qualitative sample of 11 pending claims, based on materiality and nature of latest transaction made, was also selected.

The National Audit Office (NAO) confirmed that all the required documentation relating to property and share transfers was submitted and that the duty paid was correct. In cases where the internal Property Valuation Board decided that an architect was to be sent to inspect the property in order to establish its market value, NAO checked whether the necessary assessments were evidenced and that architects scheduled the inspections of the property transferred in a timely manner.

The duty of the five insurance companies selected for testing was verified against the receipts and submissions provided.

NAO reviewed a report[5] listing all pending claims as at 31 December 2019, which also showed the latest actions taken by CTD on each outstanding balance. Queries about potential issues were made. The accuracy of the sampled pending claims was confirmed with the related submissions and regulations and ensured that timely enforcement was made.

Key Issue

Arrears of Revenue

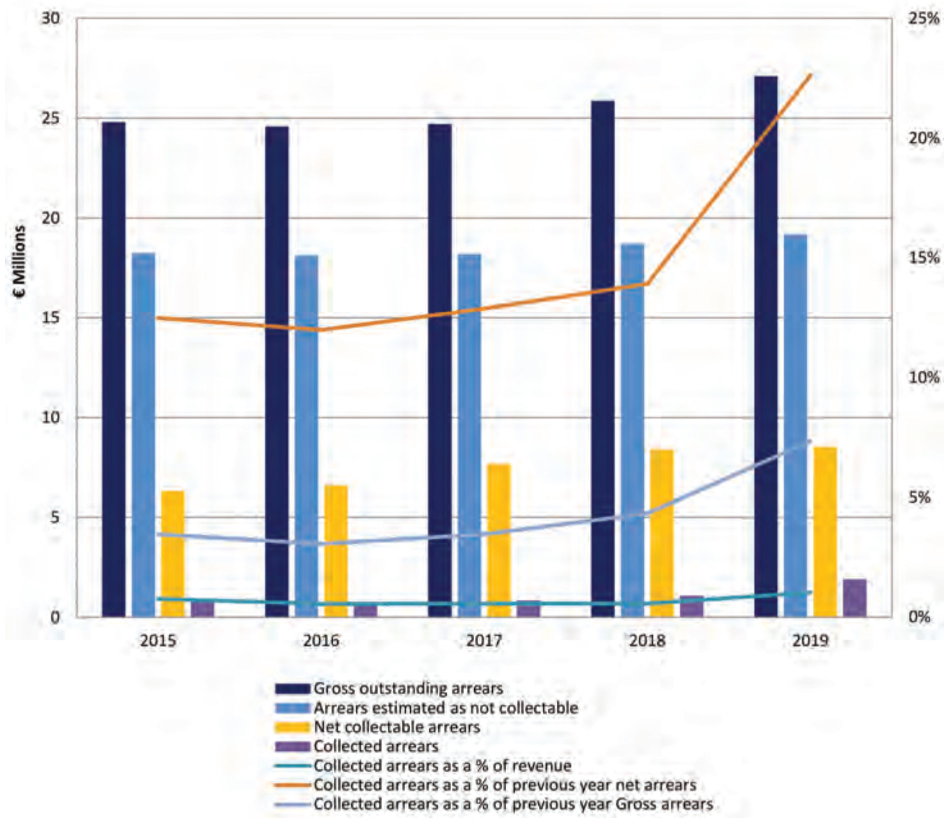
Background

As at end 2019, gross outstanding duty on documents was €27,726,487, with over 80% being pending for over one year. According to CTD, a total of €19,188,474, being dues outstanding for more than five years, from the foregoing amount was considered as not collectible.

When one calculates the percentage collectability from the previous years' net arrears, the average was around 13%, except for 2019 when the related percentage increased to 23%, reflecting an improvement in the collection effort. However, as stated above, there is an amount in excess of €19 million in doubtful debts, and if enforcement is not made in time, additional amounts could also become statute barred. Chart 2 refers.

[5] This report was generated by the Malta Information Technology Agency on the Department's behalf.

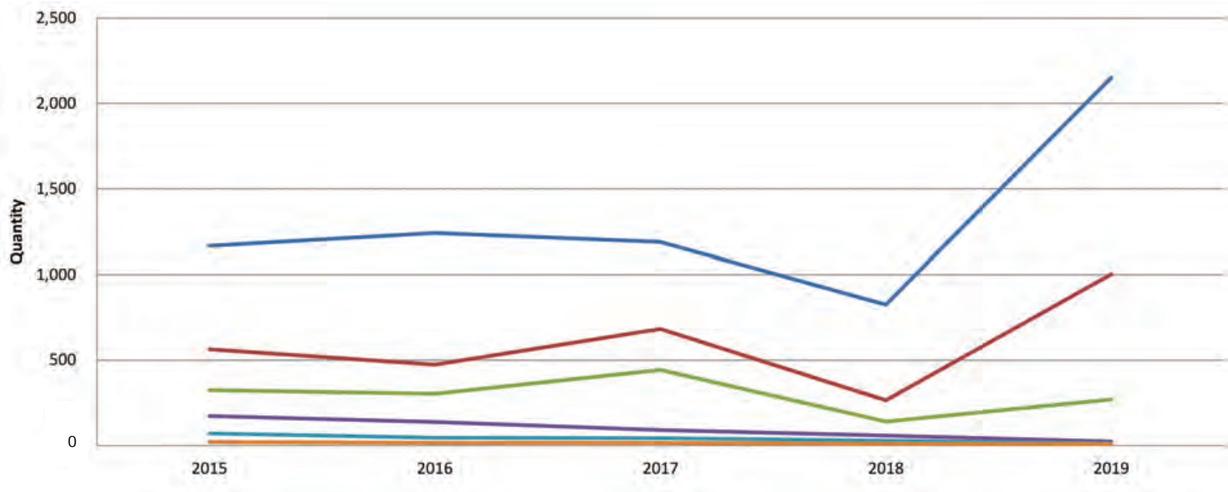
Chart 2: Analysis of Arrears



As shown in Chart 3, enforcement action in 2018 was the lowest when compared to the other years. According to CTD, in August 2018, the officer in charge of collection left unexpectedly and notwithstanding efforts to get immediate replacement, this only materialised at the beginning of 2019. This created a backlog of pending enforcement action, which was recuperated during the year under review, with the increased number of reminders and demand notices sent by the Department. NAO also noted a decrease in legal actions and garnishee orders during the past five years, reaching the lowest level in 2019[6].

[6] In 2015, CTD issued 172 legal action warnings and 70 garnishee orders while, during 2019, the Department only issued 23 legal action warnings and 12 garnishee orders.

Chart 3: Enforcement Action



Revenue falling in Arrears due to Lack of Enforcement

The information technology applications in use at CTD are specifically designed to ensure timely action for the collections established by law. The two systems in use, namely the Assessments Application (ASM) and the File Transfer System Application, both generate lists of those cases which should be followed up each day. In addition, the officer in charge of collections has access to a report listing all pending amounts which are reviewed on a regular basis.

However, timely enforcement action was not always made during the past years; this resulted in material balances becoming statute barred. The loss to Government in six out of the sampled eleven cases totalled €496,514. The following shortcomings that contribute to this concern were noted:

- Only one official was mainly responsible to carry out enforcement action.
- The report that CTD usually obtained from the Malta Information Technology Agency (MITA), listing all pending claims and including the latest action taken for control purposes, was not requested for the necessary follow-up in 2019.
- It transpired that ASM report, which was later on provided for audit purposes, contained certain balances or details that were not correct.
- A report, giving indication of the pending amounts that are close to becoming statute barred, could not be provided from ASM. This also hindered NAO from conducting proper analysis of the amounts in question.

Recommendations

CTD are encouraged to request the pending claims report from MITA on a regular basis and implement the appropriate measures to ensure that enforcement is made in a timely manner.

Primarily, the Department should address any human resources shortages in this area and ensure proper segregation of duties without undue delay.

Potential enhancements to ASM are to be discussed with MITA, so that the system will become a more effective enforcement tool. Incorrect balances in the system are also to be rectified.

Management Comments

Out of the loss of €496,514, only €62,275 relates to pure duty, since the remainder was additional duty which was used to be calculated at double or at ten times as much as the duty. The majority of these claims were issued and became statute barred before 2019, when the manual system gave way to human errors. The information technology applications which are in place safeguard that such errors are not repeated.

Garnishee orders are the last step after all collection procedures would have failed. Past performance showed that in cases where the amount is low, garnishee orders did not yield the desired results and scarce human resources are not wasted on such immaterial and unrecoverable amounts.

Human resources shortages are currently being addressed following the increased take-up of online registration by notaries and the upcoming transfer on certain back-office duties to the Gozo Branch.

Discussions with MITA are already under way to address any mismatch of balances and other shortcomings. Note is being taken so that the report listing all pending claims will be automatically generated at more frequent intervals with special reference to cases which are close to becoming statute barred.

Control Issues

Enforcement

Register of Active Agreements not in place

Upon request by the taxpayer, CTD may enter into an agreement with the respective individual, by which the latter binds himself to settle the amount due in several instalments. However, a comprehensive list of the current agreements was not available at the Department; thus, this Office was not able to randomly select a sample of agreements for audit purposes. The officer in charge totally relies on the bring-up file electronic system to ensure that taxpayers are honouring their agreements and paying the amounts due. This does not give the comfort that sufficient control over the outstanding amounts is in place.

Recommendation

CTD is expected to have a register listing all active agreements, which should be properly updated for monitoring and control purposes, as well as a complete audit trail.

Management Comments

Action is being taken so that a register listing all active agreements will be set up for a more adequate audit trail.

Property Transfers

Data forming the basis for Property Valuation not checked for accuracy and completeness of Documentation filed

When notaries submit documents related to residential property transfers, the respective data is inputted in the system (Property Valuation Model) by one officer. However, it is not being checked for accuracy by an independent official. Shortcomings noted during audit fieldwork included, an extension to a sampled promise of sale referring to a property different from that indicated in the original promise of sale, as well as price and details of another property differing between the promise of sale and the related final deed. The original application (DDT1) of another sampled property transfer could also not be traced by CTD.

Once the declared value[7] is inputted, the system will automatically report whether property, according to locality, size and other specifications as per Schedule 8[8] listed on the Commissioner for Revenue website, is reasonable or otherwise.

As from November 2019, notaries were given the possibility to upload their documentation online. This should eventually eliminate the risk of human error by CTD officers and also reduces their workload. However, this automated system was still in its initial stages, wherein, on average, only 13% of the submissions were being received online.

Recommendations

CTD is to encourage notaries to use the automated option as much as possible, since such submissions will be verified by means of embedded system controls, thus reducing the possibility of errors. Proper procedures for the review of promise of sale agreements are to be established and documented accordingly, whereas storage procedures are to be enhanced to facilitate the retrieval of documents from stores.

Management Comments

It is for security reasons that only one officer, besides the Director, has access to the Property Valuation Model. In November 2019, the online filing system for notaries was made available to just four notaries for testing. The system was launched to all notaries in April 2020. Discussions are underway with the Notarial Council to implement mandatory online filing as soon as possible.

The discrepancy between the promise of sale and extension is being investigated. As regards, the different price and details of the apartment, CTD stated that any amendments to the promise of sale details may only be effected upon an official corrective note by the notary and the payment of the applicable fee. If the physical document could not be found, traceability of the correction may be seen in the Cash Office Application. In the case of the original application which could not be traced, a departmental architect was sent to inspect the property. Therefore, any doubts of abuse are ruled out.

[7] The prices in the system are created by the Ministry for Finance economists using the property price index published by the National Statistics Office and is updated annually.

[8] A form submitted by the notary to the Department, wherein details of the residential property are reported.

Cash Management

Daily Safekeeping of Cash and Cheques received

The cash and cheques received by CTD are held in a safe for safekeeping until being handed to the Cash Handling Services Officers the following day. Access to the safe is restricted to only two CTD employees who work in the Cash Office, but one only requires a physical key to be able to open it, since the safe is old and the numerical code is no longer functional.

Furthermore, NAO noted that the switch of the intruder alarm system is situated within the Cash Office amongst other switches, which is considered very risky.

Recommendations

It is recommended that the safe is replaced with one which includes modern functionalities, rendering it more reliable. Moreover, the alarm system switch ideally is to be located in a safer place.

Management Comments

Recommendations are being noted and the necessary measures will be taken accordingly. Additionally, it is to be noted that besides the alarm system, Cash Office is monitored 24/7 through security cameras by the security contractor. Furthermore, cash and cheque transactions have been reduced drastically through the introduction of online payments.

Compliance Issue

Procurement of Architects' Services not in line with the Regulations

During 2019, 17 architects provided their services to CTD by carrying out 5,500 inspections on property transfers, in total receiving €137,523. However, rather than following procurement regulations, these architects were chosen along the years according to business need, after they submitted their request to CTD to offer their services.

Recommendation

Procurement is to be in line with the regulations so as to ensure fair competition and transparency. Thus, in order to give equal opportunity, at least, calls for quotations are to be published.

Management Comments

Appointment of architects is made as per article 100(2) of the public procurement regulations. Each architect is assigned specific localities and therefore all inspections in those localities have to be assigned to a particular architect. It is difficult to estimate how many inspections would be assigned to the particular architect because this depends on the property market in the particular area at the given time. However, more attention will be given so that the €10,000 (VAT excl.) threshold would not be exceeded.

Commissioner for Revenue

Collection of Class Two Social Security Contributions

No enforcement in respect of **Class Two Social Security Contributions** arrears due to Government was carried out in the last three years.

Background

In terms of Article 10(1) of the Social Security Act, 1987, self-occupied[1] and self-employed[2] persons are liable to pay Social Security Contributions (SSC), defined under the same Act as Class Two contributions.

The Commissioner for Revenue (CfR) is responsible for the collection and enforcement of such contributions. Provisional tax claims, which also include Class Two contributions are issued by CfR every year in April, August and December[3]. Once information concerning any National Insurance credits[4] and exemptions[5] applicable to taxpayers is received from the Department of Social Security (DSS), the Inland Revenue Department (IRD), now CfR, initiates the enforcement of collection.

Audit Scope and Methodology

The main scope of the audit was to determine the level of internal controls over the collection of revenue due to Government from Class Two SSC. The assignment also aimed to ascertain that appropriate and timely enforcement action is taken to collect outstanding contributions.

An introductory meeting was held with officials from CfR and the Director General of DSS. Minutes of the respective meeting were confirmed accordingly. Further information and updates were obtained through correspondence with the respective officials as necessary.

[1] Individuals who earn their income from trade, business, profession, vocation or any other economic activity that exceeds €910 per annum.

[2] Individuals who are not employed or self-occupied persons and who receive income from rents, interests, investments, capital gains or any other income.

[3] The August claim shows any unpaid SSC for April, while the December claim shows unpaid SSC for April and August.

[4] Such as social security benefits in case of fairly long sick leave; for the period of any volunteer work, which is recognised as such by the Minister in advance; and for widows who are not gainfully occupied, provided deceased husband had paid an aggregate of 156 contributions prior to death.

[5] For persons studying overseas and self-employed persons whose profit is below an established threshold.

Financial Information

The actual revenue collected in 2019 from Class Two SSC amounted to €51,082,467[6].

At the end of the year under review, the gross arrears of SSC due from self-employed and self-occupied taxpayers amounted to €103,152,069. Out of this balance, €86,823,059 (84%) was considered as not collectable, resulting in a net collectable amount of €16,329,010. This figure represents only contributions due pertaining to the last five years since, in terms of Article 116(5)(ii) of the Social Security Act, "… *any request by the self-employed or self-occupied person to pay such contributions … … shall be deemed null and void if submitted after attainment of pension age or after the lapse of five years from the time when the proper rate of contribution was due, whichever is the earlier* …".

Table 1 shows arrears of revenue relating to Class Two SSC for end of years 2014 to 2019.

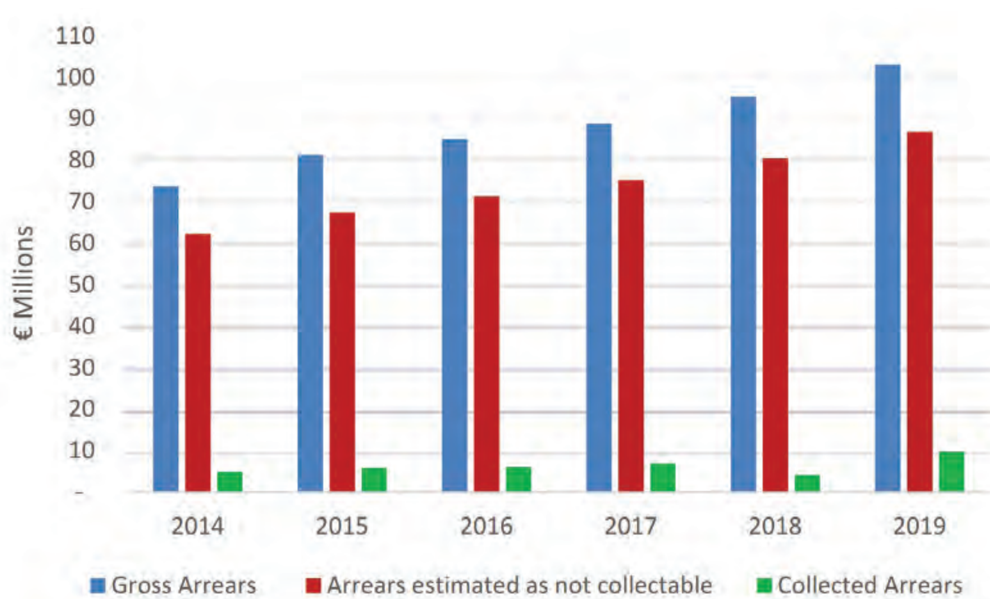
Table 1: Class Two Social Security Contributions Arrears of Revenue Amounts (2014 – 2019)

Details	2014 €	2015 €	2016 €	2017 €	2018 €	2019 €
Gross outstanding arrears	73,744,871	81,428,564	85,093,948	88,884,330	95,340,523	103,152,069
Arrears estimated as not collectable	62,268,697	67,483,009	71,263,330	75,188,546	80,512,573	86,823,059
Net collectable arrears	11,476,174	13,945,555	13,830,618	13,695,784	14,827,950	16,329,010
Collected from previous years	4,950,786	5,758,804	6,063,826	6,968,697	4,047,783	9,752,496

(Source: Arrears of Revenue Returns)

The table shows that although the accrued amount collected during 2019 was actually around twice the average collected in the previous five years, the net amount due to Government increased by €4.9 million (42%) over the past five years. Chart 1 further illustrates the trend between gross and collected arrears of revenue, as well as amounts estimated as not collectable.

Chart 1: Class Two Social Security Contributions Arrears of Revenue Amounts (2014 – 2019)



[6] Source: Data provided by CfR.

Limitation on Scope of Audit

No enforcement in respect of Class Two SSC due to Government was carried out by CfR in the last three years, thus hindering the objective of the audit, as detailed further down in this write-up.

Management Comments

The enforcement on previous years could not carry on due to the large amount of queries that were being done by the public following receipt of enforcement letters which were based on the data received from DSS. This was due since their information did not tally with the data in the enforcement letters, thus leading to a large number of objections.

Key Issue

No Enforcement Action to collect Outstanding Class Two Social Security Contributions

The latest[7] enforcement with respect to outstanding Class Two SSC was made in 2016. According to CfR officials, data with regard to credits and exemptions received from DSS was not considered reliable and therefore no enforcement could be made. The inaccuracies were identified by CfR officials following various complaints sent by the taxpayers when they received the enforcement notice.

Furthermore, according to CfR, following an amendment in the Social Security Act in 2015[8] which affected the contribution rate of persons born on or after 1 January 1962, the amounts due could not be calculated since adequate software was not available.

Table 2 shows the timeline of the key events with respect to enforcement action to collect outstanding contributions.

[7] Up to date of concluding this write-up (mid-May 2020).

[8] Any contribution paid by any person who was born on or after 1 January 1962 is payable at the rate at which the contribution will be payable at the time of payment.

Table 2: Timeline of Key Events

1998

Enforcement action of post-1998 SSC was transferred from DSS to IRD.

2012

For the first time, IRD included the outstanding SSC balances in their Arrears of Revenue Return. The gross closing balance of Class Two SSC reported as from 1998 till end 2012 amounted to €55,669,308.

2014

2013 Audit: Collection of Social Security Contributions by the Inland Revenue Department

Audit revealed that no enforcement action was carried out on taxpayers with credits and exemptions since the data forwarded by DSS was extracted from a different system from that available to DSS Area Offices and different amounts were obtained. As a result, until data was considered reliable, IRD ceased enforcement action on individuals having unpaid SSC.

IRD agreed with NAO that the implementation of a real-time web service between IRD and DSS would be a possible solution to ensure consistency of information. In October 2017, CfR requested MITA for such software, but this request was still in the list of pending projects by the time this Report was concluded, i.e. mid-May 2020.

2019

2019 Audit: Collection of Class Two Social Security Contributions

October

For this audit, a meeting was held between this Office and senior officials from CfR and DSS. During which, it was confirmed that the latest enforcement made by IRD with respect to Class Two SSC was conducted during 2016 because, to-date, data relating to credits and exemptions received from DSS was still considered as unreliable by CfR officials (since the number of weeks of exemptions and credits, as well as the related period did not agree with the data available at DSS district offices).

November

Cases with incorrect information were highlighted by CfR to DSS to be rechecked.

December

DSS confirmed that no inconsistencies were noted in the information throughout its system. CfR was again requested to provide details of any past cases which could be rechecked.

A detailed list was forwarded to DSS. This included inconsistencies encountered during the enforcement exercise that was carried out in July 2012, for years 2007 to 2011.

2020

January

DSS provided explanation to certain inconsistencies, following which CfR suggested that both Departments meet to discuss the data provided.

March

A technical meeting between both Departments was held in the second week of March and the data extracted was tested by both Departments in order to ensure accuracy of information.

Another meeting was subsequently held between CfR, DSS and MITA and a way forward was agreed upon. However, due to the extraordinary circumstances of COVID-19, this was put on hold.

April

According to CfR, the planned project with MITA as regards the calculation of payments in arrears by persons born after January 1962 was put on hold, mainly due to the merger of the VAT Department and IRD. However, it was planned to start sorting this issue with MITA as soon as the urgent matters related to COVID-19 are addressed.

Recommendations

Given the substantial amounts that are outstanding, managing arrears is crucial to ensure that all SSC are duly paid. This is even more relevant because, by virtue of the Social Security Act, Class Two SSC which are due for more than five years are time-barred, thus not collectable.

Liaison between CfR, DSS and Malta Information Technology Agency (MITA) needs to be stepped up so that enforcement action is resumed without further delay and in order to prevent loss of revenue. The prompt pursuit of outstanding contributions will signal that unpaid obligations will be followed up by the respective Department.

Furthermore, CfR is to follow-up on its request to create a common source from where the required information may be accessed by both Departments and collaborate with DSS in order to attain accurate records through one common on-line system.

Management Comments

CfR confirmed that the software mentioned back in October 2017 was not implemented in view of higher priority tasks, including the merger of IRD (now CfR) and VAT Department. The project of having a real-time web service between CfR and DSS was not discussed in recent meetings held because the absolute priority was to have the correct data with regard to the contribution rates calculated by CfR (based on trade income) and the credits and exemptions provided by DSS. The relative MITA teams are assisting in both matters.

The changes made in the Social Security Act, that payment of arrears of Class Two contributions must be made according to the rate when the payment is actually made, renders collection action ineffective and very complex. Therefore, enforcement could not continue. When CfR and MITA planned a project in this regard, other projects, mainly linked to the merger of VAT Department and IRD took precedence and hence that project did not materialise.

Technical discussions between CfR and MITA have continued on this issue. This is rather complex to implement and manage, as well as business rules provided do not cover a comprehensive scenario. There are several questions that need legal attention and can be sensitive if this is implemented as indicated.

CfR and MITA are also working on the requests by DSS for enhancements in CfR's system, and reporting should be finalised and data exchanged with DSS by the end of May 2020. CfR is awaiting an update from DSS on the enhancements required in their system with regard to credits and exemptions. Once the necessary enhancements are ready on both systems, the possibility of integration using web services would be explored since this is also in line with the current modernisation.

As regards the issue of arrears of payments of persons born from 1962 onwards, a meeting is set for the last week of May with DSS to discuss possible simplification changes to the current legislation. If this is not possible, CfR would have no alternative but to use the information available. Hence, the only feasible implementation would be a basic print of outstanding reminders, which will be replaced by another set the following year. Time would be required for MITA to work on the model and since the provisional tax claim is based on the net profit declared the year before, it is also logical to wait for this data to be submitted and processed. As a result, the plan is that this would be ready for implementation in the beginning of 2021.

On the other hand, DSS confirmed that it is in the process of streamlining the information to be submitted to CfR so that no unnecessary or duplication of information is forwarded. Unfortunately, this process had to slow down due to the introduction of four new COVID-19 related benefits.

Department of Customs

Debtors and Prepayments

The audit on the debtors and prepayments reported by the **Department of Customs** at year-end revealed an inadequate record-keeping system. Certain debtors' balances could not be validated. Moreover, the provision for doubtful debts was not sufficient to cover balances with low chance of recoverability.

Background

The Department of Customs (DOC), within the Ministry for Finance, is entrusted with the control of imports and exports of goods, as well as for the collection of the respective taxes and duties, as mandated in the relevant Acts. It also has a multi-functional border agency role with specific focus on trade facilitation, alongside security and safety borders controls.

In accordance with Treasury Circular No. 6/2019 – 'Closing of Accounts for Financial Year 2019', the analysis of debtors and prepayments as at 31 December 2019 was to be forwarded to the Treasury Department by 15 January 2020. Additionally, a detailed breakdown of arrears of revenue was to be submitted in line with Treasury Circular No. 2/2020 – 'End of Year (2019) Statements of Account – Arrears of Revenue – Amounts due to Government'.

The Department's total estimated revenue for financial year 2019 was nearly €341 million. As at 31 December 2019, DOC reported an aggregate of €8.1 million[1] as outstanding receivables in the debtors' return[2], for which a provision of €8,549 (0.1%) was taken as doubtful debts. Prepaid expenses recorded at year-end were €23,672.

Audit Scope and Methodology

The scope of the audit was to ascertain the accuracy and validity of recorded debtors as at 31 December 2019. The National Audit Office (NAO) intended to assess whether uncollectable balances were properly identified to ensure that the allowance for doubtful debts was adequate.

The audit also covered prepayments where it was ensured that reported figure accurately reflected the amounts paid by the Department in advance for goods and services.

[1] This figure is composed of excise duties (€6.3 million), import duties (exceeding €447,000), civil debts (over €410,000) and other revenue sources.

[2] The amount of €11.5 million was reported as net collectable in the arrears of revenue return. The variance of €3.4 million is due to different cut-off dates.

An introductory meeting was held with the accounting officers, to discuss the audit objectives, as well as to obtain a general understanding of the procedures for the compilation of the amounts in question. The returns submitted to Treasury Department were also obtained[3].

Following the review of supporting lists, a sample of 11 debtors was selected randomly to carry out a circularisation exercise. Each debtor was requested to declare the amount in favour of DOC as at 31 December 2019. NAO received only four replies, i.e. a response rate of 36%. It transpired that five of the non-respondents had either an ongoing court case or an out of court settlement agreement.

Another three transactions, representing 91% of the amount recorded as prepayments, were selected for testing purposes.

Key Issue

Inadequate Record-keeping System for Trade Receivables

At the initial phase of the audit, NAO requested a detailed debtors' list, supporting the respective return, but this was not readily available. Subsequently, in order to identify the year-end balance for five of the sampled debtors for the purpose of the circularisation exercise, NAO had to recalculate the figure from various sources.

Audit testing also revealed that the Department's software does not generate a report confirming the receivable balances as at 31 December 2019, but only provides information to-date. These circumstances delayed the audit unnecessarily and limited the extent of testing.

It also transpired that, in order to compile the quarterly debtors' return, the officer in charge collects the data from 10 different sections within DOC. The lack of centralised record-keeping for trade receivables is very likely to give rise to inaccurate or incomplete information.

Recommendation

Management is to maintain records of all debtors' balances, for the entire revenue categories, in a centralised record-keeping system, which should be able to generate reports as at required dates. This will provide reliable and accurate information to chase outstanding amounts in a timely manner. With the introduction of the Corporate Financial Management Solution, such process should be facilitated.

Management Comments

Currently[4], DOC conducts several of its exercises through manual intervention. By the second quarter of 2021, the Department intends to change the current system to an electronic one.

[3] These included the returns for arrears of revenue, debtors, prepaid expenses and accrued income, as at 31 December 2019.

[4] Management comments submitted on 21 October 2020.

The Department will endeavor to introduce a shared folder among all revenue-collection sections, thus avoiding duplication of exercises and risks for misreporting. The Department will also be taking note of the advantages which the Corporate Financial Management Solution might potentially offer for the purpose of exploiting any benefits which the system might offer in this regard.

Control Issues

Lack of Documentation confirming Debtor's substantial year-end Balance

DOC could not provide supporting evidence confirming the amount of €971,661 due by a debtor as at 31 December 2019, against whom the Department had initiated legal action. This scenario sheds doubt on the accuracy of the reported balance of debtors.

Recommendation

Detailed records confirming each trade receivable recorded in the debtors' return should be maintained for future reference, especially when the Department intends to take action to recover debt in its favour.

Management Comments

The mathematical calculations of the amount due from this debtor are worked out on a spreadsheet, including the interest thereon, as per original agreement entered into between DOC and this debtor. However, admittedly, at the time of the audit, the Department's file related to this case was not readily available. A garnishee order is currently in place against this debtor and the case is presently subject to a lawsuit[5].

In general, each debtor's dues are recorded in separate files which are held by the respective sections that operate in terms of different customs' legislation provisions, which vary substantially between one product and another according to the commodity's particular nature.

Inadequate Provision for Doubtful Debts

The review of the detailed debtors' list as at 31 December 2019 revealed certain trade receivables, whose aggregate value exceeded €57,000, that were recorded as either deceased, deported or absconded. Various other transactions, with a total balance of €489,255, have been long outstanding since the period between 1990 and 2005. However, only a provision of €8,549 for doubtful debts was taken.

Recommendations

On an annual basis, Management is to review its records for any long outstanding amounts or instances which are highly probable that the debtor (or respective heirs) will not settle his or her debts in order to take an adequate provision for amounts estimated as not collectable. DOC is also to perform the necessary verifications to ensure timely collection of dues to Government.

[5] Management comments submitted on 21 October 2020.

Management Comments

When the Department recommends to the Ministry for Finance to write off certain amounts, in terms of the General Financial Regulations, a negative reply is forthcoming. This notwithstanding the fact that, in DOC's opinion, sound arguments and justifications are conveyed by the Department and following extensive and exhaustive timely efforts exerted by DOC to retrieve the amounts due.

Other dues are subject to lengthy procedures experienced at the Law Courts. In such cases, the Department prudently retains the respective dues appearing in the return of arrears until the court case is decided, if necessary, by the Court of Appeal.

Financial Intelligence Analysis Unit

Expenditure

The audit revealed expenditure incurred by the **Financial Intelligence Analysis Unit** which was not in line with Government regulations and policies. Lack of timely and formal authorisations for the accumulation of vacation leave and the carrying out of overtime work were also noted.

Background

Established by virtue of Article 15 of the Prevention of Money Laundering Act, the Financial Intelligence Analysis Unit (FIAU) is the Government Agency responsible for:

- the receipt and analysis of information on transactions or activities suspected to involve money laundering or funding of terrorism;
- the exchange of information and cooperation with foreign financial intelligence units and other authorities, both locally and overseas; and
- the oversight and monitoring of compliance by persons and institutions subject to relevant regulations.

The Unit is an autonomous Agency within the Ministry for Finance and Financial Services and is governed by the policies established by its Board of Governors, appointed in terms of the Prevention of Money Laundering Act.

The initial approved 2019 budget allocation for Line Item 6023 – Financial Intelligence Analysis Unit, under Vote 18, amounted to €4,075,000. This was substantially augmented by a further €5,443,750, leading to a total allocation of €9,518,750. According to the respective management accounts for 2019, FIAU also reported income generated from its own operations totalling €316,117, as well as European Union (EU) grants of €88,407 received during the year.

Audit Scope and Methodology

The main scope of the audit was to determine the level of existing internal controls over expenditure incurred by FIAU in 2019. It was also verified whether the Entity complied with the public procurement regulations and if it adhered to its own policies.

An introductory meeting was held with FIAU Management to discuss the audit objectives and to obtain a general understanding of the Unit's operations. Apart from reviewing the legislative framework regulating the Agency, the National Audit Office (NAO) also conducted a systems overview to comprehend procedures and policies adopted by FIAU, in particular those relating to procurement, salaries and travel abroad.

Following a scrutiny of FIAU's management accounts, nominal ledger and trial balance for the year ended 2019, consultancy services, for a total value of almost €6.3 million, were identified as the most material expense, comprising 66% of the Unit's total outflow. NAO reviewed the procurement of services from a local consultancy firm, which was paid in aggregate €107,548, as well as a sample of payments effected to this service provider.

Testing was also carried out on payroll costs which, at almost €2.2 million, were the next most significant expense. Salaries paid to five employees, out of a total of 70 officers on the payroll of FIAU, were selected for verification. Testing was carried out to ensure that salary payments were in accordance with the respective contracts of employment[1].

During the year under review, expenses relating to travel abroad totalled €157,961. Five trips were selected for further verification, taking into consideration the costs incurred and the country visited.

Control Issues

Expenditure not in line with Government Regulations and Policies

During the year under review, FIAU held a number of staff meetings and organised team building events[2] for an aggregate cost of over €18,000, which also covered respective lunches and catering services. Other activities funded by the Agency included a summer party at a local hotel, Christmas and New Year's refreshments, as well as an event for the children of its employees, at a total of at least €3,800.

Furthermore, FIAU employees benefitted from the Staff Fruit Scheme, organised by the Entity in order to promote healthy eating habits. The total cost of this scheme exceeded €4,500 in the year under review.

Recommendations

Whilst staff meetings and team building events are encouraged, costs incurred are to be kept at a minimum if these are financed from the taxpayer's money. FIAU's attention is also brought to OPM Circular No. 13/2019 – 'Christmas Staff Parties, Christmas Cards and Gifts', which states that staff parties and lunches can be organised as long as these are not paid out of, or partly sponsored by, public funds.

Management Comments

With regard to staff meetings and team building events, FIAU would like to emphasise that such events include managerial meetings, technical and development training, as well as team building activities. FIAU would like to highlight that the highly specialised nature of the work conducted by the Unit requires extensive levels of communication, staff training and investment and ensuring that the staff feel valued and incentivised. Furthermore the Management would like to highlight that by the very nature of the work carried out by FIAU the stressful elements created by the workload, which entails dealing with high profile cases, heavy workloads, high standards and tight

[1] Original supporting documentation, showing that the remuneration packages were approved by the People and Standards Division (since no collective agreements were in place) within the Office of the Prime Minister, was not made available, claiming confidentiality. Thus, NAO could not ascertain that FIAU employees' remuneration packages were duly authorised.

[2] One of these events was held on a Public Holiday, and the employees' partners were invited to attend against payment.

deadlines, are an integral part of the staffs' daily work life. In addition, due to the latter mentioned elements, and confidentiality and security of data, the Public Service Management Code (PSMC) work life balance measures, such as teleworking, are not implemented at FIAU. Hence, the latter firmly believes that staff events need to be organised throughout the year to regularly meet employees, improve employees' morale, increase motivation and ensure staff retention. FIAU, is of the opinion that staff meetings and other staff events yield several benefits, and among others, they build strong working relationships among FIAU's workforce, increase staff engagement, improve communication, as well as increase productivity and collaboration. FIAU believes that staff well-being is paramount to the ongoing performance of their duties to high standards and also cost effective, such as through the reduction of staff turnover.

When comparing the cost per head of these initiatives with the additional hours worked by employees, FIAU believes that it is a reasonable investment to ensure motivation levels, staff engagement and retention. When taking into account the incurred cost of €18,000 (€257 per employee per year) and the €3,800 (€54.29 per employee per year) FIAU believes that costs are being kept to a minimum and fairly reasonable in view of the challenges faced by FIAU in the last years, the work being carried out by the employees and the level of staff commitment.

Through the Staff Fruit Scheme, FIAU is promoting a healthy lifestyle whilst reducing the potential costs of obesity and related chronic diseases. Hence, a healthy eating scheme at the workplace is beneficial both to the employees and to their employers, not to mention society at large. An additional benefit seen by the Unit is an increase in staff well-being and belonging. Furthermore, when taking into consideration the invested cost of €4,500 per year, which equates to a per capita expense of only €64.29 per year, the Unit believes that the cost is indeed being kept to a minimum.

Untimely Authorisation for Accumulation of Vacation Leave

According to FIAU's Policy on the Management of Attendance, accumulation of Vacation Leave (VL) in excess of five days is only permitted upon the Director's approval. Out of the audit sample of five employees, one officer accumulated substantial hours of VL for two consecutive years[3]. However, no formal request to carry forward unutilised VL from 2017 to 2018 was made available for audit purposes. Furthermore, the officer's request for the accumulation VL hours not used in 2018 was only made end-January 2019 and was approved by the Director on the same day when payment for part of the unutilised hours was also approved.

Furthermore, the payment[4] effected to the abovementioned officer for VL hours not availed of was calculated on the incorrect hourly rate.

Recommendation

In exceptional circumstances where officers are not able to utilise their leave entitlement within the year due to work exigencies or for other personal reasons, the VL accumulated to the following year is to be duly authorised, in line with standing policies and regulations, prior to year-end.

[3] Fifty-five hours of VL from 2017 to 2018 (out of an entitlement of 200 hours) and 136 hours to 2019 (out of an entitlement of 208 hours).

[4] Amounting to €1,367 for 63.5 VL hours not availed of during 2018.

Management Comments

FIAU would like to highlight that in relation to the officer mentioned above, it was an exceptional case and there were several factors contributing to the scenario, such as an extensive and unique workload and is the exception not the rule to FIAU's VL practices. FIAU would also like to remark that VL brought forward was approved verbally prior to year-end by the Director and was formally approved end-January 2019. As per FIAU's Staff Handbook, carrying forward of VL balance exceeding the maximum number of hours, i.e. forty hours, is subject to Management discretion, following a discussion and a formal request by e-mail sent to the Manager, Deputy Director and Director.

No formal Authorisation prior to carrying out Overtime

According to FIAU's Policy on the Management of Attendance, paid overtime is to be approved by the Director before the work is actually performed. According to Management, verbal confirmation is always sought for overtime work; however, in the absence of formal authorisations, NAO could not verify that the overtime paid for was duly and timely authorised.

Recommendation

Management is to ensure that all paid overtime is formally authorised prior to its performance.

Management Comments

Overtime is only paid to employees holding certain positions, who are directly requested to work after normal hours by their superiors, including their Manager or the Deputy Director or the Director. In addition, FIAU would like to emphasise that there are instances where formal approval of overtime prior to its performance is not possible due to urgent matters or in exceptional cases. Furthermore, in line with the FIAU's Staff Handbook, employees need to obtain "approval or consent before working after hours" and employees are not requested to specifically obtain formal authorisation. In addition, overtime sheets are always retained and countersigned by the respective FIAU Manager or Deputy Director or Director, thus ensuring that any payments for overtime are endorsed by the employees' respective managers.

We respectfully believe that, due to the nature of the work and the workload being experienced by FIAU, the recommendation put forth by NAO may at times not be entirely realistic to implement in practice, and would create an unnecessary bureaucratic step which would only further increase the administrative burden and discourage employees and their managers from working beyond standard office hours to address issues, such as an increased regular workload, backlogs and pending case work.

Compliance Issue

Travel Standing Regulations not followed

FIAU did not follow the PSMC's Manual on Transport and Travel Policies and Procedures in case of visits abroad by its employees. Instead, it adopted its own internal travel policy, which was last revised on 29 March 2016. However, this policy fails to mention the procedures to be followed for travel abroad; it mainly focuses on the applicable rates for accommodation, subsistence allowance and transfer costs. Management also confirmed that the Corporate Travel Management System[5] is not utilised.

In reviewing FIAU's policy on travel allowance and hotel expenditure, NAO noted that the Entity's employees are entitled to a fixed daily subsistence allowance of €75, irrespective of the destination country and whether lunches and dinners are paid for by the host. This is not in line with the respective provisions of PSMC. Furthermore, in all five trips selected for audit testing, it transpired that FIAU's established capping for hotel accommodation of €150 per night was exceeded[6]; this also resulted in four of these trips exceeding the per diem rates authorised by the Ministry for Finance and Financial Services.

Recommendation

FIAU's travel policy is expected to be in line with standing regulations and policies.

Management Comments

FIAU takes note of the recommendation and shall be updating its travel policy to start allocating 60% of the per diem allowance for overseas duty travel to cover the accommodation portion in line with PSMC. However, to adopt such a policy, FIAU requires a dedicated officer to manage the numerous trips booked per year. FIAU would also like to remark that the difference in accommodation, between the cost as per PSMC and the cost as per actual paid by FIAU, was immaterial for two of the sampled trips. In the case of another two trips to EU countries, the accommodation paid by FIAU was expensive due to last minute bookings in relation to urgent meetings and such instances tend to be an exception to the Unit's practices rather than the norm.

It is also important to note that no business class trips were ever used by FIAU officials (including the Director) for EU trips. Thus, while acknowledging that FIAU may need to improve their travel policy so as to align this with PSMC, we believe that over the years, the frequent trips within the EU using economy seats has significantly reduced FIAU's travel expenditure.

[5] The Corporate Travel Management System is the official Government web-based system that administers public officials' travelling abroad.

[6] For three of these trips, the higher rates were duly approved by FIAU Director, as per travel policy. No formal approval was made available for the other sampled trips.

Ministry for Tourism

Licences to Hotels and Catering Establishments

Revenue

The Malta Tourism Authority's licence management system which was planned to be in place by the first quarter of the year 2018 had not been implemented by March 2020. Various concerns relating to the management of debtors, arising from **Licences to Hotels and Catering Establishments**, were also encountered.

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 (Cap. 409). Its functions are to:

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

The Authority collects revenue on behalf of Government through licence fees charged to hotels and catering establishments in terms of S.L. 409.05 Fees (Tourism) Regulations. For 2019, the estimated revenue from such fees was €1,200,000 whilst actual revenue recorded on the Departmental Accounting System amounted to €1,059,177. In addition, €1,330,640 was recognised as still outstanding in the Authority's management accounts[1] as at December 2019; this figure includes amounts brought forward from previous years.

Audit Scope and Methodology

The main scope of the audit was to assess whether the necessary controls were in place to ensure that all invoices related to licences were issued in a timely manner and in line with the prevailing regulations, that the revenue collection process was adequate, appropriately accounted for and transferred in its totality to the Government of Malta. In this regard, the procedures in place were analysed to assess their adequacy, completeness of revenue and compliance with the applicable regulations. The audit also sought to establish whether MTA's efforts to collect long outstanding licences were sufficient.

[1] By the time that NAO's audit was carried out, the Authority's financial statements for financial year 2019 were not yet audited in line with the requirements of the Act.

Meetings were held with MTA's senior officials to discuss the audit objectives. A random sample of invoices raised by MTA for licences pertaining to 2019 was selected for the performance of a walkthrough test. Audit queries were raised to obtain an understanding of the related processes and procedures. Additionally, a system review of the Authority's management of debtors was performed.

Limitation on Scope of Audit

As reported last year by the National Audit Office (NAO), the Authority 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.

Key Issue

Licence Management System

Following a call for tender, in February 2015, MTA entered into a contract with a service provider for the design, development and implementation of a licence management system for the total consideration of €168,032. These tasks had to be executed within a period of 36 months.

NAO was informed that the scope of the system was subsequently widened in order to facilitate the sharing of information between the various departments within the Authority. System requirements were also updated to reflect changes in policies, procedures and legislation. Further amendments are envisaged once new legislation comes into force. According to MTA, the Licensing Department within the Authority was using this system concurrently with the previous software which was developed in-house; however, the project was not finalised by end March 2020.

Requests for audit purposes, made for the submission of source documentation confirming approvals for procurement and the respective changes, project implementation timelines and actual disbursements, proved futile. Only the tender document and signed agreement were made available. Thus, NAO could not quantify and validate the expenditure involved.

Invoices pertaining to licences for the year 2019 were only issued in July of the same year. NAO was verbally informed that due to limited functionality within the software, MTA was not in a position to issue the licensing invoices before the beginning of the year.

Recommendations

Given that this project should have been completed in February 2018, Management is expected to bring the implementation of the new system to a close without further delays.

Furthermore, the documentation substantiating expenditure from public funds is to be invariably available upon request for proper accountability.

Management Comments

The supplier had to provide the Authority with a full and complete licence management system by 31 March. Unfortunately, till today this has not yet materialised as debugging is still underway due to the complexity of the system. The Authority has formally written to the supplier to provide the relative source code and documentation. In the meantime, the Authority has started discussion with the Planning Authority to integrate the current systems to a geospatial portal system with the backend at the Planning Authority, with the intention to have a one stop shop.

MTA takes note of the recommendation and shall ensure that from now onwards all related documentation shall be made readily available upon request.

Control Issues

Management of Debtors Concerns

a. Ageing of Debtors not available

MTA does not have an adequate reporting system for the ageing of debtors. A list of receivables pertaining to each year is available from 2017 onwards, but those prior to this date are grouped together under one amount. In order to obtain further detailed information on the latter category, one has to access the individual records of each operator. Thus, actual ageing of MTA's debtors was not provided.

b. Licences Automatically renewed

Licences were renewed automatically, irrespective of previous pending balances and without any sanctions. Certain licences invoiced by the Authority were not due because the respective establishments had closed down years back.

c. Doubtful Debtors not recognised in the Return of Arrears

The Arrears of Revenue Return for 2018, compiled by the Ministry for Tourism, did not disclose any amounts which were estimated as not collectable with respect to these licences. Notwithstanding this, an aggregate of €93,184[2], which had been accumulating since 1997, was approved for write-off or reversal during the year under review.

d. Negative Balances

The debtors' list extracted from the system by the Finance Department included 252 entries, amounting in total to €87,805, each with a negative balance ranging up to €9,257. An explanation was requested by NAO but remained pending by the time this write-up was finalised.

[2] According to case notes filed by MTA, as the Authority did not take action to stop the further generation of invoices, these needed to be reversed. On the other hand, there were other amounts which needed to be written-off as they were time-barred. Although the terms reversal and write-off were not being used properly, adjustment of the figures under the respective category by NAO was beyond the scope of this audit. MTA was informed accordingly in order to avoid recurrence.

e. Enforcement of Debtors

An Arrears Division at MTA, which was set up to analyse debtors and enforce collection, was responsible to present its findings to the Authority's Audit Committee to determine the way forward. This Division compiled lists of debtors and categorised them into seven groups in order to facilitate their pursuance. However, a proper audit trail to ensure completeness of the amounts in question was not in place. Moreover, these were kept on spreadsheets for which no periodic back-ups were maintained.

As at 25 January 2020, the total debtors of €1,784,519, compiled by the Arrears Division, excluded the amount of €425,146[3] pending receivables which was intended to be brought to the attention of the Audit Committee. Whilst acknowledging the difference in reporting dates, the compiled figure was never reconciled to the debtors recorded by the Finance Department, which at end December 2019 totalled €1,330,640. This does not give the comfort of accuracy of the amounts in question.

This Office also noted that standard operating procedures for the Arrears Division were not formalised and approved.

Recommendations

The Authority is encouraged to implement a system that facilitates the proactive management of debtors in order to safeguard public funds. In this respect, the system in place should cater for a detailed analysis of debtors in order to improve collection, the early identification of problematic dues and the creation of the necessary provisions. Additionally, until suitable alternative arrangements are in place, MTA is to ensure that all debtors' records are periodically reconciled. Formalising standard operating procedures would also promote uniformity when dealing with similar cases.

Management Comments

Prior to the COVID-19 outbreak the Authority had already commenced on a systematic process to target all the debtors of the Authority. Formal letters were already issued and a number of persons started to pay their debt related to the licensing. Following the pandemic outbreak the debt collection had to be suspended. It is the intention of the Authority to call in all debtors to at least sign a payment programme as soon as this is possible after the public health declares that the country may return to normality.

Information maintained by Different Departments not consolidated

As reported in the NAO Annual Report for 2018, the various departments within MTA have their own filing system, rather than a centralised registry. Digital information was also not shared between the departments. Thus, data in respect of the same licence and licensee may be collected and processed by MTA more than once, resulting in duplication of records.

[3] Although NAO was informed that this amount constitutes both licence and contribution elements, the Authority was not in a position to identify the respective amounts by the time this audit was concluded.

This weakness also impinges on the management of debtors and accounting for revenue. By way of example, NAO noted that information on specific establishments obtained during onsite visits or available in file was not actioned upon to stop further generation of invoices. Apart from the fact that fragmented information hinders the Authority's efficiency and effectiveness, this issue also raised questions on the extent of collaboration between different departments within the Authority.

Recommendations

MTA is to ensure that a proper management system is in place whereby relevant information is available across all departments to enable timely action. Additionally, the Authority's objectives are to be clearly communicated and converged into specific targets, such that each department's efforts are aligned towards a common goal.

Management Comments

The Authority has started to align all the systems, including the use of a particular platform and stored in the cloud. The Authority is seeking to implement the ISO 9001[4] *by the end of the year to ensure that all systems are according to International Standards, both in terms of deliverables and standards.*

Evidence of Plans for Onsite Visits not available

Article 40 of the Malta Travel and Tourism Services Act requires the Authority to monitor and review all tourism operations to ensure that these are carried out in accordance with the Act. However, NAO could not establish adherence to this requirement as queries for documented plans for the performance of onsite visits, incorporating the year 2019, were futile.

Recommendation

A periodic plan covering on site visits across all tourism operations is expected to be in place to ensure adherence to the regulating provision.

Management Comments

A Director for Enforcement has been appointed to ensure that by the end of 2021 a review of all tourism operations is carried out. Although the review had commenced in the beginning of the year, the COVID-19 outbreak forced the Authority to suspend the actions and reviews.

[4] Defined as the international standard that specifies requirements for a quality management system.

Ministry for Home Affairs and National Security

Police Department

Capital Expenditure

Weak internal controls within the **Police Department** were noted in all the three phases related to procurement, namely the definition of needs, the award of contract and its monitoring.

Background

The Police Department (PD) is a contracting authority listed under Schedule 16 of the Public Procurement Regulations (PPR), administering its own public procurement up to the value of €250,000 excluding Value Added Tax (VAT) for each purchase. During 2019, procurement was rather decentralised, with the required goods or services acquired by the respective Units, while the Administration Unit was in charge of the payment. Significant expenditure, related to capital projects, was processed by the Ministerial Procurement Unit on behalf of PD.

The budgeted allocation of Line Item 7002 – 'Buildings and Equipment' under Capital Vote XI for 2019 amounted to €2.5 million[1], an increase of 150% over the €1 million allocated for 2018. Total actual expenditure incurred during the period under review totalled €2,594,491, with the top three acquisitions, in terms of value, related to the acquisition of fleet vehicles, property and renovation of buildings, covering 53% of the total expenditure.

Audit Scope and Methodology

The main scope of this audit was to evaluate the adequacy and effectiveness of internal controls with respect to the procurement process, assessing in particular whether needs were adequately defined, the award was in line with the regulations, thus giving equal treatment to suppliers through fair competition and transparency, and that the management of contracts was duly monitored.

An analytical review of data in the departmental accounting system, related to the line item in question, was carried out. Detailed testing was undertaken on a sample of 30 payments, with an aggregate value of €2,001,697. The materiality of the expenditure incurred, as well as the method of procurement of the respective goods and services, was taken into consideration for this selection.

[1] The allocation was eventually supplemented by a warrant of €95,000 to cover the purchase of a Police Station in Marsaxlokk.

The National Audit Office (NAO) assessed whether the procurement procedures adopted by PD were in line with the provisions of PPR and whether amounts charged to PD were in accordance with the related tenders, contracts and other supporting documentation.

NAO also verified whether relevant approvals for Direct Orders (DOs) were obtained from the Ministry for Finance in a timely manner, proper justification was provided, and that payment did not exceed the approved amount. NAO further sought to verify PD's compliance with Article 111(2) of PPR, outlining the relevant publications and Contracts Circular No. 02/2017 – 'Submission of a List of Contracts by Contracting Authorities'. It was also verified whether the fixed asset register and stock records were in line with standing regulations and showed reliable balances.

Key Issues

Non-compliance with Procurement Regulations

Six sampled cases of procurement, amounting in aggregate to €152,924 (VAT excl.), were not acquired through a departmental tender, despite each exceeding the threshold of €10,000 (VAT excl.) set out in PPR. PD's method of procurement involved the collection of quotations from a number of suppliers of its choice and approval to go for DO was obtained for the cheapest bid.

Recommendations

Procurement above the established threshold is to be carried out in line with the procurement regulations, intended to promote fair competition and transparency, as well as to reduce risks, particularly those related to reputational damage, which would arise from non-compliance. The use of DOs is to be limited to strictly unavoidable cases, so as to provide equal treatment to all interested bidders and ensure that the interests of Government are duly safeguarded.

Management Comments

The cases in question were procured following a DO approval from the Ministry of Finance, since a public call could not be issued due to a variety of reasons. It was further stated that justifications are submitted when soliciting DO approval.

Lack of clear Procurement Guidance and Mandates

The only guidance to officers in charge of procurement focused on procurement through quotations, excluding the other provisions in PPR, namely the use of the electronic public procurement system and departmental tenders. Furthermore, PD's decentralised model of procurement was not supplemented with clear mandates, clearly indicating the respective roles and responsibilities. Other than for the approval of payments, no other approval thresholds were defined.

Recommendations

A more centralised approach is to be considered, with the current guidelines reviewed to incorporate the provisions of PPR therein. Moreover, procurement officers are expected to have clear roles and responsibilities in both procurement activities and monitoring thereof, with complex procurement assigned only to experienced staff, as far as possible.

Management Comments

PD is striving to have a centralised and specialised unit which caters for all the procurement within the Department. However, while plans have been submitted in this regard, adequate human resource capacity is required to cater for a Department of this size.

Control Issues

No Evidence of proper Needs Identification and Modifications

With the exception of one case, no formal procurement needs analysis was noted in any of the eight files reviewed that related to tenders issued. Moreover, professional cost estimates, providing a basis against which to assess the bids, were not available. The following issues were also noted:

a. Five of the eight contracts reviewed were modified within a short time span. The most substantial modification was particularly evident in the contract for the provision of motor vehicles, which was increased by 50%, being the maximum allowed by PPR, within four months from the award, with the cost increasing from €661,175 to €991,222 (both VAT excl.). This also triggered the modification of another two of the tenders in question.

b. Calls for quotations related to waterproofing works did not provide any details related to the work required, including technical specifications of material. A contractor, who was awarded a DO of €25,370, eventually declined the job, when he reported on site and realised he could not work with a particular type of membrane.

Recommendations

Professional cost estimates are to be drawn up and formally documented, giving evaluators a clear idea of what would be a fair and reasonable price to bid and provide PD with a basis against which to assess the respective submissions. Moreover, while PPR provides for modifications to cater for unforeseen circumstances, this procedure is not to be used without limitations. All needs are to be identified in a timely manner, documented and clearly communicated to prospective bidders.

Management Comments

The Department resorted to modifications mainly in view of budgetary constraints. Modifications and the staggering of needs were intended to utilise the same public call for the procurement of additional units during the consecutive year, utilising the additional funding provided through the new budget.

Non-observance of Conditions imposed by the Ministry for Finance and other Award Issues

General conditions imposed by the Ministry for Finance when granting DO approvals required that quotations are opened at a fixed date and time, while transparency and fair opportunity exercised throughout the whole procurement process. The following were noted:

a. Only selected bidders were given the opportunity to participate in the bidding process.

b. No closing date was established for the acceptance of quotations and no evidence could be provided that they were opened at a fixed date and time.

c. Documentation traced did not support the urgency of works claimed in DO requests.

d. Quotations for refurbishment works, in aggregate amounting to €37,306, were sought over the phone. The winning bidder's quote was dated significantly after the other two bids.

Another condition often included in the approval for DO was that costs were deemed fair and reasonable. However no professional evaluations were traced to this effect. Hence, in the absence of both cost estimates and professional evaluations, compliance could not be independently assessed.

Recommendations

Internal procurement processes need to be enhanced. The use of the electronic public procurement system for calls for quotations is encouraged to ensure that all interested bidders are given the same opportunity. Moreover, quotes requested by PD through email are expected to include all details related to the works or services required and clearly indicate the closing date for submission of bids.

It is also recommended that the quotes are submitted to an officer not involved in the purchasing activity, and these are only forwarded together to the project leader on the bid opening day. Works are to be evaluated by professional staff, ideally independent from the respective procurement, which evaluation is to be duly documented and filed for future reference.

Management Comments

For purchases not exceeding €5,000 (VAT excl.), new procedures will be introduced to ensure transparency. Prospective bidders will be submitting their quotes through an independent generic email, administered solely by procurement personnel, with the bids opened by the latter at a fixed date and time. It was also pointed out that for some works it is practically impossible to obtain a quote through email, especially in urgent cases.

Two different Service Providers contracted for the same Job

Two suppliers were contracted by PD to carry out the same waterproofing works at the Head Office. Quotations were first sought by the Finance and Administration Directorate and awarded the works to a contractor. Another unit within PD was not aware of this commitment and again requested quotes for the same area, leading to works being awarded also to another contractor.

While the job awarded to the latter contractor was eventually cancelled, a series of jobs, supported only by invoices, equivalent to the amount originally contracted out, were allocated to this bidder as compensation for the cancelled works.

Recommendation

More central control is to be exercised in order to ensure that similar instances, which could have significant financial implications, do not arise again.

Management Comments

Such mishap was encountered due to the sheer urgency of the matter. Cabling and wires were being drenched in water after each downpour, exposing personnel to unnecessary risks. The Accounts Section sought quotes urgently to solve the issue.

Evaluation Issues

Out of the eight files reviewed relating to calls for tender and the respective evaluation, the following were noted:

a. Despite the four-calendar week period from unlocking of tenders, stipulated in the Standard Operating Procedures for Evaluation Committees, significant delays in the evaluation process were still noted.

b. Project delays resulted in a loss of €68,555 in European Union funds, with a project cost totalling €91,407 being financed entirely from national funds.

c. In one instance, the declarations of impartiality and confidentiality were endorsed after the evaluation had been concluded.

d. Lack of segregation of duties was also noted. In one case, the Project Leader involved in the drawing up of the specifications also held the role of Evaluation Chair, as well as endorsed the respective invoices. In another instance, the Project Leader identified the suppliers, made the negotiations and authorised the invoices.

Recommendations

Deadlines, especially those related to co-financed projects, have to be rigidly respected. Failure to do so will not only result in the loss of European Union funds, but it would also impinge upon the Department's budget as a result of unplanned expenditure from local funds.

In order to achieve its scope, the declarations of impartiality and confidentiality are to be filled during the first evaluation committee meeting as per standing provisions.

Adequate segregation of duties is also of paramount importance in any organisation to reduce risks and enable the identification of errors, whether unintentional or otherwise, in a timely manner. The possibility of using the services of independent evaluators approved by the Department of Contracts further strengthens the evaluation process.

Management Comments

PD made reference to instructions received, namely that clarifications and rectifications have to be dealt with step by step, thus contributing to delays. It was also acknowledged that other delays in evaluation are attributable to the different timetables and shifts of Board members, comprising a mix of uniformed and non-uniformed personnel.

Segregation of duties is impossible due to the limited number of specialised personnel within each section. However, to mitigate, the Department will be making use of the services of independent evaluators approved by the Department of Contracts.

Retrospective Approval for Variations

Permanent Secretary's approval for variations amounting to €33,482, equivalent to 38% of contract value relating to refurbishment works, was only sought and granted following the completion and certification of works.

Recommendation

Approval for additional works is to be sought as soon as the need is identified, before the actual works are carried out.

Management Comments

In such projects, the Department has to rely on third party professionals to draft bills of quantities and manage the whole project. Approvals are sought according to the bills of quantities in hand.

Inventory Management – Insufficient details in Fixed Asset Register

Essential information, enabling identification and traceability of assets, was not always included in the fixed asset register. Moreover, 13 items of a capital nature, falling within the audit sample, amounting to a total value of €1,609,185, could not be traced in PD's inventory database.

Recommendations

PD is to compile a detailed inventory database, using the principles of MF Circular No. 14/99 – 'Government Accrual Accounting: Revised Inventory Control Regulations', as guidelines. Periodical assessment of the recorded assets and their respective condition is to be carried out by Management.

Management Comments

A new inventory system is being built from scratch in parallel to the existing inventory system. Eventually, all the details will be consolidated in the new system, after which a reconciliation process will commence.

Agency for the Welfare of Asylum Seekers

Expenditure

The extension to the contracts for security services at the **Agency for the Welfare of Asylum Seekers** was not in line with the regulations. The procurement of medical services was not supported with any documentation. The audit also revealed instances where the procurement regulations were bypassed due to claimed urgency.

Background

As mandated by Legal Notice 205 of 2009, the Agency for the Welfare of Asylum Seekers (AWAS) is responsible for the implementation of national legislation concerning the welfare of refugees, persons enjoying international protection and asylum seekers. It also manages reception facilities and provides information programmes related to employment, housing, health, welfare and education.

AWAS is headed by a Chief Executive Officer and administers seven centres, namely Dar is-Sliem, Dar il-Liedna, Marsa Open Centre, Ħal Far Tent Village, Ħal Far Family Open Centre, Ħal Far Open Centre and the Initial Reception Centre. During 2019, the Agency fell within the remit of the Ministry for Home Affairs and National Security[1].

The approved 2019 budget allocation for Line Item 6824 – Agency for Welfare of Asylum Seekers, under Vote 26, amounted to €2.75 million; however, this was subsequently augmented to €10 million, mainly due to the influx of immigrants during the year.

Audit Scope and Methodology

The main scope of the audit was to verify whether the purchasing procedures adopted by AWAS were in compliance with public procurement regulations, as well as with the Agency's standing internal policies. The National Audit Office (NAO) also sought to assess the level of existing internal controls over payments effected in 2019.

An introductory meeting was held with AWAS Management to discuss the audit objectives and to obtain a general understanding of the entity's operations. Following a review of the Agency's management accounts[2], trial balance and nominal ledger for 2019, NAO identified the main areas for audit testing, which included security costs, medical expenditure, the purchase of bedding and mattresses, as well as telephony costs. These in aggregate represented 39% (€3.5 million) of the total administrative expenditure reported in the management accounts for the year under review.

[1] As from January 2020, the Ministry changed its name to the Ministry for Home Affairs, National Security and Law Enforcement.

[2] As at time of audit, i.e. third quarter 2020, the latest audited financial statements filed by AWAS were those covering financial year 2017.

The administration of petty cash by the Agency's Head Office and its centres was also verified, to assess the effectiveness of the internal control system as established by the respective standard operating procedures.

Key Issues

Extension to the Contracts for Security Services not in line with the Regulations

The agreements with the respective three companies providing security services at AWAS expired in January 2018. The Agency further extended the agreement with one of the contractors until July 2018. From August until end of 2018, security services were in actual fact provided by all three companies. However, this was neither covered by a Department of Contracts (DC) approval nor formalised. In 2018, AWAS paid the three service providers in question an aggregate of €898,262[3].

Since the new tender was not yet awarded, in 2019 AWAS obtained approvals from DC to enter into a negotiated procedure with the same three security services companies for an aggregate estimated cost of €2,139,877 (VAT excl.). The amount invoiced by these companies, for security services rendered during the year under review, totalled €3,062,514[4]; thus, a total of €537,459 was also not covered by DC approval. Moreover, notwithstanding the substantial amounts involved, no agreements were in place covering the provision of security services during 2019.

The absence of agreements and DC approval for the provision of security services prevailed even in the first half of the subsequent year, until the awarding of tender in June 2020.

Recommendations

Tendering process is to commence well ahead of the expiry of contracts, so as to avoid extending agreements for an indeterminate period of time. If, due to unforeseen exceptional circumstances, the Agency needs to continue making use of service providers after the expiry of a particular contract, the necessary Ministry for Finance or DC approval is to be obtained, as applicable, covering all amount involved. Moreover, the respective agreement is to be formally extended.

Management Comments

Management stated that it will be collating the existing contracts and tenders; a schedule indicating the fees covered by the contract will be created, as well as when such contract and tender period will elapse. Subsequently, it will be in a position to plan ahead and finalise contracts and tenders in a timely manner.

No Documentation on the Procurement of Medical Services

During 2019, a company was paid €107,300 for its medical services to AWAS. A further €32,632 was invoiced for services rendered in the previous year; however, no records could be found regarding the company's engagement. Thus, NAO could not verify whether the Agency complied with procurement regulations. Furthermore, it is unclear how AWAS could ascertain accuracy of the respective invoices, given that an agreement was also not in place.

[3] NAO did not carry out any verification on 2018 invoices since these were outside the audit scope.

[4] By end December 2019, AWAS had already paid €2,327,734 (i.e. 76% of the invoiced amount).

Recommendations

Procurement regulations are to be invariably followed. AWAS is also to ensure that the provision of services of a substantial value are covered by an agreement signed by both parties, clearly stipulating the applicable rates and other relevant terms and conditions. All pertinent documentation is to be retained and adequately filed for future reference.

Management Comments

Management is going through the Agency's list of service providers to identify any frequent suppliers with whom there is no agreement, contract or tender currently in place. This exercise will be finished by end of November 2020. AWAS will then analyse whether a tender should be issued in respect to such provisions. The abovementioned services were procured in 2018, i.e. before the current administration, and a tender has already been issued and evaluated with regard to this service.

Control Issues

Weaknesses in the Administration of Petty Cash

According to the 2019 nominal ledger, expenditure incurred out of petty cash totalled €21,832. Goods purchased included pharmaceutical items, groceries, baby food and gas cylinders. The Agency's procedures stipulate that petty cash is used for everyday emergency necessities.

A review of the system in place revealed a number of shortcomings; amongst others are the following:

- Purchases from pharmacies effected from petty cash in 2019 totalled €8,300; the vast majority (over €7,000) related to the Initial Reception Centre. This included medicines which were available from the Government Pharmacy at no cost to AWAS, notwithstanding the procedures clearly stipulating that petty cash can only be utilised to purchase medicine when this cannot be obtained from the Government Pharmacy.

- No record was kept by AWAS as to who is the ultimate receiver of the items purchased through the petty cash, even though the respective procedures require that both the description of items purchased and purpose are to be indicated. Thus, NAO could not determine whether all purchases were justified or regular. In the absence of sufficient information, adequate monitoring over purchases also could not be carried out by AWAS itself.

- Spot checks on the actual petty cash in hand were not carried out by AWAS during the year under review to confirm the accuracy of the recorded balance at each centre.

Recommendations

The petty cash procedures are to be revised to reduce the types of goods which can be purchased, whilst the respective sheets are to clearly distinguish between expenses made by or on behalf of residents and those pertaining to the centre itself.

Ideally, the petty cash float is to be kept at a minimum, as a large amount increases the risk of misappropriation of funds, whilst reducing control over purchasing. AWAS is expected to monitor such purchases to ensure that all goods bought are legitimate and that there is no wastage. Reconciliation of the balance as recorded in the petty cash sheets and the physical cash balance is to be performed regularly and duly endorsed.

Furthermore, the Agency is to consider alternative ways to meet the residents' daily needs rather than through petty cash. Items having a long shelf life, and which are frequently required, can be purchased centrally and distributed according to needs. While exercising more control over purchasing, AWAS is also likely to benefit from discounted rates.

Expenditure on medicine and pharmaceuticals from private pharmacies is also be kept to a minimum, especially when these can be acquired from the Government Pharmacy. Based on past experience, AWAS can identify which over-the-counter medicine is usually required by asylum seekers and the Agency is to try to obtain these at wholesale prices.

Management Comments

A policy is currently[5] being drafted in order to mitigate any risks related to the handling of cash whilst safeguarding the Agency's assets. AWAS is also seeking ways on how to purchase in bulk and therefore, it has to invest in a more centralised system in order to enhance its controls on various purchases. This will limit petty cash purchases and hence, AWAS will be in a position to reduce the petty cash amounts. Management has also identified some petty cash floats which can be combined or removed.

AWAS is also currently liaising with the Pharmacy of Your Choice (POYC) to identify those pharmaceuticals which can be provided to the Agency at no cost. However, this would be difficult for three main reasons: POYC medication is not readily available upon boat arrivals; the health conditions of the person might dictate otherwise; and POYC medication might be out of stock. In addition, there were many cases whereby people transferred from other entities would have their medication blocked, since that particular medication would have already been procured through POYC but not passed on. This issue has already been discussed with the relevant Health Authorities. AWAS takes care of the most vulnerable cases, including aftercare of medical evacuations.

Furthermore, the Agency will be tapping buying medications which are frequently used and not available through POYC at wholesale prices. The new petty cash policy will be effective by the end of November 2020.

Bypassing of Procurement Regulations for Urgent Purchasing

During 2019, expenditure relating to the purchase of bedding and mattresses totalled €138,884. Audit testing on the sampled transactions revealed the following:

- AWAS purchased 350 mattresses from a local supplier, for the aggregate cost of €49,000. The acquisition was made by means of two purchase orders, both through a direct order, claiming urgency. Approval from the Ministry for Finance to purchase direct from the open market was not sought.

[5] Management comments submitted on 30 October 2020.

- The Agency paid €25,495 to another supplier for bed linen and blankets. The purchasing was done in five batches; three of which were after obtaining a total of three quotations each time and selecting the cheapest. However, no information was forthcoming on the other two batches. The request for quotations sent to potential bidders stated that these goods were required urgently.

Recommendations

Since bedding and mattresses are needed on a regular basis, the Agency is encouraged to issue a tender for the provision of such items and enter into an agreement with the successful bidder with call offs as necessary. This should ensure constant pricing, whilst avoiding resorting to direct orders in case of urgency.

Management Comments

The Agency is drafting a new procurement policy which covers the procedure for urgent purchases. Given that these should be kept at a minimum, AWAS is seeking to purchase regular items in bulk or enter into tenders for which the respective goods are procured on an 'as and when required' basis. During 2020, both the Finance and Procurement Departments have been strengthened to cater for such procurement. Unfortunately, the Agency's line of work is very much crises-orientated and it is very difficult to estimate the number of arrivals or emergencies.

Insufficient Verification over Mobile Bills

The Agency incurred €24,177 for mobile phone bills during the year under review[6]. AWAS stated that, occasionally, the monthly itemised bills were thoroughly checked by Management; however, none of the 12 sampled bills reviewed by NAO evidenced such verification. Furthermore, audit testing revealed two instances whereby AWAS was charged for calls already covered by the respective mobile phone's monthly tariff plan. Although the amount in question was not material, it sheds doubt on the effectiveness of verifications being carried out.

Recommendation

Proper verification is to be performed, particularly when AWAS is billed for amounts higher than the contracted monthly rates.

Management Comments

The Agency is currently[7] drafting a policy with respect to the mobile phones to be issued by AWAS. The policy also covers the verification and justification for each bill. Monthly verification and justification will start from the October 2020 bills.

[6] Mobile phones were used by officers who were required to be on call due to the Agency's, as well as national exigencies.

[7] Management comments submitted on 30 October 2020.

Ministry for Justice, Culture

and Local Government

Heritage Malta

Capital Expenditure

An audit of the capital expenditure incurred by **Heritage Malta** revealed sporadic contract management concerns, such as the failure to formalise a service contract and payment for works prior to the receipt of the respective certification and invoice. Inventory records maintained were deemed inadequate.

Background

Heritage Malta (HM) was set up in terms of the Cultural Heritage Act, 2002. It replaced the former Museums Department and was entrusted with the management of national museums and heritage sites, as well as their collections of artefacts. In 2005, the Agency's responsibilities increased when it took over the former Malta Centre for Restoration.

HM is responsible for ensuring that those elements of cultural heritage entrusted to it are protected and made accessible to the public, whilst conserving and restoring cultural property within its portfolio. The Agency provides training to conservators and conservation scientists, as well as educational programmes by means of organised school visits. It also strives to create public awareness through temporary exhibitions, public lectures, heritage trails or other specialised events.

For 2019, total estimated capital expenditure for Line Item 7033 – Heritage Malta: Improvements at Museums and Historical Sites, and Restoration Works, under the Ministry for Justice, Culture and Local Government, was €1,100,000. This amount was revised to €2,277,008, the total of which was fully expensed by year end.

Audit Scope and Methodology

The main scope of this audit was to establish the level of internal controls over the procurement of items of a capital nature and to ensure efficient administration of public funds, in line with standing laws, regulations and policies. In this regard, the procedures in place, including those with respect to contract management, were analysed to assess adequacy, completeness and compliance.

Meetings were held with HM senior officials to discuss the audit objectives and to obtain a general understanding of the capital expenditure incurred. All claims made by HM for reimbursement from the Capital Vote Line Item 7033, submitted to the Ministry for Finance during the year 2019, were analysed by the National Audit Office (NAO) and clarifications on particular issues were obtained during an onsite visit. Aggregate expenditure selected for the purpose of the review based on materiality, was equivalent to 62% of total claims made by HM during the year.

Control Issues

Inventory Records not adequate

Assets were recorded on a stock control system used for store items instead of a proper asset register system. Additionally, the serial number of the laptops purchased could not be confirmed to any record, as the respective invoices did not contain such detail and delivery notes were not made available.

Recommendations

In order to enhance control on the management of assets, HM management is to separate records of tangible fixed assets from those relating to stock. Furthermore, the information held on the system should be complete, accurate and updated in a timely manner. This would also simplify the computation of assets' depreciation.

Management Comments

As noted, the programme we currently use is not ideal and this was our understanding also. Investigations started earlier this year to procure a proper asset management system and this has actually just been procured. An action plan in this respect was made available to NAO and the recording of assets on the new system is expected to be complete by January 2021.

Management would like to note that invoices received are obviously issued by suppliers who each would have their own particular system. This means that the format of invoices is not controllable by HM. As this was an installation based on a contract, the contract manager onsite confirms installation according to contract through an application for payment.

Procedure for the Procurement of Artefacts not formalised

During 2019, the Agency procured a particular artefact for the amount of €83,683, to add to the national collection. This purchase was authorised by the Permanent Secretary Ministry for Finance.

HM confirmed that the procurement of artefacts is not covered by formally established procedures; but whenever such opportunity arises, the matter is discussed internally, and at times, experts outside the Agency are also consulted.

Recommendations

Management is encouraged to formalise the procedure for the identification and procurement of artefacts. Documentation substantiating research, consultations and recommendations received from third parties are to be filed for future reference.

Management Comments

An acquisitions procedure is informally in place and everyone follows it in principle; however, it has actually never been formalised since it is in most times very difficult, if not impossible, to adhere to in practice.

What happens in such occasions is that the official concerned (most probably a curator) who spots an object at auction which in his or her opinion may be interesting for the national collection, immediately informs the Chief Operations Officer, with whom the proposal is discussed, taking into consideration various factors, such as uniqueness, size, price, condition, display quality, etc. If the proposal is agreed to in principle, the matter is discussed with the Chief Executive Officer to consider financial availability and whether any further authorisations from the Permanent Secretary or the Ministry for Finance are required, according to the projection of the final price during the auction. Authorisation from the Superintendence of Cultural Heritage may also be required if the Right of Preference emanating from the Cultural Heritage Act is being utilised. However, this is just an ideal scenario which rarely occurs.

Curators are constantly on the lookout for auctions and regularly receive catalogues of upcoming local and foreign auction sales. However, the cultural heritage scenario is very dynamic and often decisions are required there and then to secure an object for the national collection. Local catalogues, for instance, are also usually published very few days in advance of the actual sale, thus not giving enough chance for anyone to go through the hundreds of items included. Usually time is not even enough to go to the Superintendence and prepare the required letters to apply the Right of Preference referred to above. Moreover, descriptions in the catalogue are sometimes hopelessly vague and attributions to an artist or maker are mistaken, thus completely changing an artefact's significance. In such occasions, therefore, a decision is required on the instant (live!) on the telephone. It is simply not possible to follow a pre-established procedure and indeed would be deleterious to do so. All email exchanges (when actually existing due to circumstances explained above), and any authorisations (when required) are always filed, including any consultations with third parties.

Shortcomings in Contract Management

Service Contract with respect to Works in Piazza de Valette

On 20 November 2018, HM was granted approval to enter into a negotiated procedure for services with respect to works in Piazza de Valette at the estimated expense of €200,000 excluding Value Added Tax (VAT). The following shortcomings were noted:

a. The total cost of works of €236,000 had already been paid by end of year 2019, even though the respective certification of works and invoice were not yet available for 40% (€94,400) of this amount. Moreover, the contractor could only fulfil his obligations on the related tasks once COVID-19 travel restrictions from Italy were removed[1].

b. A performance guarantee for the amount of €8,000 was to be maintained for the whole duration of the contract. However, notwithstanding that the works were not completed by the time this review was concluded; i.e. May 2020, HM was not in possession of a valid performance guarantee.

[1] The final certification was to be issued upon completion of installations by Italian nationals engaged by another contractor.

c. Although in line with article 16 of the general conditions for service contracts the Project Manager was to be supplied with information regarding personnel assigned on the project, such communication was not formalised.

Supply of a Wireless System and Energy Efficient Information Technology Equipment

Back in October 2018, HM entered into a contract for the supply of a wireless system and energy efficient information technology equipment at MUŻA, for the amount of €58,464 (VAT excl.). The service provider was to submit a performance guarantee for the amount of €2,339, which was to be released within 30 days of the final acceptance certificate, dated 5 May 2019. However, the performance guarantees and related extensions made available only covered the period up to 16 March 2019.

Provision of Consultancy Services

A direct order approval was obtained by HM for the provision of lighting consultancy services (design development and supervision) for the sum of €16,000 (VAT excl.). However, a contract or a formal letter of engagement to cover services rendered by the consultant was not in place.

Recommendations

Contracts with service providers are to be duly formalised to ensure that the respective terms and conditions are clear from the outset, thus avoiding potential disputes. Management is also to ensure strict adherence to the provisions of the contracts to safeguard the interests of the Agency. Thus, a valid performance guarantee is to be retained throughout the duration of the contract. Communication regarding contractors' personnel assigned on a project is also to be made in writing. Payment for works without the necessary certification is to be strictly prohibited as it exposes HM to various risks.

Management Comments

The Contracting Authority corresponds and holds regular meetings with the provider of the service contract with respect to works in Piazza de Valette. Works have now[2] resumed and his obligations are being fulfilled as per contract agreement. The issue of the guarantee was a genuine oversight. As was seen in other contracts which were audited, such an occurrence was not encountered. Nonetheless, through new and improved contract management systems being introduced by the Agency, such control shall be improved.

With respect to the personnel required, the same team previously engaged for the execution of another project was employed by the service provider. Thus, this formality was not fulfilled. Nonetheless, we shall rectify this situation by requesting this information and formalising the correspondence.

[2] Management comments received on 4 August 2020.

With respect to the supply of a wireless system and energy efficient information technology equipment, article 11.7 of the special conditions states "except for such part as may be specified in the Special Conditions in respect of after-sales service, the Performance Guarantee shall be released within 30 days of the issue of the Provisional Acceptance Certificate"[3].

The provisional acceptance certificate was issued on the 18 December 2018. Furthermore, article 33 of the same special conditions of contract, referring to after-sales service, makes no mention of any conditions to withholding of performance guarantee.

Lighting consultancy services have been satisfactorily fulfilled on a number of key projects undertaken by the Agency over the years. The direct order approval was sought, a purchase order issued and service provider fulfilled all the service required. We understand that a service contract should ideally be signed in such cases and the Agency shall ensure that this is done in the future in all cases.

[3] This is not correct. Actually, the performance guarantee is to be released within 30 days of the issue of the final acceptance certificate and not the provisional acceptance certificate.

Local Enforcement System Agency

Revenue

The **Local Enforcement System Agency** experienced difficulties in the collection of pending fines and to a certain extent has limited control thereon. With respect to contraventions issued between 1 October 2015 and 31 December 2019, outstanding debtors totalled more than €9 million. Internal control weaknesses hampering the Agency's operations were also noted.

Background

The Local Enforcement System Agency (LESA) is an executive Agency set up by virtue of Legal Notice 153 of 2015 – 'Local Enforcement System (Establishment as an Agency) Order, 2015', under the terms of Section 36 of the Public Administration Act, Chapter 497[1]. Its primary function is to administer the enforcement of any law, regulation or bye-law, the accomplishment of which has been delegated to Regional Councils, Local Councils, or to such other local regional authorities as designated by the Local Government Act, Chapter 363. The Agency also administers the Traffic Management System (TMS) and operates the vehicle collision system within the Maltese islands.

The responsibility for the execution of the day-to-day functions lies with the Chief Executive Officer (CEO), who is assisted in the discharge of his duties by an Advisory Board, chaired by the former. Members on the said Board[2] are appointed by the Minister for Justice[3].

LESA finances its operations mainly through revenue generated from the issue of traffic contraventions; it is not provided a financial allocation from Central Government. As per last draft management accounts available at time of audit, being those covering financial year ended 31 December 2017, which were approved on 23 October 2019, proceeds earned by the Agency for that particular year totalled €11,772,195.

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[1] In 2019, this Chapter was updated and replaced by Chapter 595 of the Laws of Malta.

[2] LESA Advisory Board comprises of the Chairperson, three members and the secretary.

[3] During the financial year under review the Agency fell under the responsibility of the Ministry for Justice, Culture and Local Government.

Audit Scope and Methodology

The main scope of the audit was to assess:

a. the adequacy of the procedures in place for the collection of outstanding balances;
b. whether fines imposed were being honoured within the prescribed timeframe; and
c. that income received was duly recorded in the books of account.

To achieve the audit objectives, a number of meetings were held with the CEO and key personnel in order to obtain an understanding of the relevant policies in place and procedures adopted. 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 LESA was adequate. With respect to contraventions issued since LESA's inception up to the last financial period, i.e. 1 October 2015 and 31 December 2019, data of the whole population was requested. Testing in the following areas was carried out.

Payment of Fines

Tickets issued for contraventions can be paid online, through a cheque addressed to LESA, or at any Local Council and Regional Council, which in return are granted an administration fee for all fines settled at their premises. Net income is remitted to LESA, with the exception of fines booked by Transport Malta enforcement officers, in which case the latter maintains 50% of the respective amounts.

Verification was carried out to ascertain that monies in respect of contraventions paid at Local Councils and Regional Councils were remitted to LESA in a timely manner and that any cash receipts or cheques in hand were securely kept by the Agency and deposited at bank without delay.

Cancellation and Waiver of Contraventions

Contraventions may be waived in one of the following instances:

a. a justifiable reason is provided, such as in the case where the same fine is issued twice;
b. a petition submitted by the offender is accepted by the Board of Petitions; or
c. the offender is adjudged not guilty after a tribunal hearing.

A report detailing contraventions waived during 2019 was requested to ensure that the necessary controls were in place and confirmed that waiving of fines were only relinquished for valid reasons.

Lifting of Contraventions

Contraventions relating to traffic infringements are not expected to take longer than one year to be settled, as these must be paid prior to the renewal of the respective motor vehicle licence. However, with the intention of recovering outstanding balances, in instances where a vehicle has pending contraventions and the owner is willing to enter into an agreement for the gradual payment of the related fines, LESA provides the possibility of lifting the relating sanctions for a limited period so that the licence could be renewed accordingly.

To verify that, in such instances, payments were honoured as per agreement, sample testing was carried out on 10 out of 156 of such agreements which were in place at the time of audit testing, i.e. November 2019. The sample was selected on a random basis after the data was divided in different strata according to financial values to ensure that data falling within the sample covered the full population.

Other Revenue Streams

Testing of other revenue streams[4] was based on qualitative samples, which were not designed to gather data on the frequency of error in the population as a whole, but to ensure compliance with policies and to identify ways through which current practices could be improved. Consequently, any conclusions reached in this write-up only relate to those areas that were examined.

Limitations on Scope of Audit

Traffic Management Services

Clients requests for traffic management services rendered during the sampled period, i.e. March 2019, were not always traced. In a number of instances, hours invoiced by LESA were also understated when compared to the respective requests. The National Audit Office (NAO) sought clarifications to this effect from the auditee on 4 December 2019. However, by the time this write-up was concluded, i.e. mid-August 2020, a reply on the subject matter was not yet received.

Management Comments

In the past, discrepancies may have been existent up till the beginning of 2019, however to solve this issue the Agency had taken the necessary steps by implementing an online TMS, accessible also throughout the Local Councils, whereby all requests for TMS and relevant transactions are processed through the system. Apart from eliminating the discrepancies, this system is now more auditable.

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[4] This included income earned from TMS and vehicle collision system. In the case of the former, permits issued during the month of March 2019 were reviewed, whilst for the latter, case reports for the months of July, September and October 2019 were tested.

Cancelled Contraventions

During the year under review, contraventions totalling €73,354 were cancelled. However, testing on this area was likewise hindered since the respective requests and authorisations were only retained scattered in various email threads on personal computers, rather than duly filed for future reference.

Management Comments

Details for all cancelled contraventions are recorded at multiple sources, both by LESA's and the service provider end. Maintained data comprises the following:

- *trails of mails supported with relevant evidence stored as digital copies at different sources, being the customer care generic mail archive, the authoriser's archive, and the service provider's servers;*
- *each cancellation is reference coded by the service provider and stored digitally;*
- *all documentation of each cancellation is filed as hardcopy by the service provider; and*
- *each cancellation code is registered on the Local Enforcement System (LES) for easy retrieval of relative supporting documentation.*

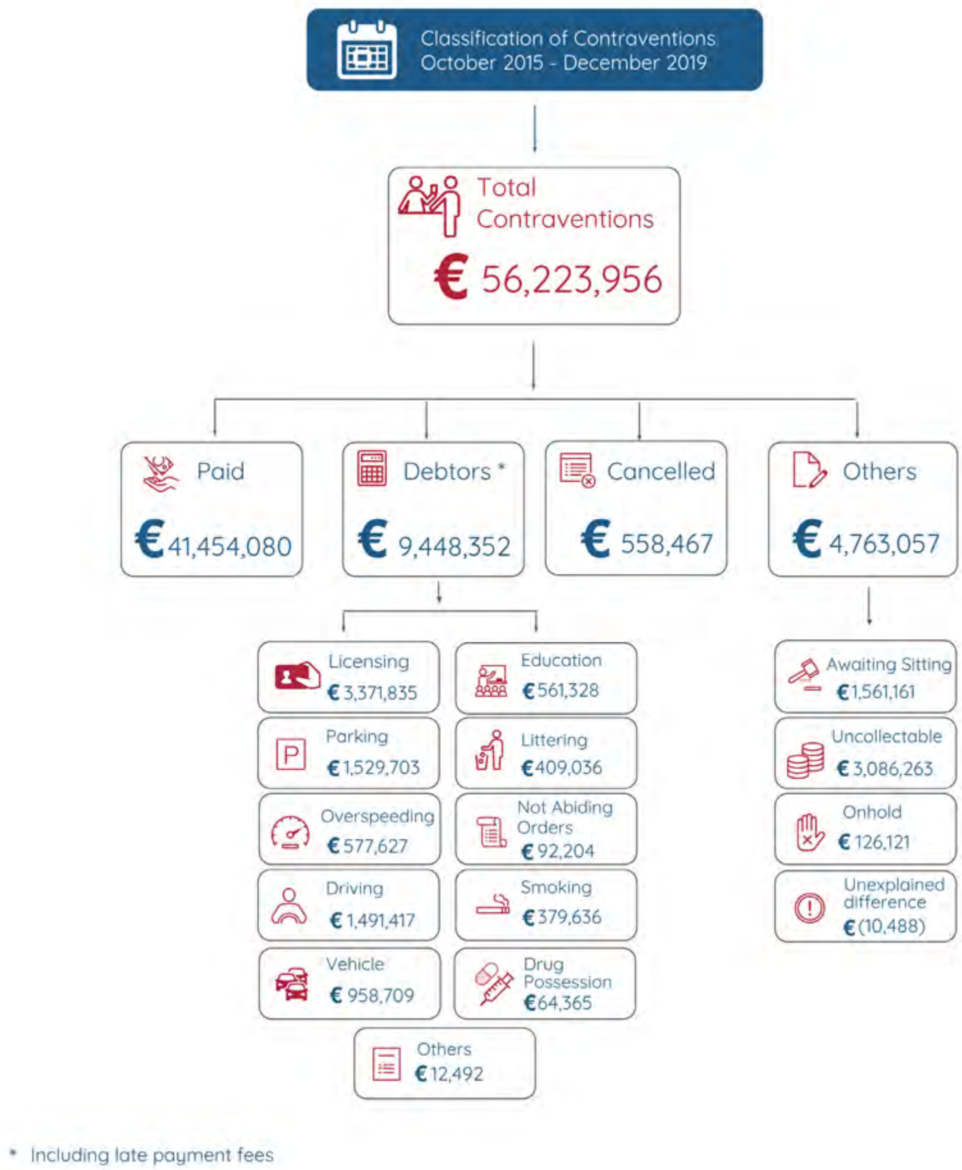
Key Issues

Difficulty in collecting Long Outstanding Contraventions

From the ageing of debtors which accumulated over the years, it was evident that LESA was experiencing difficulties in the collection process of pending fines, over which up to a certain extent has limited control. Figure 1[5] provides a snapshot as at 31 December 2019, of the total contraventions issued during the last four years, since LESA's inception on 1 October 2015 up to 31 December 2019. More than €6 million of pending fines have been outstanding for more than one year.

[5] Source: data provided by LESA.

Figure 1: Snapshot of Total Contraventions as at 31 December 2019



Recommendation

Management is encouraged to assess the situation and take the necessary action by initiating discussions at Ministerial level to devise stricter enforcement mechanism for the collection of pending fines, especially where there is no possibility of further penalty enforced for non-compliance.

Management Comments

The Agency has already taken a number of steps to mitigate this issue. These included:

- *discussions with higher authorities, on the best way forward;*
- *coordinating with Transport Malta to restrict vehicles from having their road licence renewed if there are judged contraventions on the respective vehicle; and*
- *setting up meetings with the main debtors in order to implement a repayment programme.*

No Details on the Information Technology Audit of Local Enforcement System

The revenue and receivables in the accounting records of LESA are primarily based on reports generated from the Information Technology (IT) system (LES), which software application was devised and therefrom operated by an external service provider.

Article 7.16 of the special conditions of the contract agreement stipulates that "*the Contractor is obliged to task IT Audits related to the System as instructed by the Contracting Authority and implement any Recommendations as tasked by the Contracting Authority*".

However, NAO was only provided with a report giving an overview of the IT work carried out in support of the financial audit carried out by the Auditors of the respective company between June 2012 to June 2015[6]. Hence, due to the lack of evidence provided, showing that a stand-alone IT audit of the respective system was ever carried out, it could not be ensured that figures relating to income received or receivable from contraventions as reported by LESA were accurate and reliable.

Recommendation

Without further delays, LESA is expected to request an IT audit of the system as per article 7.16 of the special conditions of the contract agreement, which would review data, processes and controls of the system post 2015.

Management Comments

The Agency noted the Auditors' comments and recommendations. The request for an audit was raised with the service provider on 8 April 2020, and by the time of submitting such comments[7], the Agency has finalised with the service provider the audit terms of reference. Such audit is planned to be completed by the end of September.

Shortcomings in the issue of Manual Traffic Offence Tickets

At time of audit, there were two ways of issuing fines. In contrast with the electronic system used by local community officers, as well as Transport Malta enforcement officers, to-date police officers still maintain a manual system, whereby fines are recorded in a ticket book. Thereafter a traffic offence ticket is raised by the latter and submitted to the private entity hosting the LES to be recorded accordingly. Besides not deriving the full benefits that an electronic system can provide, this manual procedure increases the risk of errors. There is also risk of abuse as certain tickets can be withdrawn without a proper justification, before being inputted in the system.

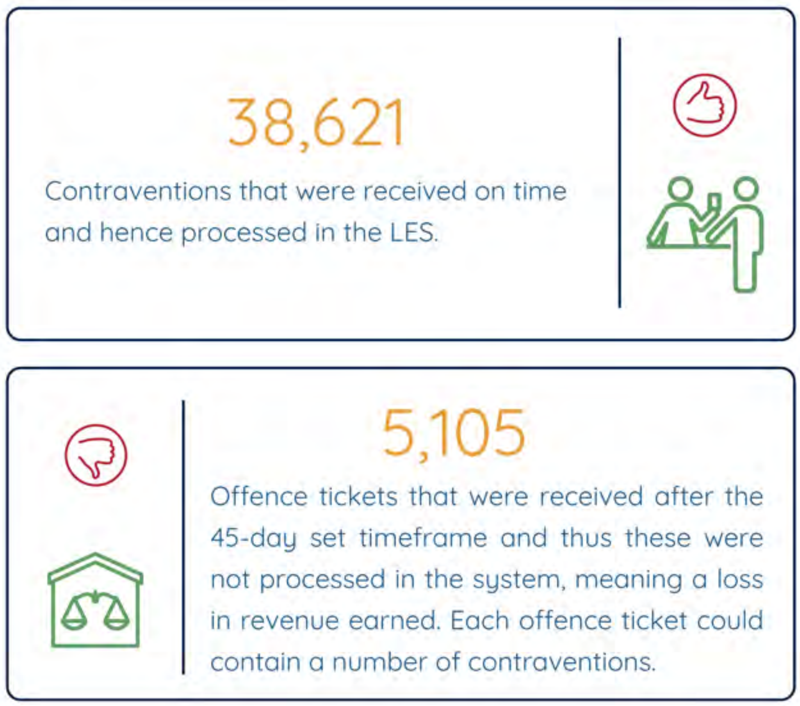
An explanation provided by Director (Operations – LESA), also highlighted the fact that although the ticket books used by the police are pre-numbered, this does not necessarily mean that ticket numbers are unique, as at one-point numbers were started all over again. Furthermore, in view that police officers tend to give multiple charges to the same offender on the same ticket, one particular number may relate to multiple contraventions. Moreover, it was confirmed that no checking is carried out by LESA on the traffic offence tickets received from the Police Department, to confirm that there are no numbers omitted.

[6] Between 1 September 2011 and 30 September 2015, the system fell under the remit of the Regional Councils, previously known as Regional Committees.

[7] Management comments were submitted to NAO at the beginning of August 2020.

It was also remarked that, at times, offence tickets are received by the company hosting the system, after several months from the date of the contravention[8], and thus no action against defaulters could be taken since there is a prescription period of 90 days. In the majority of cases, these late tickets relate to traffic offences. According to LESA, since these tickets are not recorded in the system, it is impracticable to get their monetary value as the manual process will be very time consuming. Figure 2 provides a snapshot of the tickets recorded in the ticket book by the Police Department during 2019.

Figure 2: Snapshot of Tickets recorded in the Ticket Book by the Police Department during 2019



Recommendation

Management at LESA is to escalate this issue in order to abolish the current manual system. This will ensure that a consistent approach is adopted by all stakeholders, whereby tickets are issued electronically. This would provide for an enhanced level of internal control.

Management Comments

The Agency agrees with the Auditors' comments and had recently followed up the process with the Police Department. The latter confirmed that developments for the implementation of an electronic system are underway. This will address the issues raised by the Auditors.

[8] Offence tickets are to be forwarded to the respective company within 45 days from date of issue of the manual ticket. This timeframe was set by the respective company hosting the LES to ensure that it has adequate time to process the contraventions and deliver the summons within the 90 days prescription period established by law.

Control Issues

Insufficient Human Resource Capacity

Whilst LESA was continuously striving to improve its service, its Accounting Department was rather overloaded, mainly due to human resource constraints. Although the administrative workforce at the Agency in 2019 amounted to an average of 40 employees, merely two officers, namely the Financial Controller and an Accounts Clerk working on reduced hours, manned the Accounts Department during the first three quarters of the year.

Four posts in the grade of senior officers were only filled in during the last quarter of 2019. The position of two accounts clerks in the Debt Office, as well as a customer care clerk and the professional legal officer were also filled in towards the end of 2019, but only through a contract for service on a temporary basis. Meanwhile, seven other posts, namely that of Deputy CEO, communication officer, senior officer training, senior officer in accounts and three accounts clerk were still vacant.

Recommendation

Strengthening the human resource capacity, especially the Accounts Department, will improve the internal control setup, as well as assist in reducing the inherent risk, whilst providing a vital step towards the growth of the Agency.

Management Comments

The Agency agrees with the Auditors' comments and recommendations and has progressed as detailed below:

a. *A call for applications for the engagement of five accounts clerks was issued at the end of 2019. The three eligible candidates out of the four applications received were offered the post but one of them refused to take up the offer. By the time of submitting this reply, the Agency has made arrangements for detailing of one personnel, whilst simultaneously, re-issuing the call to fill the remaining two posts.*

b. *Internal calls to fill the vacant posts of a senior officer (accounts) and communications officer have been completed with no conclusive results.*

Local Enforcement System

Disparity between Outstanding Balances and Agreements in place for the Respective Repayments

On average, only 3.25% of outstanding traffic contraventions were supported by an agreement to settle the respective balances by instalments. Whilst pending amounts as at 31 December 2019 added up to €7,929,291 (including late payment fees and penalties), agreements in place on the same date solely covered approximately €257,375 of the related dues.

Recommendations

Given that motor vehicle licences are expected not to be renewed unless outstanding fines have been lifted once an agreement to pay by instalments is in place, a plausible explanation for the substantial unpaid balance is yet to be given.

Furthermore, LESA and Transport Malta are to jointly address the concern of contravention tickets which remain pending, to ensure the timely collection of fines.

Management Comments

The Agency clarifies that unpaid contraventions related to traffic offences can result from multiple scenarios with a number of these being beyond the control of the Agency. This issue is being addressed through a joint effort with Transport Malta whereby vehicle road licences are not renewed, whilst new vehicles are not registered on offenders having unsettled contraventions, unless these are settled or an agreement for payment is signed with LESA.

With regard to the disparity between the outstanding balance and agreements in place, one understands that not all offenders are keen with signing agreements. Yet restrictions on the renewal of vehicle road licences are still imposed.

Agreed Payment Terms not honoured

A review of a sample of 10 agreements to pay by instalments, drawn up to enable the renewal of motor vehicle licence pertaining to nine individuals, highlighted the following concerns:

a. Following the renewal of the related licence, defaulters tend to fail from continuing to honour the respective payment terms.

b. LESA was quite lenient with those who repeatedly failed to adhere to the related terms of the agreement, as neither chasing of debts was carried out nor action was taken against such individuals, even though the respective agreements stipulated a number of sanctions that could be implemented.

Recommendations

Agreements are expected to be periodically followed-up to ensure that these are being honoured. A stricter stance is to be taken against those failing to comply.

Management Comments

The Agency agrees with the Auditors' comments and recommendations. LESA has been requesting the approval for engagement of a legal advisor for the past years, whose role shall be dedicated to follow up legally on any defaulters. Yet, recently the Agency has implemented other different measures to follow up on such matters, including the chasing for pending payments, restricting temporary lifting of contraventions, and issuing of reminders to minor defaulters. For corporate and/or major defaulters, legal proceedings have been initiated.

Renewal of Licences despite outstanding Contraventions

From a sample of 10 agreements reviewed during the audit, a case was noted regarding a particular vehicle whose licence was renewed for four consecutive years notwithstanding that several outstanding fines had accumulated over this four-year period. An agreement to pay by instalments was only drawn up on 23 July 2019. This type of loophole, which could easily be used to circumvent the licence renewal system, questions the system's effectiveness.

Recommendation

Both Transport Malta and LESA are expected to invariably abide by Article 56 of Traffic Regulation Ordinance, Chapter 65, which stipulates that road licence is not be renewed in the case of pending settlement of fine or penalty.

Management Comments

The Agency agrees with the Auditors' comments and recommendations, nevertheless renewal of licence is the responsibility of Transport Malta, thus LESA has no control for any shortcomings. LESA only requests temporary lifting of contraventions upon signature of contract between the debtor and the Agency. It is also worth noting that a new system was implemented also by Transport Malta where persons who have unsettled contraventions, not only they cannot renew road licences of already owned vehicle, but also cannot register new vehicles.

Uncashed payments resulting in Stale Cheques

In line with the agreement entered into with LESA on 17 August 2017, upon selling his motorbike in September 2017, the respective owner settled the outstanding instalments through five post-dated cheques. However, these cheques were filed and never encashed with the consequence that they became stale.

Recommendations

The Agency is to consider the possibility of introducing the direct debit system so that payments in relation to agreements are timely deposited. This would also be one of the safest ways to handle payments. Trivial amounts should preferably be paid off immediately to reduce the administartive burden.

Management Comments

Since 2018, the Agency has amended its procedures, whereby post-dated cheques are no longer accepted, whilst respective payments have to cover the full amount of individual contraventions. This has eliminated the loophole of having a contravention remaining partially paid.

The Agency also welcomes the Auditor's suggestions to implement a direct debit system, and this recommendation has been considered as one of the Agency's next debt collection measures to be adopted.

On the other hand, whilst the comment, trivial amounts should preferably be paid off immediately to reduce the administrative burden, can be seen as valid, one must keep in mind that the vast majority of offenders opting for *a repayment contract have financial or social difficulties, thus even the most trivial amount can be seen as a hefty burden.*

On a general note, the Agency has progressed to move a step further in this area, through the initiation of discussions with its IT service provider to transpose the manual system of contracts and debt collection into a digitised one. This will increase the Agency's efficiency in fulfilling its duty, whilst providing the stakeholders more possibilities and accessibility.

Issues with respect to Deposits in the Agency's Bank Account

Testing carried out revealed that monies received from the payment of contraventions were not being deposited in the Agency's bank account in a timely manner.

a. Monies in respect of contraventions paid through the LES are deposited in a specific bank account held in the name of the Local Councils Association. The net amount, after the deduction of bank charges and management fees, is remitted to LESA two months later. This timeframe is considered too long, especially given that money in respect of contraventions settled at Local Councils' premises are transferred to the Agency at least twice a week and very often substantial amounts are involved.

b. Cash and cheques received at the Agency's office are deposited to bank once a week. By way of example, proceeds collected between 5 and 11 December 2019 were deposited by the security service company on 12 December 2019. As an indication of the cash in hand, receipts collected specifically on 5 December 2019, totalled €8,359[9]. Furthermore, although the Agency has implemented high security measures, including restricted and limited access to safes as well as cameras system in all offices, it was noted that an insurance coverage is not yet in place.

Recommendations

Being the Agency set up to specifically regulate the payment of fines for contraventions, LESA is encouraged to initiate discussions with higher authorities so that online payments are directly received in its bank account. In the meantime, Management is encouraged to negotiate more favourable terms so that the aforementioned timeframe is decreased to a minimum in order for LESA to enhance its cashflow position.

Whilst acknowledging that in these particular circumstances the threshold of €100 as set by standing regulations may be considered as too low, it is recommended that Permanent Secretary's approval is sought if a higher threshold is deemed necessary. Furthermore, the Agency is urged to hasten the process for the procurement of an insurance cover.

Management Comments

The Agency shall initiate discussions with the stakeholders so that both measures recommended by the Auditors with respect to online payments are implemented.

[9] This comprised of €6,327 in cheques and €2,032 cash.

Meanwhile, the Agency had immediately increased the cash collection and deposit services. In addition, the Agency initiated the process to procure the required insurance coverage.

Documentation not readily available

Through a negotiated procedure, a private limited liability company was awarded the contract covering all aspects of the LES operations, as well as the end user support for all IT activities related to LES within the Local Councils, Regions, Regional Tribunals and LESA. The agreement, with an estimated value of €7,650,548 (VAT excl.) for a period of five years[10], was entered into with LESA on 15 March 2018. The following requirements refer:

a. Article 8 of the cited agreement requires the respective company to compile an inventory of movable items currently in use for the operation of the LES and which upon the termination of the agreement becomes LESA's property.

b. Article 6.5.1 of the terms of reference also obliges the service provider to contribute €700,000, over the contract period, towards equipment, ongoing service and maintenance costs, as part of the contract renewal, based on the officer equipment and control room schedules.

However, during the course of the audit, i.e. in November 2019, the documentation on the respective inventory was not available at LESA. Furthermore, the Agency had no evidence that part of the applicable contribution started being paid. Eventually, the service provider was asked to forward a copy of the related information following queries raised by NAO.

Recommendations

It is in the Agency's interest to ensure that the contribution by the contractor is provided as agreed in the negotiated procedure. It is also important to keep an updated record of the respective inventory so that in the event that the contract is not renewed for further periods, it could be in a position to claim back the assets that it has title to.

Management Comments

The Agency took note of the Auditors' comments and had immediately rectified by updating the inventory list accordingly.

Collision Reports

No Audit Trail for Cancelled Collision Reports

Sample testing carried out on monthly reports illustrating call-logs in case of traffic collisions revealed that the report identification numbers, which were automatically generated by the system, were not consecutive. According to LESA, those missing represented reports that were cancelled, either due to the police taking over the report, such as in cases where people suffer injuries, or relate to instances where, despite reporting the collision, drivers

[10] The contract can be extended for a further two years on the same terms.

reach an amicable settlement, without involving insurance agencies. However, no audit trail of such cancellations was maintained.

Recommendation

LESA is expected to request an enhancement to the system to include an application that enables audit trail from origin. Besides internal control, this would offer a number of other benefits, including transparency, integrity and the protection of the system from misuse.

Management Comments

The recommendation was implemented with the introduction of a more robust software programme, offering more audit facilities.

Delays in raising Invoices

The contract for the provision of community officers to third parties stipulates that invoices for the compilation of collision reports are to be issued by LESA every four weeks. However, substantial delays in this respect were noted. By way of example, fees covering services provided between April and September 2019 were grouped in a single invoice dated 30 October 2019, for a total amount receivable of €112,607.

Recommendation

LESA is to recognise the importance of raising invoices on time, as time lags can have a negative impact on its cashflow.

Management Comments

The Agency took note of the Auditors' recommendations and had implemented procedures to reduce these timeframes.

Traffic Management System

Unsubstantiated Payments hindering Reconciliation

In line with pertinent legislation, residents engaging in activities necessitating road closures are required to book and pay for the provision of traffic management at the respective Local Council. The latter are then invoiced for services rendered by LESA at the end of each month. From their side, Councils settle invoices by direct deposit in a specific bank account owned by LESA. However, due to the lack of details available, payments effected could not be traced back to the related invoice; thus, no reconciliation could be performed, with the risk that any unpaid balances were likely to go by unnoticed by LESA.

Recommendation

For a complete audit trail, the Agency is to request Local Councils to start forwarding a detailed breakdown supporting the respective payments.

Management Comments

The Agency took note of the Auditors' recommendations and has taken a number of steps to decrease shortcomings, including discussions with

- *the Department for Local Government (DLG) to increase reporting between the Local Councils and the Agency, as well as improve the current system of deposits; and*
- *the Agency's bank to increase the provision of transaction details.*

In addition, discussions are underway to upgrade the existing software to facilitate audit trail and reconciliations.

Others

Invoices issued manually

In view that the accounting package used by LESA lacks the facility of issuing invoices[11], these are being raised manually through a template on a spreadsheet. Besides the fact that this system does not provide an electronic audit trail, it is highly prone to error, due to complete human input.

Recommendation

In order to enhance efficiency, accuracy, as well as maintaining complete accounting records, Management is to consider adopting an electronic based invoicing system which will be integrated with the accounting package.

Management Comments

The Agency planned to update its Finance Department by digitising all accounting processes whilst abolishing all the current manual systems. Currently[12], the Agency is waiting for comprehensive accounting system proposals which will then be evaluated and implemented in the coming months.

Compliance Issues

Financial Statements not prepared

The only set of audited financial statements made available by the Agency covered the first 15-month period of operations falling between 1 October 2015 and 31 December 2016. It was stated that the financial statements for 2017 onwards were not yet finalised as the Agency was still awaiting direction from higher authorities in relation to the reimbursement of administrative expenses claimed by the Regional Councils. By virtue of Directive No. 3/2016 – 'Arranġamenti Finanzjarji bejn il-LESA, il-Kumitati Reġjonali u l-Kunsilli Lokali' issued by DLG in 2016, Regional Councils may request LESA to reimburse the fee paid to the President of the Region, the salary of its Executive Secretary and the respective employees, as well as administrative expenses. Yet, the procedure to be applied for

[11] Invoices are raised by LESA for traffic management services and collision reports drawn up.

[12] Management comments were submitted to NAO at the beginning of August 2020.

the disbursements of administrative expenses, which had to be devised by LESA and DLG, was not yet established.

Moreover, no management accounts were compiled for financial years 2018 and 2019.

Recommendations

The submission of timely audited financial statements is a statutory obligation of the Agency. It is also pertinent that management accounts are compiled in a timely manner as these are necessary to assist Management in the day-to-day operations of the Agency.

Management Comments

*The Agency wishes to remark that such issue is being discussed with the Permanent Secretary within the Ministry for Home Affairs, National Security and Law Enforcement, DLG, and the Local Councils Association. It is worth noting that all parties agreed on the recommendation put forward by the Auditors and it is envisaged that this issue will be resolved in the coming month*s.

Agency Agreement not formulated

At time of audit, LESA had already been established for over four years; however, a formal agreement between the Agency and the respective Permanent Secretary, defining the former's operational structure was not yet in place. NAO Officers were informed that a draft one-year agreement, covering 1 June 2019 to 31 May 2019[13] [sic], was prepared in May of the said year but remained unsigned.

Recommendation

It is in the interest of the Agency to ensure that the agreement in question is concluded and endorsed by the responsible parties without further delay. This will set the applicable rights, obligations and procedures to be followed, whilst reducing potential future dispute.

Management Comments

The Agency took note of the Auditors' recommendations and shall progress to conclude the agreement.

[13] Extract from the Agency performance agreement: "*This Agency Performance Agreement (herein after referred to as the "agreement") has been drawn up on May 2019. This agreement governs the operations and programmes of Local Enforcement and Systems Agency (LESA) (herein after referred to as the "agency") for the one-year term beginning 1st June 2019 and ending 31st May 2019*" [sic].

Ministry for the Environment, Sustainable Development and Climate Change

Waste Separation - Organic Bag

Expenditure

Claims for reimbursement by Local Councils settled from allocation for the **Waste Separation – Organic Bag** were not made on a regular basis, while substantial reimbursements were still outstanding by end 2019. The audit also revealed shortcomings in the procurement of advertising services and in the management of the compostable bin liners contract.

Background

WasteServ Malta Ltd (WSM), established in November 2002, is a Government-owned company responsible for organising, managing and operating integrated systems for waste management. During 2019, the entity fell within the remit of the then Ministry for the Environment, Sustainable Development and Climate Change[1].

In 2015, WSM embarked on a pilot project to introduce the use of organic bags and raise awareness on the concept of waste separation. An informative campaign was initiated with the cooperation of five Local Councils (LCs). In subsequent years, the number of localities participating in this project increased, with WSM continuously monitoring and analysing the outcome. By 2018, all localities in Malta and Gozo were participating in this campaign.

The approved 2019 budget allocation for Line Item 5820 – Waste Separation – Organic Bag, under Vote 35, was €4 million; however, during the year, this budget was reduced to €3 million. WSM planned to utilise this allocation mainly to reimburse LC's organic waste collection fees. According to information made available for audit purposes[2], WSM estimated that claims for reimbursement submitted by LCs for 2019 would total €3,031,579[3]. As at May 2020, the requests for reimbursement relating to the preceding year amounted to only 65% (€1,963,673) of this estimate. Forty percent (€793,400) of these claims were settled in the year under review.

In December 2019, WSM entered into an agreement for the supply and delivery of compostable bin liners for the collection of food waste[4]. WasteServ planned to utilise €333,084 in relation to this contract from its 2019 budget allocation; however, as at time of audit fieldwork, no payments were yet effected.

[1] As from January 2020, the Ministry changed its name to the Ministry for the Environment, Climate Change and Planning.

[2] Obtained in May 2020.

[3] Claims for a total of €2,646,149 were to be financed through the 2019 allocation, while the balance of €385,430 was to be paid out of funds brought forward from the 2018 allocation.

[4] The contract value was €462,400 (VAT excl.).

Furthermore, during 2019, WSM carried out a marketing campaign to provide awareness on waste separation, as well as to promote the use of the organic bag. The related expenditure, totalling €214,252, was financed from the unutilised funds of the Organic Bag allocation for 2018.

Audit Scope and Methodology

The main scope of the audit was to verify whether procurement procedures adopted by WSM were in compliance with the public procurement regulations. The National Audit Office (NAO) also sought to determine the level of existing internal controls over the related payments effected during 2019.

An introductory meeting was held with WSM's Management, to discuss the audit objectives and to obtain a general understanding of the organic bag project, including the procedures adopted for its operation. NAO also obtained information on the other related expenditure funded through this line item.

The reimbursement of waste collection fees to LCs was the largest expenditure effected from the Waste Separation – Organic Bag line item. NAO carried out verifications on reimbursements made to a sample of six LCs, selected according to the size of the locality, the region, as well as the expected value of claims during the year. This sample represented approximately 15% of the estimated reimbursements relating to 2019 to be effected to LCs.

NAO also verified the procurement of compostable bin liners for the collection of food waste, to ascertain that this was in line with the public procurement regulations. An additional four invoices relating to advertising and respective payments were randomly selected for audit testing.

Key Issue

Delays by Local Councils claiming Reimbursements

WSM entered into an agreement with each LC to finance costs incurred in the collection of household organic waste, carried out three times a week[5]. The agreement stipulates that, in order to be reimbursed, the Council is to present an invoice to WSM within 30 calendar days from the conduction of the collection service.

Audit testing on five of the sampled[6] LCs showed that the invoices issued by three Councils were not submitted within the 30-day timeframe stipulated in the respective agreement with WSM. Instead, claims pertaining to a substantial number of months were grouped together.

Additional information on the whole population forwarded to NAO revealed that only 38 LCs claimed reimbursements from WSM for the entire year under review. Six LCs did not submit any invoices during 2019, three of which also had claims pending from the previous year.

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[5] Organic waste is collected by contractors every Monday, Wednesday and Friday. The responsibility for the procurement of organic waste collection services for the locality and for effecting payments thereof rests with each LC. Once the individual contractors are paid, Councils invoice WSM. The amount billed is based on the contractors' invoices.

[6] Invoices submitted by a Local Council during 2019 were excluded from this test since they contained errors and reimbursement was not issued by WSM.

The lack of adherence to the 30-day clause stipulated in the agreements caused unnecessary administrative burden on WSM, as very often it had to chase LCs to present their invoices, which efforts at times were futile.

Recommendations

Management is to maintain its efforts in liaising with the Local Councils Association and the Department for Local Government, to urge LCs to send their claims for reimbursement within the stipulated timeframes, thus facilitating budget planning. If the situation is not improved, WSM may also consider imposing financial deterrents in cases of non-compliance.

Management Comments

Management agrees with NAO's recommendation to follow-up LCs and financial deterrents are to be considered following action taken.

Control Issues

Substantial Reimbursements still outstanding

By May 2020, claims by LCs for reimbursement for 2019 organic waste collection fees totalled €1,963,673. Payments by WSM in this respect amounted to €793,400; thus only 40% of the LCs' claims were settled by this date. When NAO enquired on the remaining 60%, WSM stated that substantial amounts of tipping fees for organic and municipal waste were still outstanding from Councils, and WSM normally does not pay the LCs unless the latter settled their dues. The delay for the submission of invoices by LCs also contributes to the time lag in issuing the respective payments.

Recommendation

Management is encouraged to liaise with the Department for Local Government in order to address the matter of outstanding tipping fees, to ascertain timely payments both towards WSM and the Councils.

Management Comments

Management agrees with the recommendation and its implementation is still ongoing.

Procurement of Advertising Services not in compliance with Regulations

During the year under review, WSM procured advertising services in relation to the 'Sort It Out' campaign directly from a local company, at a total cost of €24,000 (VAT excl.)[7], without seeking the necessary approval from the then Ministry for Finance[8]. Although WSM claimed that this marketing package was split into four distinct phases, costing €6,000 each (VAT excl.), documentation from the service provider only indicated the total price.

[7] By February 2020, a total of €21,240 was paid to the service provider.

[8] In January 2020, the Ministry changed its name to the Ministry for Finance and Financial Services.

Furthermore, these advertising services were not covered by a formal agreement signed by both parties, showing the applicable contractual obligations.

Recommendations

Procurement directly from the open market is to be resorted to only in exceptional circumstances, and provided that adequate justification exists. Moreover, this may solely be done after obtaining written approval from the Ministry for Finance and Financial Services. Commitments with service providers are only to be entered into once this authorisation is obtained.

WSM is also to ensure that services procured, especially those of a relatively substantial value, are backed by an agreement endorsed by the contracting parties, clearly laying down the applicable terms and conditions.

Management Comments

Management agrees with NAO's recommendations and is to limit direct orders as much as possible.

Transportation of Organic Waste to Facilities not in line with Agreements

The agreements for the collection of household organic waste stipulate that WSM shall reimburse the LC as long as all three weekly collections are transported to a WSM facility[9] following collection on each respective day. At the facilities, collections are registered through weighbridge reports on a daily basis.

Out of the six sampled LCs, NAO noted that the respective contractors of three localities were not abiding by this contractual obligation. Instances of nil entries in the weighbridge reports were noted for days in which the organic waste was to be deposited at a WSM facility. The refuse collector of one of the LCs failed to transport this organic waste on 66 out of a total of 155 collection days in 2019. The weighbridge reports also revealed instances whereby the refuse was deposited on days other than those on which the organic waste was collected. However, the invoices presented by the LCs in question were still reimbursed in full since WSM assumed that once no complaints were received on the non-collection of waste, it concluded that it "… *may have been delivered to WSM facilities with waste collected from other localities*".

Recommendation

Claims made by LCs are not to be settled in their entirety unless WSM confirms that the organic waste was deposited in its facilities on the day it was collected, as required by the respective agreements entered into with the Councils.

Management Comments

As from January 2020, LCs are reimbursed only for the number of organic waste collections delivered to WSM facilities on the collection day. NAO's recommendations are to be included in a standard operating procedure.

[9] Sant'Antnin Waste Treatment Plant in the case of Maltese localities and Tal-Kus for localities in Gozo.

Shortcomings in the Management of the Contract for the Supply and Delivery of Compostable Bin Liners

In December 2019, WSM entered into a contract for the Supply and Delivery of Compostable Bin Liners for the Collection of Food Waste, for a maximum value of €462,400 (VAT excl.). The contract was in force for 18 months or until the quantities of the bin liners were delivered. NAO noted the following shortcomings:

- The supplier was required to take out a combined insurance policy[10], to cover the carriage of supply throughout the whole period of the contract. This policy was to be made available to WSM by end December 2019. However, the insurance cover forwarded to NAO for audit purposes was dated February 2020[11] and did not cover the entire contract period.

- The performance programme, including details which would ensure the successful implementation of the contract, which was required in terms of the applicable agreement, was made available to WSM by the supplier only after NAO requested the document for audit purposes.

- According to the agreement, the delivery of the ordered batches of compostable bin liners was to be done within 60 days from the delivery order notification[12]. In January 2020, WSM reminded the supplier of his contractual obligations, but the contractor confirmed that this deadline could not be met and requested an extension. WSM further informed the supplier that he was required to adhere to all clauses in the agreement, making particular reference to the conditions relating to the performance programme and the delivery timeframes. This action by WSM was triggered by audit testing and queries raised by NAO.

Recommendations

WSM is expected to ensure that the required insurance policy is in place. Regular monitoring, to ascertain that all the related conditions are duly respected by suppliers, is also solicited to safeguard the former's interests. Relevant documentation is to be retained and duly filed for future reference.

Management Comments

WSM is chasing the contractor for a revised policy document as per the respective contract. Further supplies will only be ordered once this insurance policy is in hand. Regular monitoring of contracts and the retention of documentation are to be included in the standard operating procedure.

[10] Covering both the supplier and WSM.

[11] This implies that the policy was only taken following NAO's request for the document.

[12] Issued mid-December 2019.

Ministry for the Environment, Sustainable Development and Climate Change

Store Items and Fixed Assets

Adequate control procedures were lacking with respect to store items and fixed assets, maintained by the Departments of Fisheries and Aquaculture, the Rural Development, the then Veterinary and Phytosanitary Regulation, as well as Ambjent Malta, which in 2019 all formed part of the **Ministry for the Environment, Sustainable Development and Climate Change**. This was mainly due to formal standard operating procedures not being in place. Consequently, where data was compiled, this was fragmented, thus hindering a complete audit trail. Moreover, provisions laid down in pertinent circulars, ensuring proper monitiorng of fixed assets, were not fully complied with.

Background

Following the reshuffling of ministerial portfolios in January 2020, the Veterinary and Phytosanitary Regulation Department[1], the departments of Fisheries and Aquaculture, as well as the Rural Development were incorporated within the Ministry of Agriculture, Fisheries and Animal Rights (MAFA), whilst Ambjent Malta[2] now falls under the remit of the Ministry for Tourism and Consumer Protection. Previously, all the aforementioned departments formed part of the Ministry for the Environment, Sustainable Development and Climate Change. Through their diversified roles as outlined in Table 1, these departments work together towards the ultimate goal, being the conservation and sustainable use of local genetic resources.

[1] In 2020, the name of this department was changed to the Animal Health and Welfare Department. Throughout this write-up this department will be referred to as AHWD.

[2] In this write-up the entity will be referred to with its new name Tisbiħ Malta.

Table 1: Explicit Role of each Department

Department	Mission	Stores and Sites falling under the Department's remit[3]
AHWD	To co-ordinate and regulate activities, ensure compliance with requirements of animal health, animal welfare, feed and food law.	• Stores located within AHWD premises in Marsa, servicing AHWD's administration, the National Veterinary Laboratory and the Veterinary Regulation Directorate, including outposts • Animal welfare store in Għammieri servicing the Animal Welfare, Promotion and Services Directorate
Fisheries and Aquaculture	To ensure the sustainability of fish species in the seas and to address the requirements in the fisheries sector by establishing rules that regulate the sector's activities, as well as monitor and control the respective assets. The department is also responsible to gather, analyse and keep biological and economic information, to serve as an objective basis for decisions underpinning the sustainability of fish in our waters.	• Tanks at San Luċjanu[4] • Feed store to maintain dry feed • Food preparation room with chest-freezers to stock baitfish
Rural Development	**Agriculture Department** To assist local farmers and breeders to produce fresh products of the highest quality, together with the safeguarding of the rural environment. **Plant Protection Directorate** Primarily to prevent the introduction and spread of quarantine pests of plant material and plant products, but also of pests and diseases affecting quality, and to promote appropriate measures for their control.	• Farm operations at Għammieri[5] • Buskett Winery • Il-Mixtla located at St. Vincent De Paul • Soil and Irrigation Water Laboratory • Plant Health Diagnostic Laboratories • Seed Laboratory • Tissue Culture Laboratory • Surveillance and Enforcement Unit • Maintenance sub-Unit • Operations Unit
Tisbiħ Malta	To coordinate and support efforts related to the protection of the nature capital; its responsibilities are not limited for the upkeep and maintenance of national parks and other public spaces but also for the implementation of the Management plans for the Natura 2000 sites.	• Marsascala Family Park • Petting Farm

[3] Information as provided by the auditee.

[4] This includes multiple tanks where fish are kept.

[5] There is a store where all feeds procured are kept, however there is also a number of small stores closer to the animal huts whereby food consumption for a week is stored. This unit also stores haystacks.

Financial Information

For 2019, the Ministry for Environment Sustainable Development and Climate Change was allocated the amount of €230,000 under Vote 35, Line Item 22 – Materials and Supplies, of which €100,000 was assigned to the Rural Development Department, whilst the department for Fisheries and Aquaculture and that for Veterinary and Phytosanitary were provided with €30,000 each[6]. Ambjent Malta was provided with €30,000 under Vote 36 for materials and supplies.

Audit Scope and Methodology

The main scope of the audit was to assess:

- the level of existing internal controls over store items and fixed assets falling under the remit of the aforementioned departments; and
- whether there was adequate stores and inventory management in line with pertinent regulations.

The audit was conducted in accordance with generally accepted auditing standards. To achieve the audit objectives, an introductory meeting was held with the Head of each audited department and key personnel in order to obtain an understanding of the relevant policies in place vis-à-vis stores and inventory management. With the aim of getting a better insight of the respective operations, as part of the introductory meeting, onsite visits were held at l-Għammieri and il-Mixtla.

Limitation on Scope of Audit

Given the exceptional challenges that were being faced due to the pandemic crisis at the time the audit was conducted, it was not possible to carry out a physical audit inspection on stocks and inventories to ensure that procedures claimed to be in place by the respective departments were thoroughly being followed, and that data provided was complete and reliable. This also hampered the extent of testing that could be carried out, whereby in the circumstances review was solely based on the documentation and explanations provided by the auditee.

Key Issues

Standard Operating Procedures not in place

Formal Standard Operating Procedures (SOPs), ensuring uniformity in the way stock records are to be maintained by the entities falling within this Ministry, and to ascertain that pertinent regulations are fully complied with, were only in place at the AHWD.

The other departments devised their own independent informal procedures, either in the form of manual records or spreadsheets, thus lacking consistency and comparability.

[6] The resulting difference of €70,000 was allocated to other cost centres falling under the remit of the same Ministry, but which fell outside the scope of this audit.

Recommendation

SOPs will enable officers at the different departments to have a clear understanding of how stock records are expected to be maintained, thus leading to an efficient and effective way of recording and safeguarding Government assets. Thus, Director Corporate Services is to draft operating procedures to be followed by all departments falling under the responsibility of the respective Ministry, to enhance consistency and comparability.

Management Comments

To enhance the consistency and comparability between the various departments within MAFA, a clear SOP will be made available to all the personnel working within the departments who manage stocks.

No Management comments were received from Tisbiħ Malta.

Fragmented Data

An adequate stock system was not in place for the recording of animal food stocks; records were maintained either manually or through different spreadsheets, or a combination of both. This made it difficult to trace a complete and reliable audit trail from procurement and delivery to stores, up to when the respective items were eventually issued to the different sites.

Furthermore, the excessive delays encountered for the submission of the stock records that were requested for audit purposes shed doubt on whether the documents submitted were actually compiled during the audit.

Recommendation

Management is responsible for the monitoring and safeguarding of stock items falling under its remit and thus compliance with pertinent regulations is of utmost importance. To this effect, stock records are to be consistently reviewed and updated.

Management Comments

The proposed recommendation will be implemented across MAFA as follows:

- *stock records and current stock take procedures shall all be reviewed and updated as necessary on the basis of the SOP;*
- *a standard and transparent system will be introduced to record and monitor stock movement across Ministry;*
- *responsible officers will also be informed and trained on how to update and follow new systems that will be introduced; and*
- *random compliance spot-checks will be held at regular intervals and recorded accordingly.*

No Management comments were received outlining how the lack of adequate control procedures encountered vis-à-vis stocks maintained by Tisbiħ Malta will eventually be addressed.

Control Issues

Stocks

Weak Controls on management of Stocks

The shortcomings highlighted hereunder demonstrated lack of control on the store items falling under the responsibility of the respective departments.

a. Since a stock system was not in place at the Fisheries and Aquaculture Department, fish food was accounted for manually on a spreadsheet. However, such records were only available for the last quarter of 2019 as, prior to this date, records were overwritten.

b. An attempt to reconcile a sample of requisition forms to the stock database and bin cards maintained by AHWD proved futile. The following deficiencies were noted:

   - Stock already in hand, receipts and the resulting balance were not indicated in the stock records, thus rendering them as meaningless. Moreover, the spreadsheets did not include all the food varieties stocked and only some issues from stores were recorded.

   - Details on the requisition form were too generic, hindering ease of identification of the respective stock items.

c. Due to their nature, being volatile, sterile, highly flammable, corrosive, irritant etc, coupled up by the fact that the stores' officer at AHWD was not always technically competent to ensure that the correct items were delivered, stocks relating to the National Veterinary Laboratory were sent directly on location and were not recorded in the stock system. Although a list of the items found at the laboratory was maintained and updated on a day-to-day basis, certain fields were left blank, thus hampering audit trail.

d. Stock registers and bin cards were not provided for audit purposes by Tisbiħ Malta in relation to the Petting Farm and Marsascala Family Park. Only a document illustrating feed type, quantity ordered, and the date these were requested and actually delivered was submitted to the National Audit Office (NAO). This did not provide the comfort that effective controls on the respective stock items were in place.

e. The mandatory annual physical stocktaking exercise was very often not performed. Where this was carried out, the maintained stock sheets were not in line with pertinent regulations as these did not indicate the value of stock in hand and were neither dated nor endorsed by the person carrying out the stock count. Furthermore, although no items were marked as obsolete or slow moving, same quantities were noted for a number of items during the last two stocktakes.

Recommendations

Stock control procedures, as stipulated in Treasury Circular No. 6/2004 – 'Stock Control Procedures', are to be adopted. The recording process is expected to be through a computerised stock management system. This will enable a proper audit trail for each transaction and also mitigate related problems.

Furthermore, a physical check of all stock items is to be carried out on a regular basis, in line with the requirements of the general financial regulations. Any discrepancies between the physical stock count and the stock records are to be scrutinised and reported in line with the regulations and pertinent circular.

Management Comments

A computerised stock management system will be introduced and made available to all departments within AHWD, with the respective staff being trained accordingly. Stock records will be updated with all the information requested in Treasury Circular No. 6/2004. Furthermore, regular physical compliance checks will be performed and any discrepancies noted will be dealt with according to the general financial regulations and relevant circulars.

AHWD would like to remark that the items received at the laboratory are considered as non-stockable items since they are intended for immediate use or short-term storage being either volatile, sterile, highly flammable, corrosive or irritant. A relatively low volume of these items is ordered and utilised on a regular basis, even due to the short expiry date of most of the items. Nonetheless, for internal procedures related to accreditation of the laboratory, a record of these items shall be kept within the Laboratory Information Management System. Such data, aimed at keeping track of the quantity of these consumables at the National Veterinary Laboratory, is currently being maintained in a spreadsheet format.

No Management comments were received from Tisbiħ Malta.

No Valuation for Livestock

No valuation was assigned to the livestock held at Għammieri, the Petting Farm and the Marsascala Family Park, whereby the former fell under the responsibility of the Agriculture Department, while the latter two fell under the remit of Tisbiħ Malta.

Similarly, with the exception of rotifers which were maintained as a natural feed for other species and had an established market price, no value was allocated to the fish held in tanks at San Luċjanu by the Fisheries and Aquaculture Department. According to the latter, the retained biological assets were specifically meant either for further research or as broodstock. It was also stated that certain species were still new and their market potential was not yet known.

Recommendations

Management is to ensure that all stocks falling under its remit is properly valued and accounted for in line with the applicable accounting framework, i.e. International Public Sector Accounting Standards. Livestock which does not fall under the definition of current assets should be treated as fixed assets and accounted for accordingly. In case of any difficulty, the respective departments are to consult with the Treasury Department for further guidance.

Management Comments

The recommended actions will be implemented accordingly by AHWD following the finalisation of the SOP, whereby periodical valuation of stock will be carried out.

No Management comments were received from Tisbiħ Malta.

Feeding Quantities not in line with the Feeding Schedule

The quantity of food provisions given to animals being cared of at the Petting Farm and the Marsascala Family Park was not documented. It was claimed that feeding instructions were sought verbally from Government's veterinaries located at the Għammieri Government Experimental Farm in Marsa.

The following shortcomings were noted when analysing the feeding data forwarded by the Fisheries and Aquaculture, the Rural Development Departments, as well as AHWD:

a. Fisheries and Aquaculture Department

Inconsistencies were encountered between the frequency as per feeding schedule which was compiled way back in April 2014 and actual feeding quantities as documented in the Brood Stock Daily Sheets. Management claimed that this was due to the fact that feed type and quantities change upon palatability and satiation requirements of fish. However, additional records substantiating this statement were not provided for audit purposes.

b. Rural Development Department

A reconciliation between the feeding schedule and the actual quantities fed by the Agriculture Department falling under the Rural Development Department was not possible since records maintained only comprised the daily grains utilised and the balance held in store.

c. Animal Health and Welfare Department

Although stray cats and dogs falling under the responsibility of AHWD were expected to be fed in line with the veterinary's prescription as disclosed on the requisition forms, it was noted that provisions requested from stores were far beyond the prescribed quantities.

Recommendations

For the sake of transparency and as a control measure, feeding provisions are to be in line with the recommended daily feeding schedule. It is important that from time to time the schedule is reviewed for any necessary amendments, not to render it meaningless.

Management Comments

Feeding schedules will be prepared and periodically reviewed as necessary.

AHWD remarked that the number of cats indicated on the request forms relate only to cats which are kept in cages under recovery and does not include the substantial amount of cats, which varies daily, that are kept in the cat yard. The difference in balance allows for the latter cats. In this regard, instructions were issued to veterinary officers to include all cats (both those under recovery and those in the yard) when indicating the number of heads. It is also to be highlighted that if stocks from previous week are still available at the carers' end, these will be deducted from the next week's issue.

Closed Circuit Television not installed

Only the fodder and feed stores lying over the street at Għammieri, the store at the Marsascala Family Park, and certain areas falling under the Plant Protection Directorate were equipped with a Closed Circuit Television (CCTV).

In 2018, AHWD invested in a CCTV system for its stores located at Għammieri; however, two years later, such equipment was not yet installed. It was also noted that the respective camera system was not disclosed in the inventory database.

The other departments claimed that a CCTV was not deemed necessary since the value of stocked items was not material and access to stores was limited to designated officials.

Recommendations

To minimise the risk of possible intrusion and theft, as well as to enhance accountability, Management is to ensure that only assigned officers have physical access to specific areas. Entry by outsiders is to be strictly forbidden.

Management at AHWD is expected to fasten the process for the installation of the camera system, which item is also to be included in its inventory as this fall within the category of fixed assets.

Management Comments

Access to the animal welfare store in Għammieri is limited to the Assistant Director and Director, other than the store officer. Spare key is kept at the Director's office in case of emergency requirements in the absence of the officer in charge of stores. However, installation of CCTV system to capture stores and dog pens will be undertaken.

Fixed Assets

Lack of Effective Control on Fixed Assets

With the exception of AHWD, it was evident that the departments were not aware that, in terms of MF Circular No. 14/99 – 'Government Accrual Accounting: Revised Inventory Control Regulations', following the recording of assets in an inventory database, monitoring or routine checks, covering randomly selected items were to be carried out. It was also noted that an item was marked as missing in the inventory database provided by the Fisheries and Aquaculture Department; Management stated that subsequently they searched the building for it, but no other action was taken.

Recommendations

Director Corporate Services is to assign personnel to co-ordinate the maintenance of fixed asset registers amongst the different departments as well as to ensure that items are physical checked on a perpetual basis and any discrepancies reported immediately.

Management Comments

A coordinator within the Strategy and Support Division will be appointed to coordinate the asset register among the different departments. In addition, compliance checks will also be carried out.

Inventory Database not updated following the re-assignment of Ministerial Portfolios

The re-assignment of ministerial portfolios effected in January 2020 necessitated the transfer of certain inventory items between departments. Yet, on 29 April 2020, Management at the Agriculture Department confirmed that the respective fixed assets database was not yet updated accordingly.

Recommendation

Management is expected to give priority to the updating of its records of fixed assets.

Management Comments

The audit was performed when the Ministry was being restructured, hence the inventory was not up to date. However, action is being taken to update the inventory. An officer has been appointed to follow up on inventory at department level.

Compliance Issues

Shortcomings noted in the Departmental Inventory Database

Details in the fixed asset register did not always comply with the provisions of MF Circular No. 14/99. In general, the main shortcomings were the following:

a. Database maintained by the Extension Service Office, falling under the remit of the Rural Development Department, lacked pertinent details and did not indicate to which site the respective items pertained. Meanwhile, data submitted by the Farm Operations Unit at Għammieri, also falling under the responsibility of the aforementioned department, was in the form of a room inventory list.

b. The value and date of acquisition were not recorded.

c. The description of the inventory items was vague, such as air-conditioners. These are expected to include enough details for ease of identification and audit trail.

d. Fixed assets were recorded under the wrong category.

e. Items which were disposed of in 2018 were still featuring in the inventory database submitted for audit purposes in April 2020.

Recommendations

The officer responsible for the management of fixed assets is to ensure that records are thoroughly checked to identify any entries that are inconsistent with standing regulations and these are to be amended accordingly. It is important that assets are recorded under the correct category, especially at this stage when the Ministry is expected to prepare a set of financial statements based on International Public Sector Accounting Standards in due course and thus account for depreciation on its fixed assets. Moreover, MF Circular No. 14/99 is to be adhered to in order to ensure that more effective control is maintained on Government-owned items.

Management Comments

The officer in charge has been tasked with the updating of the mentioned data.

No Management comments were received outlining how the highlighted shortcoming will eventually be addressed by Tisbiħ Malta.

Statutory Returns not submitted to NAO

Information in respect of assets falling under the respective departments' remits, as well as additions to fixed assets, were not forwarded to the Auditor General, in line with standing regulations.

Recommendation

Management is to make sure that officers in charge of the respective tasks are aware of the statutory returns which are to be accurately compiled in line with MF Circular No. 14/99 and submitted to NAO on a regular basis.

Management Comments

The coordinator within the Strategy and Support Division at AHWD will draft an SOP, monitor its implementation and submit the returns to NAO on a regular basis.

No Management comments were received from Tisbiħ Malta.

Veterinary and Phytosanitary Regulation Department

Compliance

The audit at the then **Veterinary and Phytosanitary Regulation Department** mainly revealed lack of staff, accumulated balances in bank account not transferred to the consolidated fund and revenue not reported in the respective returns. It also transpired that no legal action was taken against illegalities with regard to owning of dangerous animals.

Background

The Animal Health and Welfare Department (AHWD) under the remit of the Ministry for Agriculture, Fisheries and Animal Rights[1] (MAFA), is to co-ordinate and regulate activities to ensure compliance with the requirements of animal health, animal welfare, feed and food law. This Department comprises two Directorates, namely the Veterinary Regulation Directorate (VRD) and the Animal Welfare, Promotion and Services Directorate (AWPSD), as well as a National Veterinary Laboratory, Administration and Operations, and Technical Co-ordination Office.

VRD, with a staff complement of 78 employees[2], is responsible for the welfare of farm, dangerous species and zoo animals, among others. This Directorate carries out the related inspections, maintains the National Livestock Database that holds data on all Malta's livestock population and issues licenses accordingly. On the other hand, the main responsibility of AWPSD, with 52 employees on its payroll[2], is to promote and safeguard the welfare of domestic animals, mainly through inspections and rescue by its ambulance service. Information with regard to inspections carried out is maintained on the Animal Welfare Information System. The Directorate is also responsible for the overall care of the rescued stray animals kept at Għammieri.

[1] During 2019, the name of the Department was Veterinary and Phytosanitary Regulation Department under the Ministry for the Environment, Sustainable Development and Climate Change.

[2] Number of employees is as at 21 October 2020.

Audit Scope and Methodology

The main scope of the audit was to assess the internal controls at the foregoing two Directorates during 2019, focusing on compliance with the regulations mainly related to electronic identification of dogs, owning and keeping of dangerous species and keeping of wild animals in zoos. Control over revenue received by AHWD and the type and frequency of inspections carried out were analysed.

The National Audit Office (NAO) held various meetings with AHWD and its two Directorates, during which overviews of the applicable information system and the livestock database were given.

Key Issues

Revenue not reported accordingly

The gross outstanding balance as at 31 December 2019 representing fees for the registration of dogs, due from a total of 28 private veterinaries, stood at €39,210. Notwithstanding, audit testing revealed that such dues did not feature as arrears of revenue, in line with the pertinent circulars and S.L. 601.01 General Financial Regulations. Since only an aggregate of this amount was maintained, the Directorate was also not in a position to provide the required analysis of debtors.

In addition, even though bills relating to microchipped dogs registered by veterinarians during a particular financial period were issued in the subsequent year, AHWD confirmed that the accrued income returns were never submitted to the Treasury Department.

Recommendations

All revenue due to Government is to be identified, featured in the respective returns as applicable and timely submitted, especially in view of the imminent transition to accrual accounting. Outstanding amounts are also to be categorised by age.

Management Comments

The returns will be processed as per circulars issued annually by the Treasury Department. Training on accrual accounting is scheduled to take place during January 2021 but dates have yet to be established. The Corporate Financial Management Solution will enter into effect as from April 2021. Reminders for payments are now also stipulated in Government Notice 943 of 13 August 2020. For the registration of every microchipped, non-neutered dog, a request for payment will be sent to the veterinary surgeons quarterly. A reminder of payment shall be sent after 30 days, and a second reminder shall follow after the next 30 days. If the outstanding fees are not settled, the veterinary surgeon shall be charged a 5% interest on such fees.

Shortcomings related to Staff

During the introductory meeting, the Director General raised her concern that AHWD is understaffed, as also evidenced in the detailed organigrams submitted to NAO. Vacancies resulted in increased demands on other employees, including the Director General herself, in order to cope with the numerous calls, emails of complaints and reports received daily. The following further substantiate such claim:

a. Animal Welfare, Promotion and Services Directorate

AWPSD is responsible for a vast workload which focuses on various issues, including operational procedures, enforcement processes, monitoring outpatients at the veterinary hospital and promoting awareness in schools, as well as the management of local funds and several grant schemes, mainly to Local Councils and non-Governmental organisations. The Directorate's operations comprise staff who takes calls and those who operate the ambulance service, both working on shift basis[3]. However, according to the Directorate, due to officers on vacation leave or reporting sick, shifts were normally understaffed and therefore it was not always possible to operate effectively. Furthermore, AWPSD also stated that it lacked qualified staff and was over reliant on ageing employees, mainly due to vacancies filled by transfers within the Government. Under these circumstances, the current workforce was responsible for additional duties, thus increasing pressure on the core employees to complete their assignments and meet expected performance.

b. Veterinary Regulation Directorate

The Directorate was short of support officers who were to perform day-to-day functions and hence much of the administrative work was being undertaken by the veterinarians themselves. It was confirmed that officers in general or administration grades were transferred to another department without any replacement given.

Veterinarians within this Directorate were fully qualified; however, most of them were foreigners and were not able to communicate in the Maltese language; thus, at times they had communication problems with the public. There was also a high employee turnover rate among foreign veterinarians who used the Department simply to gain experience.

It was also indicated that local veterinarians often opted not to work within VRD after they graduate, further stating that scholarships issued by the Ministry for Education and Employment (MEDE) did not oblige beneficiaries to work within the public service as an undertaking following the completion of the respective studies.

Recommendations

AHWD is to raise the highlighted concerns with respective Ministry, so that calls to start filling in the current vacancies are issued without undue delay. Training is also to be provided accordingly. The Department is further encouraged to initiate discussions with MEDE, in order to compel Maltese graduates, who are given a scholarship, to work for a stipulated number of years as veterinarians within VRD as an undertaking.

[3] When in full complement, a shift consists of five employees, two teams composed of two employees operate two ambulances, one in the north and one in the south of Malta, while another employee at the Control Unit receives calls and forward them accordingly.

Management Comments

A number of calls are being issued, but these namely address technical vacancies. AHWD is continuously soliciting to fill up vacancies, including administrative and/or general grades. This year, a number of vacancies were filled. These included legal officer, legal procurator, vet officers, principal veterinary support officer and veterinary support officers.

Discussions are already underway between MAFA and MEDE for a possibility of a closer tie between MEDE and AHWD. A meeting was held by MAFA officials and MEDE on 16 October 2020. A training programme is drawn up each year, depending on the needs of the respective Directorate.

Control Issues

Accumulated Balance not transferred to Consolidated Fund

Way-back in 2011 it was established that licences were to be issued by the Department for every registration of microchipped dog. As per request by the then Minister, respective payments were to be collected online from the private veterinarians. One of the conditions granting approval by the then Ministry of Finance, the Economy and Investment to open a bank account for this purpose, was that the respective income was to be eventually transferred to the consolidated fund. However, as at 31 December 2019[4], the balance, which accumulated over the years, was €151,801 since amounts were never transferred.

Recommendation

Any excess balance is to be transferred to revenue in the consolidated fund in line with the conditions on which approval was granted.

Management Comments

Action has already been started to transfer excess balance. Instructions have been sent on 26 October to transfer funds from the bank account to the public account.

Penalisation for Illegality

Prior to year 2016, the ownership of dangerous species on the Maltese islands was not regulated. Following the publication of S.L. 439.19 Owning and Keeping of Dangerous Animals Regulations in 2016, owners had to register the dangerous species in their possession. However, by mid-October 2020, there were still six persons, owning in aggregate 66 species that were considered as dangerous, who had not yet fulfilled all their obligations with regard to the said legislation. VRD confirmed that no legal action was taken against them, stating they were slowly complying.

[4] At least up to 22 September 2020, no transactions were effected in 2020, since bills for 2019 were not yet issued by the Department.

Recommendation

Confiscation of dangerous species kept on illegal premises does carry various limitations, including the wellbeing of the animals, lack of adequate resources at the Department and the financial costs involved. Thus, NAO recommends that the possibility of imposing penalties on the defaulting keepers should be considered to act as a deterrent.

Management Comments

Although S.L. 439.19 does not include such penalties, however, under regulation 18 of the same legislation the law stipulates that any person who contravenes or acts in violation of these regulations shall, on conviction, be guilty of an offence and shall be liable to the penalties established in the Act. As it stands today[5], the confiscation of dangerous species which are kept on illegal premises is an offence punishable under these regulations and its penalties are found under Article 45 of Cap. 439 Animal Welfare Act. Therefore, if someone is keeping a dangerous animal illegally, the penalties for this offence are stipulated under Article 45 of Cap. 439. Furthermore, the latter also provides that any expenses related to the confiscation, impounding, seizure and/or disposal of any animal or object, shall be fully borne by the contravenor.

Limitations in the Systems in place

The Director AWPSD confirmed that the computer system used to record inspections carried out by the Directorate had certain limitations, such as it did not have the possibility to alert on the necessary follow-ups, and therefore officers were not prompted by a reminder.

On the other hand, the software used by VRD to record the livestock of animals in Malta was not user friendly and limited in its functions. For example, data related to keepers of dangerous species who did not regularise their position in 2016, when the respective legislation came into force, could not be maintained on the system but was held separate by the respective sections. Furthermore, although the information featuring in the statements sent to private vets was extracted from the livestock database, the issuance of the related bill was still not automated.

Recommendation

Whilst acknowledging that discussions are underway to upgrade and develop both systems, the current limitations are expected to be addressed accordingly and their implementation is rolled out without undue delay, in order to enhance the controls and operations in place.

Management Comments

Draft tender for the replacement of the current database with a more robust and user-friendly Animal, Food and Feed Health Information System has been submitted to the Department of Contracts in July 2020. The tender is currently[5] being reviewed and vetted by the Department of Contracts. In the meantime, discussions are underway with the Information Management Unit to enhance both present systems to address the points highlighted. It is planned that enhancements are completed by mid-2021.

[5] Management comments submitted on 5 November 2020.

Good Practice

Documentation requested was always submitted in a timely manner and officers involved during meetings and onsite visits were very cooperative and knowledgeable on the respective area of work. NAO satisfactorily noted that detailed standard operating procedures, covering the processes within both Directorates were in place.

In line with pertinent regulations, registered dogs and persons authorised to keep dangerous species were correctly included in the livestock database. This Office also commends the initiatives taken by both Directorates, in order to enhance the two systems in use.

In addition, all six licensed zoos in Malta featured in the database and the required annual inspection of enclosure was carried out during the year under review. In mid-October, the Government launched a period of consultation for proposals, in order to amend the respective legislation.

Moreover, logs of incoming animal ambulance phone calls were maintained and updated accordingly following a visit to the reported location. Furthermore, documentation with respect to inspections carried out following reports received, was held in an organised manner and was readily available upon request, covering 833 inspection reports during 2019. It was also positively noted that the amount of refundable deposit in connection with lending of cat traps was reasonable when compared to the respective cost. Supporting documentation in this regard was also readily available.

NAO acknowledges that substantial work was carried out by AWPSD in order to transfer the dogs under its care to the new animal recovery facilities and that plans were underway to build new ones for the benefit of cats. A committee was specifically appointed for the new rehoming centre at Ta' Qali and an application in this regard was already filed with the Lands Authority in order to assign land for this purpose.

Ministry for Foreign Affairs and Trade Promotion

Trade Malta Limited

Expenditure: Trade Promotion Scheme

An audit on the Trade Promotion Scheme operated by **Trade Malta Limited** revealed that, whilst the entity is focused, with positive results, on assisting Malta-based business to reach international markets, there were instances of internal control weaknesses. These included, amongst others, departures from the applicable incentive guidelines and the entity's internal processes, inadequate verifications at both application and claim stages, as well as poor monitoring.

Background

Formed as a public-private partnership between the Government of Malta and the Malta Chamber of Commerce, Trade Malta Limited (TML) is mainly responsible for assisting Malta-based businesses in their efforts to reach international markets with their goods and services.

Through TML's Trade Promotion Scheme, currently, local businesses can receive support to:

a. participate in business-to-business international trade events and fairs, thus facilitating the development of trade between business undertakings established in different regions (schedule A);

b. attend trade missions organised or endorsed by TML to nurture collaboration and business development (schedule B); and

c. address market preparedness and development capabilities to enter a specific market (schedule D).

For the financial year under review, i.e. 2019, TML, which at that time fell under the remit of the Ministry for Foreign Affairs and Trade Promotion, was granted a budget of €1,200,000, €700,000 of which was allocated to finance its own operations and the balance for the functioning of the Trade Promotion Scheme. This was supplemented by an additional €150,000 that was transferred from the surplus made by TML in 2018[1]. However, this supplement was not fully utilised. In fact, the actual amount disbursed in the form of incentive payments during 2019 totalled €576,920 (2018: €545,114).

[1] According to TML, the additional funds received in 2018 were utilised to address the financial shortfall in incentives outlays in 2019.

Audit Scope and Methodology

The main scope of the audit was to assess the adequacy of the internal controls in place with respect to assistance granted to local undertakings for the purpose of intensifying their international activities. The audit also sought to establish whether this assistance was granted in line with standing rules; namely the Incentive Guidelines for Trade Promotion and TML's internal processes.

Checks mainly centred on whether:

a. maximum threshold for aid per year for each undertaking was exceeded;

b. applications and claims for reimbursement were backed up by valid and sufficient documentation;

c. proper vetting was carried out at both application and claim for reimbursement stage, to ensure that only those valid were accepted; and

d. reimbursements did not surpass the stipulated threshold of 50% of the eligible costs.

The audit was conducted in accordance with generally accepted auditing standards. Planning and audit procedures were performed with the aim of obtaining reasonable assurance on the effectiveness of the internal control systems adopted by TML vis-à-vis the granting of financial assistance. To this effect, qualitative sampling techniques were applied and testing was designed with the intention of identifying methods through which current practices could be improved. Any conclusions reached in this write-up only relate to applications that have been examined.

In obtaining the required audit evidence, a sample of eight applications; five under schedule A, one under schedule B and two under schedule D, was selected. The sampling methodology adopted was one whereby amounts paid were grouped by beneficiary and categorised in accordance with an established set of thresholds[2]. A random sample of one beneficiary from each set of thresholds was then selected. The sample, which formed the basis of substantive audit testing, represented 12% of the total payments effected by TML during 2019 under this Scheme.

Quantitative sampling techniques were also adopted to identify any trends, patterns or outliers in the beneficiaries' data as provided by TML for the applicable incentive schedules.

[2] In order to select the sample, payments to beneficiaries were categorised in line with the following thresholds and a sample of one beneficiary was selected from each as follows: payments equal or greater than €20,000, between €20,000 and €15,000, between €15,000 and €10,000, between €10,000 and €5,000, and less than €5,000.

Key Issue

Lack of Administrative Control

Audit verifications revealed instances of departures from the applicable incentive guidelines and TML's internal processes, signifying poor internal controls and hence the inability to detect non-compliance with the established criteria. Below are examples of weaknesses identified during audit testing, each of which will be discussed further down in the write-up, under the pertinent observations:

- Applications for trade promotion and/or claims for reimbursement not always supported by the necessary documentation; thus, implying that adequate checks were not carried out by TML.

- Claims for reimbursements still accepted despite these being made after the stipulated deadline of three months.

- Lack of documentation supporting Board decisions and outcome of official visits at the beneficiaries' premises.

Recommendations

TML is expected to strengthen its internal verification processes, at both application and claim for reimbursement stages, thereby ensuring that assistance is only granted to eligible and compliant undertakings. Procedures and decisions undertaken by TML are to be formally documented. This will ensure audit trail and enhance accountability.

Management Comments

We took note of this recommendation and agree that better controls can be implemented at application stage and claim stage and we aim to rectify such instance with immediate effect. We propose to review our internal procedures in order to enhance segregation of duties, including the introduction of a comprehensive internal checklist to aid the officers in their vetting procedures. We also wish to point out that we are currently working with the State Aid Monitoring Board (SAMB) to launch an updated version of Trade Promotion Scheme in 2021 so that new measures are included to address the issues highlighted in this Report.

Control Issues

Poor Verification Process

TML's established procedures require applications for assistance to be processed and vetted by two separate officers. Verifications carried out on the sampled applications revealed instances where no evidence could be provided that the necessary checks were actually carried out ahead of endorsing applications. Besides denoting a potential lack of segregation of duties, coupled by the level of judgement involved in the selection process, this practice may increase TML's propensity in accepting unqualifying applications.

Recommendations

TML is to invariably ensure that thorough counterchecks are performed at application stage, thereby ensuring that assistance is only granted to compliant undertakings. It is also encouraged to adopt a more formalised evaluation approach through the establishment of sound metrics. This will facilitate the selection process and render it more transparent.

Management Comments

Applications are vetted by two officers; however, we are proposing an internal checklist to ensure that the procedure is followed accordingly and to improve segregation of duties. The introduction of comprehensive checklists should address this recommendation. The Trade Promotion Scheme has been created to support companies in eligible sectors, in as many instances as possible, when it comes to securing international business, as long as the information submitted is compliant. There were multiple instances where we have rejected applications from eligible and non-eligible companies. This implies that there is an existing screening process in place, which either rejects an application at enquiry stage (hence no application is available on our system) or instances where applications were rejected because companies failed to submit the required documentation.

Applications for Incentive Schemes not adequately substantiated

Review of the applications submitted by the sampled beneficiaries revealed instances of departures from prevailing requirements. The following shortcomings relate:

a. Applications were still accepted despite that, in a number of instances (four out of eight applications reviewed), the respective applicants either did not submit the latest audited financial statements or the required certificates, namely value added tax, final settlement system and tax compliance certificates[3].

b. Attendance to a trade mission organised by TML under schedule B by one of the defaulting beneficiaries referred to above was not covered by a formal application. According to TML, the beneficiary's application was initiated by means of Ministerial direction; however, documentation was not available to substantiate this claim. The foregoing's name merely featured in a list of attendees provided by TML[4]. Moreover, the respective beneficiary also did not submit a company profile in line with the standing requirements.

Recommendation

TML is expected to invariably verify that applications are administratively compliant and only accept qualifying submissions.

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[3] According to TML's checklists, the compliance certificates are to be dated within six months of the date of the application.

[4] In view that this was also attended to by the then Prime Minister.

Management Comments

We fully subscribe with this recommendation. We will do our best to address this shortcoming through the introduction of an internal checklist.

We have reviewed all applications under the scrutiny of the audit and would like to highlight that:

- *in the absence of audited accounts, we could ask the applicant to provide the management accounts plus an auditor's report highlighting variances compared to the last audited accounts;*
- *whilst we have informed clients that all compliance certificates must be valid for one year, we regrettably forgot to amend TML's checklist. The new guidelines, being drafted with the SAMB, will indicate that compliance certificates will be valid for 12 months from the date of issue; and*
- *the beneficiary attending the trade mission did not submit a formal application due to the tight schedule of this mission. TML included the profile of the said beneficiary in the delegates booklet, which was sent to mission's counterparts in India via email.*

Decisions and/or Procedures carried out not duly documented

Verifications revealed that specific decisions taken and/or procedures carried out by TML were not adequately documented:

a. Applications for assistance in excess of €10,000 require Board's approval. Sampled applications exceeding this amount were supported by notes disclosing details of the respective undertaking, prepared by a TML's officer for the Board's consideration. However, Board minutes merely depicted the respective approval, with no other details being disclosed.

b. The trade missions' standard operating procedures, provided by TML for audit purposes, required claims for trade missions to be approved and signed by all Board members. However, no evidence to this effect was traced with respect to the claim made by the sampled beneficiary under schedule B.

c. TML stated that it "*… has an ongoing outreach programme where Executives visit beneficiaries to confirm that companies are engaging in international business, to obtain information on internal structures and to confirm whether companies have secured new international business*". However, the outcome of such visits was not formally documented and, as a result, this Office could not corroborate the actual success of these programmes. TML admitted that the respective processes should be documented and stated that a new customer resource management system, which will capture the respective documentation, was being implemented.

Recommendations

Board minutes are to disclose discussions undertaken with respect to each application exceeding €10,000, detailing valid explanations behind each decision taken. Moreover, minute sheets, as well as any claims requiring Board's approval, are to be invariably signed by all Board members, as an indication of agreement to the details therein. The formal documentation of the outcomes of visits to beneficiaries' premises is also recommended, thus avoiding situations whereby relevant market intelligence is left unrecorded.

Management Comments

Approval of applications in excess of €10,000 is an internal procedure introduced by TML to provide the Board with an oversight of claims exceeding €10,000. Detailed Board papers are prepared for each application exceeding this amount and circulated with the Board prior to each meeting. During the meeting, the Chief Executive Officer gives a run through of each application and requests individual approval from the Board. We concur that the minutes could better reflect and record the detailed discussion which normally takes place at Board level when individual applications exceeding €10,000 are discussed and approved.

The Board's approval with respect to claims for trade missions is only sought in those instances where beneficiaries do not fall within the category of eligible sectors. The sampled beneficiary under schedule B is a manufacturing entity, thus operating in an eligible economic sector within the approved guidelines.

Claims for Reimbursement not in line with Standing Requirements

In a number of cases, claims as submitted by the eight beneficiaries falling within the audit sample were not thoroughly supported with the required documentation. Moreover, in certain instances, amounts paid by TML were not in line with standing regulations. This implies lack of control due to insufficient verifications carried out ahead of issuing reimbursements. Examples of such instances include:

- proof of participation not traced for certain trade events and missions reviewed;
- claim for travel expenditure covering more than the maximum allowable number of attendees being accepted and reimbursed by TML;
- beneficiary attending a trade mission organised by TML under schedule B reimbursed the maximum claimable amount for flight costs despite that only the outbound flight ticket was provided; and
- error in the calculation of the per diem allowance reimbursed to one undertaking, resulting in an overpayment.

Further to the above, verifications carried out on data relating to 2019 claims as provided for audit purposes revealed various instances where requests for reimbursements were submitted way past the stipulated deadline of three months, at times even ten months following the respective trade event. Nonetheless, these were still endorsed by TML.

Recommendation

TML is expected to thoroughly verify the administrative compliance of claims, ensuring that established procedures are invariably adhered to by beneficiaries.

Management Comments

The introduction of internal checklists should ensure compliance of claims and that established procedures are adhered to by beneficiaries.

Whilst we do our utmost to ensure that all claims are lodged within the stipulated timeframes, unforeseen circumstances beyond our control do happen, however, efforts will be made to rectify this in the future. Chasing companies to submit claim forms on time is one of the most time-consuming exercises for the team.

Insufficient Monitoring of Amounts reimbursed

In line with standing regulations, all state aid granted[5] to a single undertaking over any period of three consecutive fiscal years should not exceed the amount of €200,000[6]. To this effect, when applying for financial assistance, applicants are required to compile a 'de minimis declaration form', declaring the total amount of aid received during the current and previous two fiscal years. Moreover, TML has an annual obligation to submit to the SAMB a return disclosing details of the assistance granted during the respective fiscal year.

However, as claimed by TML itself, the national de minimis register maintained by the SAMB is not accessible by TML. Thus, information as declared by the beneficiaries can only be corroborated against internal records, on the assumption that this has been compiled in good faith. Moreover, internal records are not deemed comprehensive since these only include financial assistance granted by TML.

Queries raised by this Office also revealed a lack of communication between TML and the SAMB, implying that there were no ongoing compliance checks on beneficiaries, especially to ascertain that there were no claims (and hence double funding) for the same eligible cost from different entities granting state aid.

Recommendations

Lack of adequate monitoring could result in a potential risk of fraud from the side of the applicant. Thus, more rigours checks are to be performed on the amounts being reimbursed by TML, including verification of clients' documentation and ad hoc audit inspections. Increased formal communication with the SAMB will definitely help in this regard.

[5] By TML and any other entity granting similar support, such as, the Malta Enterprise.

[6] As per Commission Regulation (EU) No. 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid.

Management Comments

The SAMB is the entity entrusted to ensure Malta's compliance with the European Union's State Aid Regulations. It is the SAMB's prerogative to make its register available to TML and to other entities that administer schemes which are regulated by the de minimis rule.

Whilst we understand the extent of this recommendation, we cannot be expected to call on the SAMB to ensure compliance for each application and claim lodged with TML.

Madrid Embassy

Revenue and Expenditure

As in previous years, the Head Office continued to place high reliance on the Missions and limited checking was performed on the respective accounts filed by the latter. Other shortcomings noted during an audit of the **Madrid Embassy** included those related to inventory management, as well as hours of attendance and time off in lieu.

Background

Malta and Spain share a historical legacy, a European identity and a Mediterranean vision. Malta has an Embassy in Madrid and Honorary Consulates in Barcelona, Bilbao, Oviedo, Palma de Mallorca, Santander, Seville, Valencia and Vigo. Besides tourist and trade information, the Embassy provides the normal consular services, mainly passports, citizenship, authentication of documents, legalisation, marriage in Malta, visas, public registry certificates, residence schemes and administration of oaths and affidavits.

In 2019, apart from the Ambassador[1], the Embassy of Madrid employed one Malta Based Officer (MBO) and six locally engaged personnel. For the year under review, the Embassy was allocated €480,350, of which €288,050 covered personal emoluments and the remaining amount of €192,300 for operational and maintenance expenses, with rent for the office and residence consuming 81% of the amount. Actual expenditure as per report extracted from the Embassies and Missions Cash Management System amounted to €433,170. Additionally, €2,204 and €96,456 were charged to the Value Added Tax (VAT) account and Head Office (HO) of the Ministry for Foreign Affairs and Trade Promotion, respectively. Another €6,805 was paid on behalf of other ministries.

Audit Scope and Methodology

The main audit scope was to verify that expenditure incurred from public funds was in line with standing laws, regulations and policies, ensuring the efficient administration of the amounts involved and that there were the necessary internal controls over the collection and accounting of revenue due to Government.

The Embassy's accounting records, as well as related supporting documentation were analysed in order to verify that both revenue and expenditure were in line with the relevant legislation, procedures and circulars. Payroll, comprising the Malta salary as well as allowances of both the Ambassador and the MBO, was checked. Attendance sheets and records pertaining to vacation leave and Time Off In Lieu (TOIL) were reviewed. The inventory return for 2019 submitted by the Embassy in question was also checked for completeness. Requests for clarification were put forward to the Ministry's HO accordingly.

[1] Unless otherwise stated, throughout the write-up, mention of the Permanent Secretary and the Ambassador, refers to the persons occupying the respective posts during the year under review.

Key Issues

Limited Checking by Head Office due to High Reliance on the Mission

Notwithstanding concerns raised by the National Audit Office (NAO) in previous years, it again transpired that often, the Desk Officer at HO did not question certain transactions made by the Embassy and/or requested the supporting documentation. This implies that proper checking is not being carried out. Detailed observations are shown under the pertinent titles.

Recommendation

NAO reiterates the need that internal controls to oversee the operations of the Embassies are strengthened.

Management Comments

Since the time of the audit exercise, the Ministry has published and circulated a Manual of Financial Procedures at Missions Abroad in August 2020 and up for review in the second quarter of 2021. This manual is a compendium of regulations, circulars, memos and recommendations that have been circulated sporadically to Missions abroad. It serves as a reference guide to both officers working abroad as well to our accounting officers at HO. This document is an organic document and hence is up for a review on an annual basis.

In view of the above, the Management feels that this observation has been addressed through this manual.

Total Hours of Work not attained

As per working schedule submitted to this Office, the MBO was to work eight hours daily throughout the year, from 08:30 to 16:30 without a rest period. Furthermore, from the attendance sheets made available, it transpired that, from mid-June to mid-September 2019, the incumbent only worked till 14:30, i.e. six hours per day. The shortfall in the foregoing period was not compensated for. According to the Embassy, the present working hours have been in place for quite a long time, following an internal agreement; however, the respective correspondence could not be traced.

Recommendations

The anomaly in working hours is to be rectified. It is also recommended that rest break period is deducted when working more than six hours. In line with the provisions at law, contract of employment should stipulate the entitled daily rest break, including its duration and the terms on which it is granted.

Management Comments

The Management has noted the remarks made by NAO's Report. The Ministry wishes to comment that an officer from the Ministry's Legal Unit shall be assigned with the task to see that these recommendations are complied with.

By end of October 2020, the Ministry shall therefore issue a circular to all Missions abroad instructing respective Missions that all officers are to document all hours worked, ensuring that the 40 hours worked are logged and due breaks are given as per regulations. Any deviances from such instructions shall be recorded, documented and filed. The above shall also be reflected in the Conditions of Service when such document is up to a review.

Hospitality Budget exceeded

As per MFA Internal Circular No. 3/2012 – 'Management of Monthly Accounts by Missions', the hospitality allocation is not to be exceeded at all cost. In fact, the circular does not stipulate who has the authority to approve any possible budget overrun in this line item. Notwithstanding, the aggregate amount for hosting five events[2] in 2019 surpassed the respective allocation.

Recommendation

Whilst this Office appreciates the initiatives taken by Embassies in order to extend hospitality, it is to be ensured that the respective expenses are kept within the budget allocation.

Management Comments

Management concurs with the observations noted by NAO in this section.

In view of the above, Management feels that this observation has been addressed through the manual, namely at Section 2 Budgeting and Section 4.8.1 Hospitality.

Control Issues

Shortcomings related to Cash in Hand

Consular Revenue not deposited in the Bank

With reference to MFA Internal Circular No. 3/2012, consular revenue should be entirely deposited to bank on a regular basis, in line with the general financial regulations. These state that unless otherwise authorised by the Permanent Secretary, Ministry for Finance, any sum of €100[3] or upwards shall be deposited daily into an authorised bank, provided that all monies received shall be remitted every Friday and on the last working day of the month.

However, it was confirmed that all consular cash revenue is kept at the Embassy to use for the daily running expenses; although this was not covered by the necessary approval from the Permanent Secretary. A total of €4,267 was received in cash during 2019, with monthly running cash balances ranging up to nearly €700.

[2] The five instances exclude the National Day reception which was funded by HO.

[3] Incongruously, as per Internal Circular No. 9/2017 – 'Compliance Notice', the monthly cash allocation was set at a maximum of €200 per month.

Monthly Cash Allocation exceeded

Notwithstanding that as per Internal Circular No. 9/2017 – 'Compliance Notice', a Mission should not exceed the petty cash monthly allocation of €200 per month, an amount of €900 was withdrawn from the bank to be used as petty cash, both in January and May 2019. This shortcoming, together with the fact that cash revenue was not being deposited, resulted in excessive amounts being held in cash.

Recommendations

Respective circulars are to be updated to address any inconsistencies, copies of which are to be forwarded to this Office. Authorisation from the Permanent Secretary is to be sought in case of necessary departures from established procedures. Whilst acknowledging that as from January 2020, the Embassy acquired a debit card, the stipulated cash allocation is to be observed and cash payments are to be limited only for minor expenses.

Management Comments

Management concurs with the observations noted by NAO in these sections.

In view of the above, Management feels that these observations have been addressed through the manual namely at Section 5 Monies Received.

Inaccurate charging for Consular Services

The eight emergency passports issued during 2019 were not charged in line with Legal Notice 86 of 2015 – 'Fees (Passports and Visas) Amendment Regulations, 2015'; three were undercharged, while the rest were overcharged. According to HO, the Embassy received verbal direction from the Passport Office regarding the chargeable fees for emergency passports. However, this was not backed up in writing.

Recommendations

Officers in charge are to be well versed with the applicable legislations in order to ensure conformity of the rates charged. Any changes in the chargeable rates that are requested to be made by third parties are to be given in writing, making reference to the respective regulation.

Management Comments

Management concurs with the observations noted by NAO in this section.

In view of the above, Management feels that this observation has been addressed through the manual namely at Section 5 Monies Received.

Cancelled Receipts not requested

Receipts cancelled by the Embassy were not requested by HO in order to carry out the necessary checks. Original copies and their duplicates of the seven receipts cancelled during 2019 were only obtained from the Embassy of Madrid subsequent to audit queries. Moreover, not all the original copies of the abovementioned cancellations could be traced at the Embassy.

Recommendations

In order to ensure completeness of revenue, HO is to request both the original and duplicate receipts. HO may also consider including this requisite in the respective circular, in order to introduce such practice across all Missions.

Management Comments

Management concurs with the observations noted by NAO in this section.

Management feels that this observation has been addressed through the manual namely at Section 5.1 Revenue.

Payments forwarded in Bulk

Monies received by all Embassies for services rendered on behalf of Identity Malta Agency, were forwarded through bulk payments by Ministry's Finance Section. A breakdown of such payments was not provided and the Agency's audit report was qualified to this effect for a number of years by the private auditors. This issue was also raised by NAO in previous year following an audit at another Mission.

Recommendation

All payments forwarded to the Agency are expected to be invariably substantiated with detailed reports.

Management Comments

Management concurs with the observations noted by NAO in this section.

By end October 2020, the Ministry shall issue a circular to all Missions abroad instructing respective Missions that all payments forwarded to a Government Department or Agency are expected to invariably be substantiated with detailed reports. The above shall also be reflected in the manual when such document is up to a review.

Shortcomings regarding Time Off In Lieu

TOIL records of the drivers employed by the Embassy are kept by the individuals themselves. Although claiming that extra hours recorded as TOIL are double checked by the MBO, no endorsement was included in the records submitted for one of the two drivers[4], employed as from 1 April 2019[5]. The lack of endorsement rendered these

[4] Records of the other driver could not be made available for audit purposes, as the incumbent could not travel from his second residence outside Madrid due to lockdown in Spain during COVID-19 pandemic.

[5] The total hours of TOIL accumulated as from April to December 2019 amounted to 270.50 hours.

records questionable. This is of a concern considering that TOIL is not the exception but the norm in the case of both drivers assigned with the Ambassador, which system has been in place for many years.

Recommendations

TOIL records are to be kept at the Embassy for control, as well as for audit purposes. Furthermore, where applicable, Missions are to have a policy in place indicating the respective ratio to be given as TOIL for every hour worked by locally engaged personnel, including a template to record it, the frequency of verification, by whom and space for the necessary endorsements.

Management Comments

Management concurs with the observations noted by NAO in this section.

The Ministry shall by the end of October 2020, issue a circular to all Missions abroad instructing respective Missions that TOIL records of all locally engaged personnel, shall be regulated by the Mission. The above shall also be reflected in the respective Conditions of Service when such document is up to a review.

Compliance Issues

Procurement not in line with the Applicable Regulations

As per MFA Internal Circular No. 3/2012, expenditure above €200 (VAT excl.) should be invariably covered by three quotes, while procurement over €1,165 (VAT excl.) also requires prior written approval from HO. However, divergences were noted during the audit, amongst others for courier services and hospitality.

Recommendation

Quotes and the applicable approvals are to be invariably obtained prior to procurement in line with the foregoing circular.

Management Comments

Management concurs with the observations noted by NAO in this section.

Management feels that this observation has been addressed through the manual namely at Section 3 Procurement.

Inventory Control Regulations not adhered to

Insufficient control over Government-owned assets was noted. HO confirmed that most of the items, both at the residence and at the Embassy, were not physically marked with an identification number. Room inventory lists were also not generated in line with the applicable circular, namely MF Circular No. 14/99 – 'Government Accrual Accounting: Revised Inventory Control Regulations'.

A total of 49 items included in the inventory database as at end December 2019 were recorded as lost or missing, one of which was an oil painting marked as a heritage item[6]. Following audit queries, it was stated that the Embassy does not have any details of when such items were lost or found to be missing. In line with the regulations, a Board is to be appointed in such instances, but no action was taken.

In total, three heritage assets were recorded in the inventory database; however, the respective catalogue sheets as required by section 10.1 of the said circular were not traced by the Embassy.

Recommendations

In order to ensure proper control over Government-owned assets, the provisions laid down in the applicable circular are to be invariably followed.

Management Comments

Management concurs with the observations noted by NAO in this section. Management wishes to note that recently a re-structuring has occurred whereby a new established Infrastructure & Security Unit shall be taking over the management of inventory, including the ones held at the Missions abroad.

Management feels that this observation has been addressed through the manual namely at Section 8 Fixed Assets Management.

Statutory Information not submitted to the Auditor General

MF Circular No. 14/99 states that a yearly return is to be provided to the Auditor General, together with a list of additions every six months. However, the last updated inventory report of the Ministry, including all Missions, was only submitted to NAO in January 2013[7], with respect to assets held as at December 2012. Furthermore, a total of 74 assets were acquired during the year under review[8]; however, NAO was not informed accordingly.

Recommendation

Statutory information is to be duly forwarded to NAO as required by standing regulations, ensuring that monitoring of assets is not hindered.

Management Comments

Management concurs with the observations noted by NAO in this section. Management wishes to note that recently a re-structuring has occurred whereby a new established Infrastructure & Security Unit shall be taking over the management of inventory, including the ones held at the Missions abroad.

Management feels that this observation has been addressed through the manual namely at Section 8.

[6] As per email dated 26 August 2020, this was found lately while cleaning the storage areas triggered by the move of a new Ambassador.

[7] Following year 2013, inventory records were specifically requested by NAO during audits of particular Missions.

[8] Total cost recorded was €13,958, however eight of these assets were recorded without a value.

Payment Vouchers endorsed after the Actual Payments

All payment vouchers reviewed during the audit were endorsed by the Ambassador after the actual payment was effected, at times following the elapse of a month or two. This practise does not provide the adequate internal control and is in breach of the general financial regulations.

Recommendations

All payments vouchers are to be endorsed by the Ambassador before the actual payment as a sign of approval for any purchase. For internal control purposes, circulars are to be adhered to. This will also ensure conformity between the different Missions.

Management Comments

Management concurs with the observations noted by NAO in this section. Management wishes to note that now, due to the introduction of the new Corporate Financial Management Solution across the Government of the Republic of Malta including the Missions abroad, such issue shall not prevail.

Management feels that this observation has been addressed through the manual namely at Section 4 Payments.

General Management Comments

In summary, the Ministry is agreeing to most of the observations. A significant number of the observations have already been addressed by way of the document entitled Manual of Financial Procedures at Missions Abroad referred to in the write-up as the manual. A small number of issues shall be addressed via:

- *a circular which shall be issued by the said Ministry by the end of October 2020, which circular shall be sent to all Missions abroad and staff at the Directorate Corporate Services Office. This circular shall form an integral part of the Manual of Financial Procedures at Missions Abroad when such manual is up for a review next year;*
- *amendments to the Conditions of Service, which shall bear the approval of the Ministry for Finance and circulated thereafter; and*
- *the publication of a Manual of Operating Procedures for Travel Arrangements, which shall also be distributed to all Missions abroad and Directorate Corporate Services Office staff.*

Ministry for Transport, Infrastructure and Capital Projects

Infrastructure Malta

Expenditure

A number of lump sum payments on account were effected by **Infrastructure Malta** for works that had not yet been certified, thus incurring unnecessary risks.

Background

Infrastructure Malta (IM) was established in 2018 by virtue of the Agency for Infrastructure Malta Act (Cap. 588), to gradually implement the Government's plan for development, maintenance and upgrading of the road network and other public infrastructure in the Maltese islands. The following year it was also entrusted with the development and maintenance of maritime infrastructure in the local ports and other coastal locations.

In 2019, the budget for Line Item 7205 – Capital Vote XV of the Ministry for Transport, Infrastructure and Capital Projects amounted to €80,000,000, split between Construction of Roads (€68,000,000) and Maintenance Works (€12,000,000). The line item was increased by €9,800,000, which total of €89,800,000 was fully utilised during the year under review.

Audit Scope and Methodology

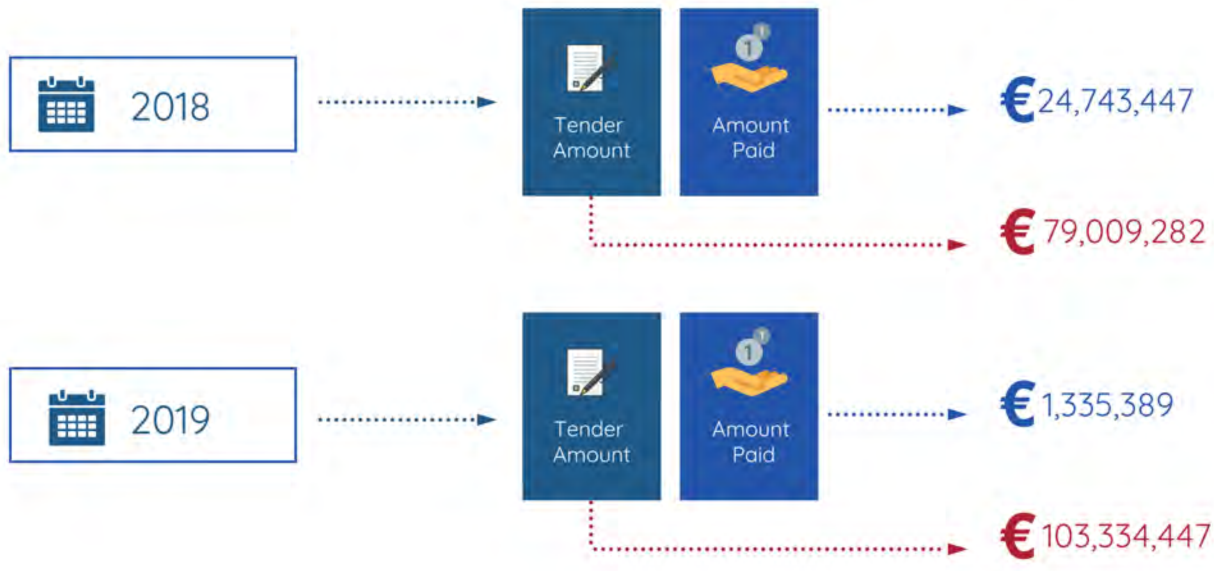
The main scope of the audit was to ensure that project costs incurred by IM during 2019 were in line with the Public Procurement Regulations 2016 and in compliance with the pertinent financial regulations and standing policies. The audit also sought to determine the level of existing internal controls, to ensure good governance and efficient administration of public funds.

An introductory meeting was held with IM officials to discuss audit objectives and obtain a general understanding of the expenditure incurred, as well as the relevant procedures adopted, particularly with respect to project costs. Subsequent discussions also took place on issues encountered during the audit.

A list of tenders awarded by IM during 2018 and 2019, was provided, including the respective amounts paid on each contract until 31 December 2019 (Figure 1 refers)[1]. A sample of four projects, for a total value of €75,127,143 and representing 41% of total project costs, was chosen. Total payments made by end 2019 on these tenders amounted to €23,159,553. Projects selected for testing included the two projects on which the highest amounts were paid, together with another two that were randomly selected.

[1] For the purpose of this audit, projects funded by the European Union were excluded. Figure 1 only shows the tender amount and that paid to date on contracts awarded by IM in 2018 and 2019.

Figure 1: Tenders Awarded and corresponding Payments



Key Issue

Lump Sum Payments on Account prior to Certification of Works

A tender for the construction and resurfacing of residential roads, split into five separate lots, was awarded to three different contractors, for a total value of €63,215,611. Each contractor requested, and was subsequently paid lump sums of €1,000,000 before the actual certification of works had been carried out by IM.

The amounts advanced, which totalled €16,000,000, were treated as payments on account and offset against monies that became due to the contractor when the eventual certification of works was issued. By end 2019, works actually certified with respect to this project amounted to €7,170,571, thus the amount of €8,829,429 had been paid against no certification. IM verbally confirmed that it did not have sufficient resources for certification to take place on time and reiterated that this procedure was followed to ensure that the contractors had adequate cash flow to enable them to continue with the projects entrusted to them.

In addition to the related risk especially in case of bad workmanship, this is in conflict with section 44.1 of the special conditions attached to the tender document, which specifically states that "*there shall be no pre-financing*".

Recommendations

IM is expected to adhere to the conditions laid down in the contract and tender document, by ascertaining that it has sufficient resources to certify works in a timely manner. Besides avoiding substantial amounts paid in advance, this would also provide comfort that the required standards have been met and that the amounts charged are justified and accurate.

Management Comments

IM recognises the internal shortage of quantity surveyors. In fact, a call for the engagement of new quantity surveyors has been published and, in due course, interviews will be held.

Meanwhile, IM is totally aware that the conditions of contract did not stipulate such payments. However, although the exact measurements and invoices were not in hand, IM confirmed through its architects in charge of the projects that the works were indeed being carried out and the payments were done following the visible progress of works. It was also assured that the value of the actual amount of works on site exceeded the amounts actually paid.

Control Issues

No Contract Agreement available

On 30 September 2019, IM invoiced Transport Malta[2] (TM) for €84,355, representing reimbursement of a part-payment made to the contractor awarded the tender for the construction and installation of an end fender in front of the concrete piers of the ro-ro ramp at Ċirkewwa berth 3. A management fee of 5% of the aforementioned reimbursement inclusive of 18% Value Added Tax (VAT), amounting to €4,977, was also billed to TM on the same day. According to IM, maritime assets belonged to TM and IM carried out works on the former's behalf. However, no agreement regulating this arrangement was available at time of audit.

Recommendation

IM is to ascertain that once arrangements are agreed upon, a formal agreement is signed with the other party involved, before the actual works commence and payments effected. This is to ensure that the applicable terms and conditions between the contracting parties are clearly and formally laid down beforehand.

Management Comments

The contract agreement between IM and TM was drafted and verbally agreed upon when the Maritime Section was transferred to IM. It was also agreed that this agreement should not be signed until the actual law is effective. In fact, the applicable agreement dated 6 March 2020 has now been signed and effective from 15 November 2018.

Delays in Contract Agreement and Performance Guarantee

The commencement order for the aforementioned tender was issued to the contractor with effect from 25 April 2019, while the respective contract, for the amount of €175,000 (VAT excl.), was signed retrospectively on 23 May 2019, i.e. almost a month later. Moreover, the necessary performance guarantee of 4% (€7,000) was only received by IM on 18 July 2019[3].

[2] Both IM and TM fall under the remit of the Ministry for Transport, Infrastructure and Capital Projects.

[3] IM stated that due to the late submission of the performance guarantee, penalties amounting to €6,900 will be deducted from the final payment payable to the contractor, in line with the applicable provisions of the contract.

Recommendations

Agreements with contractors are to be signed in a timely manner. A valid performance guarantee, covering the whole contract period, is also to be in place, to ensure adequate coverage in case of default by the contractor.

Management Comments

The circumstances described do not represent IM's normal practice; it was compelled to follow this course of action only due to the emergency nature of the works required. Accordingly, after confirming that no appeals to the proposed award were made, the order to start works was to be issued immediately. No payments to the contractor were actually made prior to the submission of his performance guarantee.

Compliance Issue

Payments not supported by Appropriate Fiscal Documentation

Invoices issued to IM by three contractors, the VAT element of which amounting to €1,510,944, were not in full compliance with standing VAT regulations. Once they did not include IM's VAT number, they cannot be considered as a valid fiscal document to support the respective expenditure.

Lack of compliance with fiscal obligations may indirectly encourage tax evasion, resulting in loss of revenue to Government.

Recommendation

Proper fiscal documentation is to be obtained for every purchase of goods or services, in line with standing VAT regulations.

Management Comments

IM took full note of the comments presented above. Internal measures have been taken, earlier on this year, so that accounts officials could identify any errors in invoices and/or fiscal receipts.

Infrastructure Fees

Revenue

Income due to Government from **Infrastructure Fees** was traced to the Planning Authority's accounting records; however, various weak controls over cash management were noted. Moreover, no double checking was being carried out by the Ministry for Transport, Infrastructure and Capital Projects on the respective amounts forwarded by the Planning Authority.

Background

Infrastructure Services Contributions (ISC)[1] are levied on areas requiring a permission for development from the Planning Authority (PA) and are charged in line with Schedule 1 of S.L. 552.12 Development Planning (Fees) Regulations. A portion (60%) of these funds is forwarded to the Ministry for Transport, Infrastructure and Capital Projects (MTIP) in quarterly tranches.

Up to the end of 2019, five tranches totalling €10 million were forwarded to the Ministry. This was equivalent to the Ministry's budgeted revenue.

Audit Scope and Methodology

The main scope of the audit was to verify whether the collection of ISC was in line with the relevant legislation and that the amounts forwarded to MTIP were complete and accurate. The National Audit Office (NAO) also assessed whether the control procedures in relation to the billing and collection of these funds were adequate and in sound operation.

An introductory meeting with PA officials was held to discuss the audit objectives and obtain an overview of the relevant control procedures in place.

Walkthrough testing was performed within the PA's Billing and Accounting Sections and data relating to paid sewer and street contributions was reconciled with the records kept by the Accounts Department.

[1] Include both sewer and street contributions.

Background

Infrastructure Services Contributions (ISC)[1] are levied on areas requiring a permission for development from the Planning Authority (PA) and are charged in line with Schedule 1 of S.L. 552.12 Development Planning (Fees) Regulations. A portion (60%) of these funds is forwarded to the Ministry for Transport, Infrastructure and Capital Projects (MTIP) in quarterly tranches.

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Audit Scope and Methodology

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An introductory meeting with PA officials was held to discuss the audit objectives and obtain an overview of the relevant control procedures in place.

Walkthrough testing was performed within the PA's Billing and Accounting Sections and data relating to paid sewer and street contributions was reconciled with the records kept by the Accounts Department.

Total ISC collected by PA and the respective amount forwarded to MTIP in 2019 were also reconciled. Queries were made to the latter to assess the Ministry's level of confidence on the accuracy of amounts of ISC forwarded by PA.

Two cases were selected at random to verify whether ISC calculation was in line with the legislation. It was also ascertained that amounts charged to the applicant were duly settled and inputted in the correct account on PA's accounting system.

An analysis of the applicable repayment agreements was also carried out together with detailed testing on a sample of the seven most material contracts, whose chargeable fee totalled €2.3 million.

Furthermore, due to concerns relating to the volume of cash in hand, held by PA, a surprise cash inspection was carried out.

Disclaimer

NAO relied on the workings made by PA's employees in the calculation of the floor area for the purpose of billing ISC and no checking for accuracy was performed in this respect.

Key Issue

No Comfort over the Completeness of Revenue

Due to weak controls over cash management, such as the lack of segregation of duties surrounding the receipting, processing and posting of cash transactions, no comfort could be obtained over the completeness of revenue recorded by PA.

Moreover, various shortcomings exposed the Authority to the risk of stolen, misplaced or lost cash and cheques. These concerns led NAO to seek a deeper level of assurance over money received by PA. Thus, a separate exercise on the cash management operations within the Authority was performed.

Recommendation

Considering the large amounts of money received by PA, it is strongly recommended that all the processes relating to cash and its handling are streamlined and that a robust system of internal controls is in place.

Management Comments

The Authority shall be escalating its controls through improved reports of daily receipts and subsequent deposits. This will facilitate reconciliations and provide real-time reports of receipts not yet deposited to bank. These reports shall be available by 1 June 2020.

NAO's recommendation for proper segregation of duties, was also taken on board. In fact, the Authority stated that controls are being put in place such that where segregation is not possible, there is proper oversight by the immediate supervisor throughout all stages of the process.

Control Issue

No double checking by the Ministry

ISC collected between October 2018 and September 2019 were transferred to MTIP in four tranches in 2019. Despite the materiality of the amounts involved, which totalled €9.2 million, MTIP did not receive or seek any other supporting documentation to substantiate the amount, except for the covering letter submitted by PA together with the relevant cheque.

Recommendation

Additional scrutiny on the receipt of funds is tantamount to good accounting practice. It is therefore recommended that the Ministry in receipt of these funds puts in place procedures to ascertain the completeness and accuracy of the amounts it receives.

Management Comments

PA shall be providing the Ministry responsible for ISC revenue item with backing information supporting the calculation of ISC amount collected by the Authority, net of ISC refunds processed, in the previous month. This information will start being provided by the Authority to the Ministry as from April 2020, in respect of collections net of refunds, pertaining to the month of March 2020.

Planning Authority

Cash Management

Internal controls on cash management at the **Planning Authority** were weak. Substantial cash was being handled by one person and not reconciled to bank deposits; thus there was no comfort of completeness of revenue.

Background

The Planning Authority (PA) is the national Authority responsible for land use, planning and environmental regulation in Malta. It is established under the Development Planning Act (Cap. 552) and as from January 2020 fell under the Ministry for the Environment, Climate Change and Planning. As part of its remit, the Authority issues planning permits for local development, be them of a residential or commercial nature.

According to its billing system, during 2019 PA collected a total revenue of €61.8 million.

Audit Scope and Methodology

Following a number of concerns encountered during the National Audit Office's (NAO) audit on revenue from Infrastructure Fees, collected by PA on behalf of the respective Ministry, which is available on page 272 of this Report, this audit was planned to assess in greater detail the controls in place over the collection process of cash and cheques within PA.

As part of NAO's understanding of the revenue system and the respective controls, walkthrough testing was performed within PA's front desk and accounting sections.

A reconciliation was carried out for year 2019, between the total amounts recorded as collected in PA's billing system and the respective postings in the accounting system. The differences encountered were also scrutinised.

Moreover, a sample of deposit pages, which comprised cash and cheques prepared by PA for their eventual deposit, totalling around €3.2 million, was selected from the list of all deposits in 2019. Cash and cheques received by a number of front desk officers were traced to the corresponding daily reports showing daily takings.

Key Issues

Weak Controls on Cash and Cheque Deposits

From an analysis of the 2019 deposits provided by PA, it transpired that during the year, a total of 88 bank deposits were made, amounting to €37.79 million. Further testing revealed the following concerns which did not give the comfort of completeness of revenue:

a. A general lack of segregation of duties was noted, where one accounting officer was often responsible for collecting cash and cheques, issued the respective receipts, put these takings in the safe, deposited them at the bank and finally made the necessary postings in the accounting system.

b. Several cheques received on the same day, were deposited on different dates. This inconsistency hinders the Authority from a proper daily reconciliation to ensure that all takings are deposited in their entirety.

Recommendations

The Authority is to ensure that a robust system of internal controls is set up to address the lack of segregation of duties in the cash handling process. Furthermore, the contents of daily reports are to be reconciled with the respective deposit sheets to ensure that the amounts collected are banked in their entirety.

Management Comments

The Authority will ensure that cash management duties are segregated between officers issuing receipts, officers preparing the deposit and officers carrying out the reconciliations between daily reports issued by the front desk officers and the daily deposit sheets. Moreover, PA will be introducing a 10-working day timeframe from the date the receipt is issued to the date the money is deposited at the bank. Both measures are expected to be implemented by 1 December 2020.

In order to reduce the amount of money handled at its offices, PA will actively promote the already available online bill payment facilities, such as via internet banking and the payment of bills at Maltapost outlets. This is expected by 1 November 2020.

The new tender for security services which is currently being evaluated internally, will also include cash handling services. This will be implemented by 1 July 2021.

Receipts not reconciled to Entries in the Accounting System

The receipts issued from the billing system were not being reconciled by the Authority to the entries in the accounting system. For the year 2019, a reconciliation was only carried out following a request for this information by NAO.

In the absence of a proper reconciliation, amounts which fail to make it into the accounting system, will remain untraced.

Recommendation

A reconciling exercise is to be carried out at the end of each day to ensure that amounts collected are deposited in their entirety.

Management Comments

By 1 December 2020, all deposit sheets will be generated from the receipts issued report. This will ensure that all cashiers transfer the money collected to the depositing officer and also facilitate a sequence check and reconciliation of all receipts issued to money deposited at bank.

Concerns on the Collection of Amounts in Excess of the Established Threshold

The Authority issued instructions to its front desk officers, stating that bills have to be settled in full, with the exception of those instances where a credit agreement is in force. Furthermore, cash in excess of €10,000 cannot be accepted.

The general public is not informed of this, thus making it more difficult for PA officers to enforce such instructions.

Recommendation

The relevant policies are to be made public so as to ensure that the amount of cash payments do not exceed the stipulated threshold which is also to be lowered to mitigate relevant risks.

Management Comments

The Authority shall be issuing a circular informing the public that the amount of cash payments accepted at its offices will be restricted at €10,000. Notifications to this effect will be affixed at every payment station at PA offices by 1 December 2020.

Lands Authority

Expenditure

An audit at the **Lands Authority** revealed instances where services were procured directly from the open market without the necessary approval from the Ministry for Finance.

Background

The Lands Authority (LA) was established in February 2017 with the enactment of the Lands Authority Act (Cap. 563). This replaced what used to be the Government Property Division. The mission of the Authority is to promote and maintain the best use of Government's immovable estate, as well as to ensure an equitable process for the acquisition of property that may be required for public purpose.

According to the 2019 financial estimates, LA had a budgeted contribution of €6.5 million under Recurrent Vote 38, Contributions to Government Entities, Line Item 6825. The actual Government subvention was €6,492,867, amounting to 72% of the Authority's total income in 2019. In addition, LA received an amount of €2,548,091, being 7% of total rents collected on behalf of and remitted to Government.

Audit Scope and Methodology

The main scope of the audit was to verify whether procurement procedures adopted by LA complied with Public Procurement Regulations (PPR), as well as to provide recommendations to use Government funds prudently and in a judicious matter where warranted.

An introductory meeting was held with LA officials to discuss the audit objectives and obtain a general understanding of the Authority's operations, as well as the relevant procedures adopted.

A preliminary analytical review of the Authority's general ledger and its audited financial statements was performed, from which the National Audit Office (NAO) noted that administrative expenses and legal and professional fees amounted in total to €1,294,314 and €1,091,492 respectively.

A qualitative sample, based on materiality and other risk factors, was taken to check whether there was an effective system of internal controls with respect to procurement. This was selected from the list of contracts, tenders, negotiated procedures and Direct Orders (DOs) awarded, as well as from the major expenditure accounts. The sample consisted of seven transactions selected from the general ledger, three DOs, one tender, one negotiated procedure and two other contracts which were in force since prior year.

NAO verified compliance with the respective provisions of PPR and ensured that contracts for service were duly in place, where applicable. Testing also included verifying that the amounts charged to the Authority were in accordance with the related contracts, tenders or other supporting documentation, and that the expenses were supported by the appropriate fiscal documentation. In those cases where procurement was obtained by DO, this Office further confirmed that the payment did not exceed the amount approved by the Ministry for Finance (MFIN). NAO further sought to verify the Authority's compliance with Regulation 111(2) of PPR and Contracts Circular No. 02/2017 – 'Submission of a List of Contracts by Contracting Authorities', both requiring the publication of contracts awarded and variations in the Government gazette.

Key Issue

Resorting to Direct Orders without the Necessary Approvals

Procurement procedures applied by LA were not entirely in line with PPR, since three out of the seven sampled services were procured directly from the open market without the necessary approval from MFIN. The following relate:

Human Resources Consultancy

As from July 2018, LA entered into a two-year agreement, renewable for another two years, for human resources consultancy, for a yearly sum of €40,000 excluding Value Added Tax (VAT). From inception of service, which was acquired from the open market, until June 2020 when the audit was in progress, a total amount of €77,055 (VAT excl.) was paid to this service provider.

Legal Services

Approval from MFIN was granted to the then Government Property Division in 2017, to enter into a 10-month contract for the provision of legal services at a monthly retainer fee of €2,500. Following expiration of the contract in January 2018, an addendum to the original agreement was signed in August of the same year. However, this was not covered by MFIN DO approval.

In December 2018, the Authority again signed a further one year consultancy agreement[1] at an increased monthly retainer fee of €3,319 (VAT excl.). From the start of this agreement until June 2020 when the audit was in progress, payments to the service provider totalled €59,736 (VAT excl.).

Security Services

Following a departmental tender issued by the then Government Property Division for the provision of security services, a contract agreement was signed in 2015 for a year, with the possibility of a 12-month extension, until June 2017. However, LA continued to receive services based on this expired agreement until March 2020 after which these services were terminated. Payments from expiration of contract to last invoice totalled €196,709.

[1] Extendable for further periods as mutually agreed by the parties in writing.

Recommendations

Bypassing procurement regulations is considered as unfair competition with other potential service providers. Thus, procurement by DO should be limited to exceptional cases and, if justified, approval is to be sought from MFIN before any commitment is entered into. Furthermore, contracted services are also to be duly backed up by a valid agreement and any necessary changes thereto are to be properly documented by means of an addendum signed by both parties.

Management Comments

The Authority agrees with NAO's recommendations and will strive to ensure that it abides by PPR. To this effect, LA has also requested the Director of the Department of Contracts to provide its staff with the necessary training.

The engagement of the human resources consultant was specifically recruited by the new Management in order to advise on the significant challenges facing the Authority and to oversee the needed transformation, including conducting the necessary training to the human resources team. The service was provided by DO in view of the urgency and the confidential nature of the service being required. The engagement of the same service provider was extended, on a trust basis, to complete the transformational exercise of LA. The Authority has also started the process so that by the third quarter of 2021 a senior manager will be recruited on a permanent basis.

Regarding legal services, LA maintains that it is critical for its operations to engage external lawyers to service the ongoing court cases and new ones. The Authority has adopted the practice that the engagement of professional legal services falls within the scope of Clause 7 of PPR[2]. This notwithstanding, LA has already drafted an expression of interest for the engagement of professional legal services which is at the Department of Contracts for its clearance[3].

As to security services, it must be stated that this was an isolated case on a contract which LA was administering on behalf of another Government entity. Action was taken in September 2019 to substantially stop the contract, except for the retention of one security guard whose services were urgently needed. As from March 2020, this engagement was entirely stopped.

LA will also take all the necessary action to consolidate contracts management by setting a dedicated contracts management function by end of year 2020.

Control Issue

Recognition and Valuation of Assets owned by the Government of Malta

In report commissioned by the Treasury Department for the purposes of accrual accounting, the Chartered Institute of Public Finance and Accountancy submitted recommendations to the Authority on the recognition and valuation of assets as per the International Public Sector Accounting Standards 16 (Investment Property) and 17 (Property,

[2] According to NAO, where a contracting authority wants to engage a lawyer on a retainer for a period of time for all court cases that may arise, then this exemption would not apply.

[3] Management comments submitted on 23 October 2020.

Plant and Equipment). It was recommended that the Authority prepares a strategy plan to identify all land and building owned by Government and draw up a detailed plan by end 2019 for the execution of the valuations of all property owned. The Institute also recommended that legal advice is sought by the Authority on where title to each parcel of land and building vests.

However, in October 2020, the Authority confirmed that although several internal meetings were held to discuss methodologies, valuation surveys and computations had not yet initiated.

Recommendation

In view of the transition to accrual accounting by Central Government, it is of utmost importance that the Authority identifies all Government's land and building that it administers and assigns the related opening values. Acknowledging the magnitude of this assignment, NAO reiterates that it is imperative that this exercise is initiated as early as possible.

Management Comments

LA agrees with NAO's recommendation.

The exercise is vast and requires professional expertise, time and resources that are presently not available to the Authority. It is the Management's intention to procure professional services to perform this important exercise. The Management will also discuss with MFIN to charter a strategy in terms of way forward, as well as to dedicate the required (material) financial resources particularly if valuations are performed by architects. The exercise will start by the second quarter of 2021.

Compliance Issues

Fiscal Receipts not obtained

Fiscal receipts supporting nine sampled payments in 2019 for various services rendered, totalling €144,277, were not obtained. Another fiscal receipt amounting to €85,109, relating to security services also covering the year 2019, was dated September 2020 and only obtained towards the end of the audit.

Recommendation

The Authority is to ascertain that appropriate fiscal documentation is obtained in line with VAT legislation, upon payment for the respective goods or services.

Management Comments

The Authority agrees with NAO's recommendation and so immediate action will be taken in this regard.

Lists of Defaulters not compiled

The Authority confirmed that defaulters were not being reported to the VAT Department, in line with pertinent circulars and stated that action will be taken to become compliant with immediate effect.

Recommendation

Quarterly returns with details of defaulters are to be submitted to the VAT Department on a quarterly basis, as required by the circulars.

Management Comments

Immediate action will be taken in this regard.

Awarded Contracts not published in the Government Gazette

Contracts Circular No. 2/2017 and Regulation 111(2) of PPR specifically require all Heads of Contracting Authorities to publish in the Government gazette a full list of contracts exceeding €5,000 (VAT excl.), every six months. However, these details were not published for contracts awarded by LA during 2019.

Recommendation

For the sake of transparency, LA is to ensure that it publishes in the Government gazette, the full list of contracts awarded, as per standing regulations, within the stipulated deadlines.

Management Comments

To this effect, the Authority has already taken the necessary steps and published the contracts for the period January to June 2020 in full and in a timely manner. LA will also publish the missing 2019 contracts by the end of 2020.

Ministry for Transport, Infrastructure and Capital Projects

Creditors and Accruals

To compile the quarterly creditors' and accruals return, the **Ministry for Transport, Infrastructure and Capital Projects** places reliance on information received from its various Directorates and Sections. This led to a number of shortcomings in the data collection process, as well as incorrect amounts being reported.

Background

The Ministry for Transport, Infrastructure and Capital Projects (MTIP) is responsible for Malta's infrastructure, transport, capital projects, lands and construction. It strives to improve the quality of life of the Maltese and Gozitan people through sustainable development, a revolution in infrastructure, innovative projects, efficient transport and continuous evolution.

In line with MF Circular No. 10/2001 – 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors', Ministries and Departments are to submit an analysis of creditors to the Accountant General on a quarterly basis. In line with Treasury Circular No. 14/2018 – 'Treasury Financial Data Transmission Calendar for 2019', the respective returns were to be sent to the Treasury Department within the first 10 working days from the end of each calendar quarter.

At the end of 2019, MTIP reported total outstanding dues of €401,644. Out of this amount, €386,759, i.e. over 96% were outstanding for a period of less than 30 days, while the remaining had been outstanding between 31 and 60 days. Accrued Expenses at year-end totalled €2,381,877.

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 and accrued expenses as at 31 December 2019, together with a financial audit of the figures submitted to the Treasury Department.

Various communications took place with MTIP officials during the course of the audit, with the aim of discussing the audit objectives and obtaining a general understanding of the procedures adopted by the Ministry in relation to the reporting of creditors and accrued expenses.

The respective year-end returns for 2019, together with supporting documentation, were reviewed by the National Audit Office (NAO). Testing was also carried out on the corresponding returns submitted in respect of first quarter for the following year, and the payments recorded in the Corporate Financial Management Solution (CFMS)[1] up to 20 July 2020[2], of dues pertaining to 2019 that were settled in the subsequent year.

Furthermore, through a circularisation exercise, 10 sampled creditors were requested to confirm the balances due to them by MTIP as at 31 December 2019. This was done by means of direct electronic communication with NAO.

Key Issue

Weaknesses in the Data Collection Procedure

When compiling the returns for creditors and accruals, the Ministry places reliance on the feedback given by its 26 Directorates and Sections; thus it is difficult for MTIP to ascertain that the data contained in the quarterly returns submitted to the Treasury Department is complete and accurate. Certain omissions identified during the audit were very likely due to invoices received by the Ministry's Accounts and Payments Section after the mid-January submission deadline to the Treasury Department. The audit revealed a number of shortcomings, as detailed in Control Issues hereafter, in the compilation of the necessary figures.

Recommendations

Management is to consider adopting a more centralised system for receiving purchase invoices. This would facilitate the reporting of creditors' balances in the respective returns, while safeguarding the accuracy and reliability of the information recorded. Invoices received, or at least copies thereof, are to be kept centrally by the Ministry's Accounts and Payments Section.

Management Comments

Immediate actions will be taken to rectify any shortcomings by establishing standard operating procedures to have an effective creditors and accruals reporting.

The Ministry agreed that the related procedure could be enhanced to address the existing time gap between the endorsement and authorisation of invoices.

In this regard, this Ministry will centralise the receipt of invoices at the Accounts and Payments Section by instructing all suppliers to send all invoices directly to this Section, together with tracing details of purchase order and account details. Standard operating procedures will be updated accordingly. The Ministry's Accounts and Payments Section will keep the original invoice and send related copies in electronic format for endorsement by the officer in charge

[1] In view of the Government's move towards a fully-fledged accrual accounting system, CFMS was implemented in 15 pilot sites, including MTIP, with effect from January 2020. This software replaced the previous cash-based Departmental Accounting System in these pilot sites, which are now exclusively using CFMS.

[2] This was the cut-off date for audit testing.

within various sections of the Ministry. The Accounts and Payments Section will keep a ledger of all invoices in spreadsheet format, duly updated with status and progress. Such ledger shall play a pivotal role allowing full visibility of all invoices, thus safeguarding the completeness of data.

This enhanced procedure entails the creation of an Invoicing Section and the recruitment of more staff within the Accounts and Payments Section of the Ministry, thus segregating the process from the payment process delegated to the account keepers within the Accounts and Payments Section. The Ministry is in continuous contact with the Treasury Department to help improve the CFMS reporting. Administrative checks will safeguard the accuracy of reporting.

Control Issues

Shortcomings in the Compilation of Creditors' Returns

A review of the creditors' returns submitted by MTIP revealed several omissions, resulting in the closing balance being understated by around €200,000 at year-end. The following shortcomings relate:

a. The Ministry's cash book included 158 payments made in 2020 which, although relating to invoices dated 2019 or before, were not included in the creditors' return as at end 2019. These transactions, totalling €150,508[3], would increase the creditors' figure by at least 37%.

b. The invoice date of nine payments relating to 2019 was erroneously recorded as 2020 in CFMS. The Ministry confirmed that initially officers were unaware of the distinction between the invoice and transaction date fields in CFMS, possibly understating the creditors' figure even further.

c. Payments of utility bills in January 2020 totalled €75,241, out of which €70,511 related exclusively to bills dated 2019[4]. However, the respective balance in the creditors' return was recorded as €22,623; thus, an understatement of at least €47,888.

d. Two invoices dated 2019, totalling €1,103, and which were reported as still due in the creditors' return for the first quarter of 2020, did not feature in the year-end return for 2019.

e. MTIP confirmed that three invoices were erroneously included in the creditors' year-end return, when two of them were settled in 2019, while the other invoice was listed in error.

Recommendation

MTIP is to ensure that a clear distinction is made between creditors and accruals. Invoices dated before the cut-off date are to be included as creditors, while expenditure for bills not yet received is to be accrued for as accurately as possible.

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[3] This amount includes €17,791 which MTIP claimed that they have been included as accrued expenditure for the same period.

[4] The remaining payments, totalling €4,730, related to bills dated 2020, which possibly also contained charges relating to 2019.

Management Comments

Management agreed with the Auditor's recommendation and is considering organising training to all staff at the Accounts and Payments Section.

The omission of payments made in 2020 with respect to 2019 invoices could have occurred either due to inaccurate invoices received, or else due to amounts which were already reported in the accrued expense report. This is to be discussed internally to arrange this shortfall. Management will address the respective sections to ensure that no purchases are made before a purchase order is issued and will be instructing all relevant staff that invoices should be certified expeditiously and sent to the Accounts and Payments Sections for processing. Management has already ensured that all employees know that transaction date on CFMS is in fact referring to the invoice date.

Utility bills were understated since invoices were not yet in hand when the report was submitted. Although the amount should have been recorded with accrued expenses, the Ministry is aware that this was not done. MTIP is working with the Treasury Department with new accruals' templates to be filled and submitted on a monthly basis.

The two 2019 invoices reported in the creditors' return for the first quarter of 2020 but omitted from that of the last quarter of 2019 were submitted in the quarterly reports when they were reached by the Accounts and Payments Section. Management will be sending internal instructions to all relevant staff.

Management will address the reporting of invoices in error, by ensuring that all staff understands the importance of being as accurate as possible when reporting.

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

From six confirmations received out of the ten sampled creditors, none of the amounts were in agreement with the balance as reported by MTIP as at year-end. However, in two of these cases, MTIP produced supporting documentation to justify the balance reported by the Ministry. The net effect of the remaining four discrepancies resulted in an understatement of €12,970 in the year-end creditors' return for 2019.

Recommendation

In order to ensure completeness and accuracy of reported figures, the Ministry is to obtain statements on a regular basis from all suppliers and reconcile the respective balances prior to submitting the creditors' return. This will enable MTIP to report a more accurate figure.

Management Comments

Management agreed with the Auditor's recommendation and will be requesting regular statements from most of the suppliers. MTIP has also initiated an exercise to clear all outstanding balances due to one of the creditors, whose invoices might not have been received in time for inclusion in the quarterly return.

Inaccurate Amount of Accrued Expenditure

The accrued expenditure for income supplement pertaining to personal emoluments was overstated by €58,250, since it was erroneously calculated on a six-month period instead of just the last quarter of 2019.

Recommendation

In view of the Government's move towards accrual accounting, the exercise on accruals at year-end should be thorough, to ensure that amounts not yet invoiced are, as much as possible, accurately accrued for.

Management Comments

Management agreed with NAO's recommendation and will be taking the necessary action to improve the reporting of accrued amounts.

Transport Malta

Debtors

Despite efforts by **Transport Malta** to recoup outstanding debts, an effective plan is required to ensure that, as far as possible, all revenue due to Government continues to be followed up. Those amounts which are considered as uncollectable should be shown as such.

Background

Transport Malta (TM) is the Authority in charge of transport on the Maltese islands. It aims to promote and develop the local transport sector by means of proper regulation, as well as by the promotion and development of related services, businesses and other interests, both locally and abroad.

For the year ended 31 December 2019, the Authority submitted a detailed breakdown of arrears of revenue, as well as, a return for accrued income, as required by the pertinent Treasury circulars.

Revenue in arrears reported by TM through the Ministry for Transport, Infrastructure and Capital Projects as at 31 December 2019 amounted to €39,825,409[1]; an increase of €4.2 million over the reported opening balance of €35,639,712. The closing balance for 2019 pertained to both vehicle (€39,063,019) and driving licences (€762,390).

During the same year, past arrears collected totalled €1,106,106 and newly accrued arrears were of €6,476,257, of which the majority pertained to vehicle licences (€6,372,888).

Audit Scope and Methodology

The main scope of this audit was to provide reasonable assurance that the balances reported were complete and that effective management controls were in place to ensure that amounts due were paid on time.

To address assertions of completeness and accuracy with regard to the balance of arrears of revenue as at 31 December 2019, the reported figures in the Arrears of Revenue Return (ARR) were compared to a detailed breakdown of arrears as extracted from TM's Vehicle Registration and Administration System and Driving Licence System. A sample from the outstanding balances was selected for further analysis; however, the required testing could not be conducted due to limitations arising during the audit, as further explained below. Testing of the driving licence write-offs featuring in the ARR was also hindered due to the same reasons.

[1] Of this amount, circa €322,000 was due for over 20 years, €6.8 million was due for over 10 but less than 20 years, €11.5 million was due for over 5 but less than 10 years, and the remaining €21 million was due for less than 5 years.

A sample of long outstanding balances was reviewed to assess whether the respective amounts were being chased by the Authority.

Limitation on Scope of Audit

During the course of the audit, the National Audit Office (NAO) was informed that due to circumstances which were beyond TM's control, access to the two systems in use could not be granted to NAO officers. This limited NAO's audit scope since the planned testing in this area could not be conducted. Therefore, accuracy of the sampled balances as at 31 December 2019, as well as of the amount of write-offs pertaining to driving licences, could not be conducted.

Key Issue

Minimal Action on Overdue Amounts

The Authority has strived to collect outstanding amounts pertaining to vehicle circulation licence fees, in line with S.L. 65.24 Arrears of Motor Vehicle Licence Fees (Regularisation) Regulations[2]. Following the introduction of these regulations in 2012, TM has sent several reminders to those individuals with outstanding amounts. Driving licences which were owed to TM were also being chased by means of reminders which were automatically triggered by the system.

However, testing conducted revealed that:

a. despite that procedures were in place to chase overdue fees, reminder letters were only sent for a limited number of times. According to TM, newer debts take precedence for chasing purposes; thus, older debts will remain within the system as uncollected; and

b. regardless of the probability that certain amounts will not be collected, TM still did not show any amounts that are considered as not collectable in its ARR.

Recommendations

A well-documented plan to follow up long outstanding dues is required. This is also expected to include a methodology to assist TM in arriving at a fair estimate of uncollectable arrears so that the respective amount is reported accordingly.

Management Comments

The Authority will engage a debt collecting company and make a plan to chase the defaulters, together with compiling a valuation of doubtful debts. This plan will commence as from 2021 and TM is committed to implement it accordingly.

The Authority's objective is to collect funds in line with relevant regulations, striving to collect the maximum amount of licences in arrears.

[2] This subsidiary legislation, introduced in 2012, has been renewed for a number of times and was in force until October 2020.

Ministry for Gozo

Residential Services in Gozo for Older People

Expenditure

An audit on the **Residential Services in Gozo for Older People** revealed that overpayments with respect to pension deductions were created due to delays in the processing of information provided by the Ministry to the Department of Social Security.

Background

The Care for the Elderly Section within the Ministry for Gozo (MGOZ) is responsible for providing community care services for elderly and disabled persons in Gozo. These services are provided from a number of locations, among which are the Villa San Lawrenz for respite and other accommodation services, a night shelter for the elderly at Ċentru Ġesù Nazzarenu in Xagħra and a day centre for elderly suffering from dementia at Casa Amalia in Victoria, which serves also as a night shelter.

The budget estimate for MGOZ, Vote 39 Line Item 5056 – Residential Services in Gozo for Older People, amounted to €3 million in 2019. Due to the postponement of the opening of a new home for the elderly at Għajnsielem, the budget earmarked for respite services was decreased to €1,419,182. According to the Departmental Accounting System (DAS), payments from this line item for the year under review totalled €1,120,014.

Audit Scope and Methodology

The main scope of the audit was to ensure that state expenditure on the provision of residential services for the elderly in Gozo during 2019 was within the approved limits and in line with the applicable rules and regulations. The audit also sought to ascertain that payments made by MGOZ in respect of these services were duly substantiated and that necessary verifications were being carried out before the respective payments were made. Pension deductions in respect of residents admitted to Villa San Lawrenz were also assessed.

An introductory meeting was held with the Director General (Operations) and a number of senior officials within MGOZ, to discuss audit objectives and obtain a general understanding of the expenditure incurred, as well as the relevant procedures adopted, with respect to residential services provided in Gozo to the elderly. Subsequent discussions were held with other key personnel on issues encountered during the audit.

A list of payments made from the line item under review was extracted from DAS. Expenditure was categorised according to the three homes mentioned above and since the amounts were mainly expensed in respect of the three different contracts, all related transactions were reviewed for testing purposes.

Control Issue

Delays in Pension Deductions

As soon as a person is admitted to Villa San Lawrenz, MGOZ informs the Department of Social Security (DSS) so that a provisional amount can be deducted from the pension of the individual until the actual applicable deductions are calculated. However, the timeframe upon which these pension deductions are calculated by DSS depends on the number of cases forwarded simultaneously by other institutions; in a number of cases, deductions took over six months to come into effect. Consequently, given the age of the patients being admitted to this Home, the possibility that the pension overpayments will not be recouped is relatively high.

Testing revealed that overpayments due to DSS in relation to 11 out of the 17 patients admitted to Villa San Lawrenz during 2019 amounted to €13,635. The remaining six had no overpayments to pay back.

Recommendation

Once MGOZ gathers information on prospective residents in a timely manner and this is passed on to DSS accordingly, the latter is expected to ensure that the information is processed without delay to avoid any possible overpayments.

Management Comments

Management reiterated that it is the responsibility of DSS for processing such information. Meanwhile, MGOZ passes information regarding clients admitted to Villa San Lawrenz immediately.

Compliance Issues

Retrospective Approval

From October 2017 up till May 2019, MGOZ sought approval from the Ministry for Finance for a direct order, renewed every three months, in connection with the provision of 12 extra beds at Villa San Lawrenz. The Ministry considered this as an extension to the agreement with the same residential home for 40 beds which was initially in place with Active Ageing and Community Care within the Ministry for the Family, Children's Rights and Social Solidarity. However, the request for direct order approval for the first quarter of 2019, amounting to €58,266 was sought and granted retrospectively on 10 January 2019.

Recommendation

MGOZ is to ensure that any requests for direct order approval are sent to the Ministry for Finance prior to commencement of the period in question. This will enable ample time for the Direct Orders Office to issue the respective approval.

Management Comments

The proposed recommendation will be taken on board.

Awarded Contracts not published in a timely manner

Contracts Circular No. 2/2017 – 'Submission of a List of Contracts by Contracting Authorities', and Regulation 111(2) of the Public Procurement Regulations 2016, specifically require all Heads of Contracting Authorities to publish in the Government gazette a full list of departmental contracts exceeding €5,000 excluding Value Added Tax every six months. However, the publication of awarded contracts was delayed, at times over a year later.

Recommendation

MGOZ is to ensure that the full list of contracts awarded is published in the Government gazette as per standing regulations, within a reasonable time, but not exceeding the six-month timeframe.

Management Comments

Management agreed with the proposed recommendation and will take it on board.

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

Energy Support Measures

Energy Benefits

An audit of **Energy Support Measures** falling within the remit of the Department of Social Security was conducted with certain limitations on the scope of the audit. Testing revealed control weaknesses related to energy benefit entitlements.

Background

The Energy Benefit (EB) is a non-contributory benefit, administered by the Department of Social Security (DSS), which was launched by the then Ministry for the Family and Social Solidarity in 2007. This benefit is aimed at assisting low income families to mitigate the effect of the increase in expenditure on water and electricity bills.

This financial assistance is granted automatically to persons who qualify as social cases[1], or through an income means test[2] or on humanitarian grounds[3]. According to DSS, as at 31 December 2019, approximately 30,000 people and 135 charitable organisations were benefitting from this measure. Data provided showed that the highest EB granted during the year under review was approximately €4,000 and €66,000 to an individual and a charitable organisation respectively.

A report from the Departmental Accounting System (DAS), with respect to Energy Support Measures for 2019 from Line Item 5463, shows an original budget allocation of €6,500,000, which was revised downward to €5,207,825. The amount of €5,059,765 was actually expensed by year-end.

In November 2019, the Energy Benefit Unit (EBU) processing the EB's applications became the responsibility of the Income Support and Compliance Division within the Ministry for the Family, Children's Rights and Social Solidarity. The Data Audit Management and Processing Section within the Ministry is responsible for generating the necessary data from the Social Assistance and Benefits System (SABS), which is electronically transmitted to the Automated Revenue Management Services Ltd (ARMS). Subsequently the benefits awarded are deducted directly from the utility bills which are uploaded on SABS.

[1] A person who is in receipt of one of the following social security benefits or assistances will automatically qualify for EB, namely either Social Assistance, Assistance for Carers, Increased Assistance for Carers, Single Unmarried Parent Assistance or Unemployment Assistance; Special Unemployment Benefit; or Age Pension.

[2] A person who is in receipt of one of the following social security allowances or assistances will qualify for EB through an income means test (declared income by a claimant during 2019 must not exceed €9,302), namely Children's Allowance; Supplementary Allowance; or Disability Allowance.

[3] A person will qualify for an EB on humanitarian grounds when a head of household proves that a family member suffers from a medical condition that requires excessive consumption of water and electricity and the household income is less than €30,911 per annum.

Audit Scope and Methodology

The scope of this audit was to determine whether adequate internal control procedures were embedded in the administration of the EB scheme, from the assessment of eligibility up to the respective payment process.

Meetings were held with officials from the Ministry, in order to obtain a general understanding of existing procedures and an overview of the respective functions performed by EBU and the Data Audit Management and Processing Section, including an outline of the EB voucher process.

A report summarising EB data for the year 2019 was provided to the National Audit Office (NAO) following an extraction of data from SABS by the Malta Information Technology Agency (MITA). Each amount in the report was assigned a risk rating which was established following a criteria-based assessment. Notwithstanding, the lack of documentation pertaining to 2007[4], outlined under Limitations on Scope of Audit, was also a deciding factor in the sample selection. To this effect, a total of 38[5] transactions, with an aggregate value of €209,617, was selected for detailed substantive testing.

For each of the cases sampled, NAO ensured entitlement[6] of EB payments received, by verifying compliance with the relevant applicable legislation and social security guidelines. For means tested individuals, those on social assistance, as well as humanitarian cases, documentation submitted by the claimants when applying for EB was also requested, in order to perform detailed checking through SABS. Additionally, with respect to humanitarian cases, medical panel approval was confirmed. Regarding charitable organisations, NAO requested any available documents which were reconciled with the respective report provided by MITA.

Deductions of EB from bills during the year under review were recomputed using an equation provided by EBU. NAO was informed that this equation, as well as applicable rates, were given to EBU by ARMS. Queries were raised as necessary.

Disclaimer

Due to the complexities involved in the calculation of EB as well as COVID-19 restrictions, detailed verifications could neither be comprehensive nor exhaustive.

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[4] EB procedure at the time was to send vouchers which were deducted from the water and electricity bill upon payment by the beneficiaries.

[5] The sample comprised a mix from the four categories covering social assistance, means tested, humanitarian and charitable organisations.

[6] Entitlement thresholds are amended according to the cost of living as per annual budget.

Limitations on Scope of Audit

The following limitations on the scope of the audit were encountered:

Energy Benefit Report overstated

A close examination of the report received from MITA revealed that the related total of EB of €4,507,480 differed from the balance featuring in the DAS as at end December 2019, amounting to €5,059,765; thus, a discrepancy of €552,285. NAO was informed that the majority of this balance (€476,158), consisted of payments effected in February 2019, but which related to the prior year.

Subsequent testing of social assistance and means tested categories also revealed that the report included several multiple beneficiaries and/or claimants who formed separate households that were registered on the same account for utilities.

The foregoing factor was not taken into consideration when the report was generated, and consequently, the total EB for the year under review in certain cases was captured more than once, depending on the number of beneficiaries or claimants registered to the same account number. This resulted in a sample that was not technically accurate since the report in question was overstated.

Lack of Documentation

With respect to social assistance and means tested cases, the highest ranked beneficiaries dated back to 2007. Enquiries revealed that applications were uploaded onto SABS after the previously introduced voucher system ceased. However, in some cases no documents were available to support the application while in others only DSS notification confirming EB entitlement was filed. Due to the lack of audit trail, the benefits in question could not be verified.

Control Issues

Entitlements of Charitable Organisations not verifiable

Charitable non-Governmental organisations are also entitled to EB. According to the Ministry, the respective entities are either allowed a two-thirds or 25% deduction from the utility bills, subject to authorisation. The system calculates the applicable deduction due and payment is made accordingly. However, legal backing substantiating the applicable rate was not provided.

Four of the six cases sampled have been entitled to EB since January 2007, but testing revealed that the bill was not viewable on SABS; only the benefit amount and the period covered could be seen. Consequently, it was not possible to corroborate the entitled benefit without knowing the amount of the full expense.

Recommendations

The Income Support and Compliance Division is to evaluate its procedures to improve the applicable control function on these benefits. In the interim, it is advisable to obtain scanned copies of the water and electricity bills which may be saved online for audit purposes, thus enabling verification of EB entitlements.

Management Comments

The recommendation is attainable. Management agrees that data verifying the water and electricity consumption of the organisations will help simplify further the payment process in a more efficient and transparent manner. In this regard, discussions will be held with ARMS in early 2021.

Missing Documents relating to Humanitarian Cases

EB may be granted on humanitarian grounds[7] subject to approval from the Advisory Board. However, in three out of the eight cases sampled, the supporting documentation related to equipment used, which was to be submitted upon application, was not available. Thus, the expenditure in question could not be validated.

Recommendation

Besides ensuring that all necessary documents are submitted upon application, in order to update records relating to past applications, it is recommended that beneficiaries are periodically requested to submit a declaration, endorsed by their general practitioner, confirming that the equipment in question is still in use.

Management Comments

Recommendation is accepted. Periodical reviews will be effected to verify EB eligibility of the humanitarian cases. Management discussions are underway[8] to trigger an automated process, on how these beneficiaries will be notified to submit a yearly medical certificate and/or declaration, confirming that the equipment is still being utilised in relation to their medical condition.

Equation not formally substantiated

With respect to the individuals on social assistance, those means tested and humanitarian cases, the applicable equation was based, amongst others, on a set of rates established in 2007. However, only an email dating back to December 2008 was provided, relating to the applicable rates, which did not even correspond to those of the existing equation.

Recommendation

EBU is to formally request supporting documentation from ARMS, to substantiate the calculation of EB, also ensuring that a complete audit trail is available.

Management Comments

The recommendation is taken on board. Discussions with the Ministry for Energy and Water Management and ARMS will be coordinated in this regard in the beginning of 2021.

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[7] If a head of household proves that a member of the family suffers from a medical condition that requires an excessive use of water and electricity.

[8] Management comments submitted on 26 October 2020.

Aġenzija għall-Ħarsien tat-Tfal

Revenue and Expenditure

NAO found weak internal controls at **Aġenzija għall-Ħarsien tat-Tfal**.

Background

The Aġenzija għall-Ħarsien tat-Tfal (AĦT) was set up in 2017 with the main aim of providing social welfare services to vulnerable children. During the year under review, the Agency's Board of Directors comprised a Chairperson and nine members.

The Agency was financed from Vote 40 through Contributions to Government Entities, Line Item 6832. The original Government subvention for 2019 stood at €2,450,000 but was eventually supplemented with an additional amount of €500,000. AĦT also received the amount of €42,218[1] from the respective Ministry, while aggregate income of €60,828 was generated from Supervised Access Visits[2] (SAV) (€59,548)[3] and court services (€1,280). Thus, during the year under review, AĦT recorded a total income of €3,053,046.

Administrative expenses during 2019 totalled €3,313,367[4], an increase of 11% over the previous year's expenditure. AĦT ended financial year 2019 with a deficit of €260,321[5].

Further to the above, AĦT also augmented its capital through loans from the Foundation for Social Welfare Services (FSWS). As at 31 December 2019, outstanding loan balance stood at €730,095, an increase from €421,778 as at end of 2018.

Audit Scope and Methodology

The objective of this audit was to evaluate the adequacy and effectiveness of internal controls related to income and expenditure, as well as fixed assets. The procurement process was outside the scope since this was undertaken centrally by Head Office at FSWS.

1 Being reimbursement for capital expenditure incurred with respect to the Fostering Centre in Santa Venera.
2 Refers to supervised contact between children and non-custodial parents or other family members when access is not possible otherwise.
3 Covering SAV carried out between September 2018 and June 2019.
4 Of which €2,809,589 related to salaries.
5 In 2018, deficit before tax stood at €478,107.

Initial understanding of AĦT's operations was obtained through meetings with the Financial Controller. Additional meetings were held with other key officials as necessary.

An analysis of the 2019 audited financial statements, related management letter, management accounts and nominal ledger, was performed to identify the risk areas. This was followed by a review of the financial data in the Departmental Accounting System with regard to Line Item 6832 and other related accounts[6] which included transactions in connection with AĦT. Detailed testing was undertaken on 20 transactions, with an aggregate value of €291,749, covering income, recurrent and capital expenditure.

Documentation relating to the transactions selected in the audit sample was requested, in order to ensure that, where applicable, payments were duly backed up by contracts and were in line with the amounts indicated therein.

Records of SAV and court assessments payable by the parties involved were requested to ensure completeness of income. Further testing with regard to SAV included an assessment of the supporting documentation to ensure that adequate internal controls were in place, payments were effected in line with agreed rates and were supported by the appropriate fiscal documentation.

Disclaimer

Given that all payroll records are kept in manual format, they had to be analysed on the premises. However, due to COVID-19 restrictions and delays in planned visits, except for general issues featuring in this write-up, detailed review of salaries will eventually be treated as a separate audit.

Since contracts for rent and cleaning were entered into by FSWS, testing on this area was limited to ensuring that amounts paid were in line with established rates.

Key Issue

Internal Control Weaknesses

Most of the weaknesses noted in the internal control system, each reported separately under Control Issues, were already highlighted by the private auditors appointed by AĦT, in their management letter following the statutory audit of both 2018 and 2019. Unfortunately, this implies that no action was taken by the Board of Directors to address the respective concerns.

Recommendations

Audits can only provide an added value if timely corrective action is taken to address highlighted shortcomings. Thus, management letters are to be duly analysed and corrective action taken without unnecessary delays.

[6] Line Items 6787 Children and Young Persons Advisory Board, 5675 Residential Home for Youth and 5596 Out of Home Care Programme.

Management Comments

FSWS is not a risk prone organisation since 90% of its budget goes on salaries and wages and these are scrupulously paid in line with standing collective agreement and wages orders issued from time to time by the relevant authorities.

Control Issues

Fees of Court Assessments and Supervised Access Visits not substantiated

The (Family) Law Courts determines whether SAV and court assessments fees are payable by the parties involved and the decision is recorded in the relative court decree. In this case, SAV Unit informs the Finance Unit within FSWS to invoice the amount due. Parties are charged at €10 per hour for SAV, while court assessments are provided for a fixed rate of €300. Where the Court determines that SAV fees are not to be borne by the parties involved, AĦT claims reimbursement from the Children and Young Persons Advisory Board at €7.50 per hour, thus effectively forking out €2.50 per hour. On the other hand, no reimbursement is claimed in the case of court assessments when the cost is not borne by the parents.

No official documentation substantiating the abovementioned fees was in place, other than the invoices and receipts. Hence, correctness of the amounts charged could not be confirmed. This was one of the issues reported upon by the private auditors for financial years 2018 and 2019 and no action was taken.

Recommendations

Since AĦT is the entity invoicing and collecting the money, it must ensure that the applicable fees are officially substantiated and made publicly available. Moreover, any tacit agreement in place related to reimbursement of SAV ought to be duly formalised, clearly indicating the terms of service and the respective payment.

Management Comments

SAV are court mandated and regulated accordingly being access of children and payment thereof. Management is conscious of the fact that a formal operational procedure needs to be established, thus steps have already been taken to streamline and formalise procedures.

No Record of Supervision Service Requests and non-verifiable Travelling Time

The amount of €7,037[7] was paid to a supervisor in the audit sample for duties performed when accompanying clients, including the time of transportation. All service requests placed with the supervisor were done through the phone, hence no record was available to substantiate the hours claimed. Moreover, it was noted that a substantial part of the hours claimed by the supervisor in question related to travelling time, which also could not be verified.

[7] Including fuel reimbursement for use of personal vehicle.

Recommendations

Requests for services are to be invariably placed in writing. Moreover, payment should ideally be based on quantifiable and measurable metrics, enabling independent verification. The Agency may also draw up a travel time list, agreed with the respective supervisor, which could serve as the basis of payments.

Management Comments

The Head of Operations took note of the recommendation that all requests for services are to be placed in writing. This issue was investigated and it is clear that the supervisor was only paid after the provision of the report on the conducted session, including the client's signature that the session was indeed held.

Shortcomings with regard to Chauffeur-driven Vehicles for Supervised Access Visits

In 2019, transport for SAV was provided by two contractors supplying chauffeur-driven cars at a total cost of €35,415. The following shortcomings were noted:

a. During the year under review, chauffeur-driven services were procured through a series of quotations sought directly from a number of service providers. While the procurement method is beyond the scope of the audit, this Office is of the opinion that the Agency risked losing out on better rates which could have been obtained following a public call for tender.

b. Requests for transport service placed with the two contractors were generally being done through emails. However, while these emails were attached to the payments effected to one of the contractors, in the case of the other contractor, they were not available, thus the amounts involved could not be validated.

c. Several trips to the same destination were booked within a short time span, while four trips included in the sampled payment were cancelled on arrival for pick-up, each incurring a fixed charge. This could imply inadequate planning.

Recommendations

The tender for the procurement of transport that is underway by FSWS is to be concluded without further delay since it would enable the Agency to benefit from potential savings resulting from economies of scale, while bringing the same procurement in line with the provisions of the public procurement regulations.

Requests for service are to be in a format that is easy to retrieve, reconcile to other substantiating records and provide a full audit trail. The booking system is also to be enhanced through an internal booking form, wherein officers requesting the transport will forward the relative details to the transport officer, who eventually forwards such request to the contractor. Where possible, trips are to be grouped.

Management Comments

SAV were introduced many years ago to allow parents to meet children removed by a care order under the supervision of FSWS employees. The chauffer-driven service began on a trial basis two years ago to streamline operations and cut down on time wasted to make transport arrangements on an ad hoc basis. Thus, in the first instance FSWS Senior Management decided to test the market and see what was available. Hence, the quotations were sought from various service providers. Then, when Management was happy that it knew what the market could offer and how it could satisfy the specific needs, a tender document was drawn up and published.

The tender process, whose adjudication is in the final stage, began 10 months ago[8] *and the draft tender went through at least two revisions before it was finally approved by the competent authority. The tender will eliminate the need for booking because the personnel responsible for SAV will issue a schedule accordingly, and thus, payment will only be effected upon confirmation of the pre-planned trip having been made. As to the no-shows, if a child could not turn up for valid reasons the service provider is paid the minimum rate because the transport would have still gone to the pre-arranged pick-up point. That said, it is to be stressed that no-shows are the exception.*

Manual Record of Hours worked

Despite remarks in the management letters by private auditors for the last two financial years, hours for both normal working schedule and overtime were still recorded manually. Moreover, in the exceptional cases where an Overtime Request Sheet Form was attached to the Overtime Claim Form, it was noted that there was no date indicating when the respective approval was granted. The only date noted was significantly after the date when overtime was performed, which approval was intended for the payment, rather than authorising the officer to work overtime.

Recommendation

AĦT is encouraged to adopt a more reliable control system to ensure that time records are adequately kept, while reducing the risk of erroneous data entries, as well as any discrepancies which may arise during manual calculation of wages.

Management Comments

Whilst fully recognising the need to streamline all the services into one procedure of overtime claim and other human resources requirements, Management needs to ensure that the service is not jeopardised in its daily implementation. A case in point is when a member of staff on a shift basis phones in sick and the leader or manager requests another staff member to fill in the overtime. In such case, the decision on replacement is taken immediately, while the relevant paperwork is compiled later.

Invoices not in the name of the Agency

The issue of transactions not in the name of the Agency was highlighted by the private auditors in the management letters for both 2018 and 2019; however, a number of invoices, including those covering rent, cleaning, marketing and transport for SAV, paid out of the AĦT budget, were still addressed to FSWS or Aġenzija Appoġġ and not issued in the name of AĦT. The contracts for rent and cleaning were also entered into by FSWS and made no reference to AĦT, despite prior recommendations in this respect.

[8] Management comments submitted on 2 November 2020.

Recommendations

Invoices paid by the Agency are expected to be issued in the name of AĦT. Moreover, contracts entered into by FSWS, covering other entities under its portfolio, are to include the respective entities as applicable, at least by means of a side letter to the agreement.

Management Comments

AĦT formed an integral part of the operational services of Aġenzija Appoġġ and therefore all daily administrative and paperwork are processed by the latter.

When procuring through our purchase order system, the header denotes the agency which is ultimately effecting the purchase. So as far as Management is concerned, the latter is doing its utmost to regularise this issue. Moreover, Management will be embarking on an exercise to train staff accordingly to ensure that all purchase invoices are addressed to the right agency.

As for legal contracts, since FSWS is the legal entity supported by a notarial deed and the Chief Executive Officer is in fact the Head of FSWS, then all contracts are concluded in the name of FSWS and, thereafter, extended to its sub-agencies. That said, in the past, Management could have done a side letter as mentioned in the recommendation. However, in view of the fact that the Government has in fact consolidated FSWS' allocations, there is no need for such an extension letter as from 1 January 2021.

Related Party Loans and Internal Recharges not documented

Loans between the Agency and other FSWS' entities still prevailed during year under review. The following refer:

a. Outstanding loan balances of €730,095 due to FSWS were still not covered by any agreement during the period under review despite prior recommendations by AĦT private auditors. The National Audit Office (NAO) also questions the appropriateness of a system whereby a public entity, whose funds are allocated for a specific purpose, uses part of those funds to lend another public entity.

b. The Board resolution covering the apportionment basis of expenses between the various entities of FSWS was dated September 2019. No other documentation was in place with respect to the recharges in prior periods.

Recommendations

Guidance regarding related party loans is to be sought from the Ministry for Finance and Financial Services. If such loans are approved, a formal agreement is to be in place. Recharges are also to be documented, clearly indicating the basis, where applicable, to provide a full audit trail.

Management Comments

While it is a normal accounting practice that a signed agreement is in place when there is one entity lending or advancing funds to another entity, Management cannot but disagree with the assertion made by NAO. FSWS and AĦT share the same goals and purposes and AĦT is an extension of FSWS, since the Ministry for Finance and Financial

Services channels their funds through FSWS. Notwithstanding, given that the budgets have now been merged, no such advances of funds will need to be made after 1 January 2021.

The shortcoming pertaining to internal recharges was brought up during an external audit and it was rectified immediately. Such practice is only in place for meaningful management accounts and a by unit management accounts. Apportionment of expenses is also useful for any Parliamentary questions that might arise.

Compliance Issue

Agency not set up as a Separate Legal Entity

Despite having its own Board of Directors and preparing its own independent financial statements, AĦT was not set up as a separate legal entity. It was deemed to be part of FSWS, even though during 2019, a separate budget line was provided for AĦT[9].

Recommendation

This set-up made it unclear as to who was responsible for accountability purposes, during the year under review, whether AĦT Board of Directors or FSWS Management. Prior to the setting up of similar entities, long-term planning and analysis is recommended to ensure that such set-ups add value and are in line with the overall organisation's goals and strategy.

Management Comments

AĦT was set up as a transition entity in anticipation and preparation for the enactment of the new Child Protection Act. In essence, AĦT took over all the services related to children in alternative care, previously under the responsibility of Aġenzija Appoġġ within FSWS. It is for this reason that AĦT was not set up as a separate legal entity.

Minor Protection (Alternative Care) Act, was eventually enacted by Parliament in July 2019 and came into force on 1 July 2020. Thus, AĦT no longer exists since the responsibility for children in alternative care is now vested in the Director for Alternative Care who, in turn, exercises this responsibility through the professionals assigned to the Directorate for Alternative Care operating as a distinct entity within FSWS.

In view of this, Line Item 6832 of Vote 40 referred to in this write-up no longer exists and the financing of the Directorate now derives from the consolidated FSWS Line Item 6207 in the 2021 Budget Estimates.

[9] Set up as Directorate for Alternative Care with effect from 1 January 2020.

St. Vincent de Paul Residence

Personal Emoluments

An audit on personal emoluments of **St. Vincent de Paul Residence** revealed a lack of monitoring and control on overtime, especially in those instances where members of staff habitually availed themselves of sick leave immediately after performance of overtime. High accumulation of balances of time off in lieu, was also noted.

Background

St. Vincent de Paul Residence (SVPR) is Malta's largest state-funded residence for the elderly. It offers specialised geriatric care and a wide range of services to support the quality of life of highly dependent persons.

The average number of SVPR employees during 2019 was 1,182. SVPR's original budget for Personal Emoluments under Recurrent Vote 44 for the year under review amounted to €36,525,700, revised by warrants to €37,685,048. Total personal emoluments actually incurred as per Departmental Accounting System as at end December 2019 amounted to €36,642,345, the amounts of €10,708,711 and €2,372,888 were incurred on allowances and overtime respectively.

Audit Scope and Methodology

An introductory meeting was held with SVPR's officials to discuss the audit objectives and obtain a general understanding of the operations, as well as the relevant procedures adopted.

The audit focused on allowances and overtime paid to SVPR employees during 2019, since these were deemed substantial. An analysis of the payroll data revealed that the highest allowances were paid to the medical class whilst the highest overtime earners were amongst the nursing grades and health carers. From these categories, a total sample of 24 employees was selected for testing, based on materiality.

For each individual, the National Audit Office (NAO) ensured eligibility of allowances and overtime paid in 2019 by verifying compliance with the relevant public sector agreements and other regulations. Relevant documents were obtained in order to perform detailed substantive testing. The procedures in place regarding balances of Time Off In Lieu (TOIL) were also assessed, since a number of employees had a significant number of hours accumulated.

Limitation on Scope of Audit

In view of COVID-19 constraints and given that, as soon as the respective documentation reached NAO, SVPR was placed under lockdown, as expected, testing was neither comprehensive nor exhaustive. Observations and recommendations in this write-up were based on enquiries made and other shortcomings noted during audit testing.

Key Issue

Lack of Monitoring and Control over Overtime

a. Continuous use of Overtime

During 2019, the average monthly cost of overtime stood at €197,741; indeed, it was being resorted to continuously at SVPR when, as also stipulated in the Public Service Management Code (PSMC) section 2.2.7 directives, overtime work should be resorted to only in exceptional circumstances.

Measures such as previous capping of 70 hours of overtime for each employee per month, as well as not permitting overtime for a number of days after Sick Leave (SL), were all lifted prior to 2012. However, no evidence to this effect was provided. Furthermore, the respective applicable sectoral agreement, allowed nursing and midwifery officers up to salary scale 6 to perform overtime and be remunerated at the rate equivalent to their present scale[1] rather than capped in line with PSMC. A comparison of the total overtime expenditure over a period of five years is detailed in Table 1.

Table 1: Overtime Expenditure

Financial Year	Overtime Expenditure €
2015	2,664,674
2016	2,564,427
2017	2,787,221
2018	2,813,922
2019	2,372,888

The top 12 employees with the highest overtime payments, collectively amounting to €283,991, received remuneration ranging between 75% and 161% of their basic salary, which is deemed very considerable. Table 2 refers.

[1] Source: Sectoral agreement between the Malta Union of Midwives and Nurses pertaining to the nurses and midwives employed within the public sector, sub-sections 8.4(iii) and 8.4(iv).

Table 2: Analysis of Highest Overtime Payments

Grade	Basic Salary €	Overtime Payment €	Sick Leave Days	%
Staff Nurse	18,557	29,804	29*	161
Nursing Aide	18,476	27,944	4	151
Nursing Aide	18,476	22,926	22*	124
Health Assistant	16,977	20,583	-	121
Nursing Aide	18,476	20,241	18	110
Deputy Charge Nurse	25,501	27,456	26*	108
Charge Nurse	28,164	26,129	30*	93
Staff Nurse	23,489	21,466	30*	91
Charge Nurse	28,038	24,873	33*	89
Deputy Charge Nurse	25,747	20,754	14*	81
Charge Nurse	28,101	21,992	12	78
Deputy Charge Nurse	26,278	19,823	14	75
Totals	276,280	283,991	232	

* Sick leave pattern noted

b. *Overtime and Sick Leave Pattern*

Testing revealed that seven employees who were among the top twelve overtime earners in the sample selected, on average each took more than 26 days of SL in 2019. In a number of instances, the foregoing availed themselves of SL immediately after the performance of overtime. As expected, very often, an officer on SL is replaced in order to keep the staff complement ratio stable, therefore increasing the overtime expense.

It was also confirmed that two of the four[2] charge nurses in the audit sample worked shifts of 13.5 hours at a stretch; this is very likely to have contributed to excessive tiredness. It is important to note that the Hospitals and Clinics Wages Council Wage Regulation Order S.L. 452.54 highlights that the minimum daily rest period for whole-time employees shall be of not more nor less in the aggregate than one hour.

c. *Approval for Overtime not sought from the Permanent Secretary*

The responsibility for regulating overtime work is vested within the respective Permanent Secretary, as per PSMC section 2.2.7, who may delegate authority in writing to suitable public officers within the Ministry not below salary scale 5. However, approval from the Permanent Secretary to cover overtime performed was not sought by SVPR and there was no evidence of delegation of authority to the respective Chief Executive Officer (CEO).

[2] The fourth charge nurse was not included in Table 2 as the employee was selected based on substantial allowances earned.

d. Non-adherence with Standard Operating Procedure

The Standard Operating Procedure (SOP) outlining the prevailing overtime policy at SVPR stipulates that a request specifying, amongst others, the total number of days and/or hours of overtime required is to be submitted to the CEO, or delegate, for authorisation. Additionally, after the overtime is performed, the overtime receipt form is to be duly endorsed by the officer in charge, certifying that the work was carried out.

However, it was not possible to verify that the overtime performed was duly authorised, since upon requesting the related information for a selected period tested, NAO was only provided with the overtime roster for a different period which was irrelevant for audit purposes.

Recommendations

In order to ensure transparency and accountability, as well as a complete audit trail, SOP and PSMC provisions are to be adhered to without any exception or fail.

Management is also to conduct periodic reviews of overtime work and establish long-term effective cost saving measures to keep the respective expenditure to the minimum possible.

Habitual absenteeism by employees is to be investigated. Monitoring over SL is required in order to identify any cases of abuse.

Requests for the approval of overtime are to be invariably submitted to the Permanent Secretary or an authorised delegate.

It is advisable to refer to the Hospitals and Clinics Wages Council Wage Regulation Order S.L. 452.54 Article 7(1) for guidance regarding the minimum daily rest period.

Management Comments

Malta's ageing population is putting elderly care providers under stress to find the necessary human resources to meet demand for nursing and care services. Given the prevailing conditions and increasing workload at SVPR, overtime is inevitable for staff to cope. The situation is further exacerbated by the staff complement ratios which have to be assiduously observed in accordance with sectoral agreements.

SVPR Management is unaware of any directives to monthly cap overtime to 70 hours for each employee or the banning of employees from performing overtime for a number of days after SL. Having said that, if any capping had to be resorted to, the situation would continue to deteriorate and make it practically unmanageable, besides inflating, rather than reducing, the overtime bill.

The engagement of Maltese carers and nurses to overcome this problem would be ideal. But for various reasons, recruitment remains a stumbling block. The number of nurses allocated to SVPR is limited and inadequate. Management has to make do with the staff complement at its disposal.

Measures to regulate and control overtime have been successful, and overtime by allied health professionals, medical professionals and supporting staff has been noticeably reduced. The success of these measures is borne out by a drop of more than 15% in the overtime bill in 2019 over 2018. It is worth noting that the 2019 overtime bill was actually €722,000 less than the original projection of €3.1 million for the whole year.

Note has been taken of the recommendation to investigate habitual absenteeism. As a matter of fact, such investigations are ongoing. An exercise has identified defaulters and their Head of Department has been alerted to keep their performance under scrutiny. Furthermore, doctors are assigned to certify employees reporting sick. Twelve employees who availed themselves of excessive SL in 2019 were referred to a medical board.

Since the CEO is entrusted with the responsibility and authority to take managerial decisions, it has been customary to delegate the CEO with the authority to authorise overtime. Over the years, this has been an unwritten arrangement, but in August 2020, in line with PSMC, it was felt necessary to formalise this delegation in writing as well.

Control Issues

Inadequate Allowances Breakdown

The fixed and variable allowances disbursed to the respective employees in all 13 payrolls in 2019 were shown as an aggregate in the report provided for audit purposes. The relevant details were only provided on a pay-card and adjustment sheet for each of the employees sampled, which was kept manually to record the various payroll transactions. Moreover, the fixed allowances on the pay-card could only be corroborated to source by referring to the various agreements, manual of allowances and PSMC in order to try and validate the amounts in question. Considering this lack of audit trail, performing the necessary audit work was very time consuming.

Recommendations

Subject that it is not possible to generate a report from the present payroll system, SVPR is to compile a spreadsheet containing a breakdown of all the fixed and variable allowances. In each case the relative source should also be included in order to ensure a complete and reliable audit trail. Additionally, SVPR Payroll Section is expected to reconcile the various payroll data sources after each payroll run and amend as necessary, to ensure that all amounts tally.

It is also advisable to exploit the advantages of the automated payroll system, in order to reduce the manual work, simplify the payroll process and mitigate human error.

Management Comments

Note has been taken of recommendations to effect suggested changes in the payroll system.

Procedures of Time Off in Lieu not formalised

TOIL is granted to employees who are required to work over and above their standard work schedule. The eligibility for TOIL is outlined in PSMC, where it also specifies that TOIL is to be availed of within a period of four weeks or be paid as overtime.

Although a related SOP is in place, detailing the application and approval procedures to be followed, this does not include guidelines with respect to how staff record TOIL, nor to any timeframes related to its utilisation once the applicable provisions of PSMC are not followed.

Details of the running balance and movements of TOIL hours are kept on spreadsheets and records transferred to the payroll system. The two spreadsheets provided for audit purposes relating to the nursing grades and nursing aides respectively as at 31 December 2019, had an aggregate TOIL balance of 60,039 hours which accumulated from previous years. The data contained in the foregoing was analysed and categorised as shown in Table 3.

Table 3: Employees with Balances of Time Off in Lieu

Range of Hours	Number of Employees	Accumulated Hours
Above 1,000	1	1,079
Between 750 – 1,000	3	2,594
Between 500 – 750	7	3,724
Between 250 – 500	56	19,198
Between 100 – 250	118	18,367
Below 100	477	15,077
Totals	**662**	**60,039**

An analysis of the spreadsheet also revealed that 55 employees had a negative[3] balance of accumulated TOIL hours, amounting to a total of 638 hours.

Recommendations

It is important to formalise the procedure on TOIL and bring it to the attention of all employees. Appropriate action is to be taken in order to, as far as possible, keep the situation under control.

Management Comments

A memo to inform staff on TOIL procedures has been drafted and it is planned to circulate it during the month of October 2020. Management will duly follow up and set out timeframes for the implementation of procedures over the coming months.

[3] Employees who have negative balances availed of more TOIL than they had accumulated.

Compliance Issues

No Job Plans

Testing revealed that for the ten sampled individuals from the medical grade, except in one case, there were no job plans covering the year 2019, as well as previous years. Upon enquiry, SVPR maintained that the job plans in the personal files, most of which were prepared around five years ago or even earlier, were for an indefinite period until a new collective agreement came into force, or a request to change the contract or schedule by the consultant or resident specialist[4] was made. Furthermore, according to SVPR, there was no obligation for a periodic review of the job plans before the next collective agreement.

However, the prevailing agreement, section 12.13.1, between the Government and the Medical Association of Malta, effective until 31 December 2021, clearly stipulates that the job plan is a contractual arrangement in writing, between the consultant and Management, that sets out a mutual understanding of the agreed objectives for the following 12 months or other agreed period[5]. Additionally, it is a requirement to perform annual job plan reviews as specified in the same agreement.

Recommendation

SVPR is expected to adhere to the requirements of the contractual agreement and draw up job plans specifying the period covered, as well as carry out reviews accordingly. Apart from ensuring compliance and transparency, this will provide a complete and reliable audit trail.

Management Comments

Job plans are indefinite, unless changes are effected through a new collective agreement or a change in schedule is purposely requested by a resident specialist or consultant. Job plans are embedded in the personal files of each member of the SVPR medical class. SVPR is correctly interpreting the agreement between Government and the Medical Association of Malta as there is no obligation to periodically review job plans. The agreement itself stipulates that "objectives are for a period of 12 months or any other agreed period". Nonetheless, in a spirit of cooperation, SVPR will comply with recommendation and carry out and record annual reviews.

[4] Section 8.13 of the new collective agreement stipulates that a policy regulating job planning of resident specialists shall be in accordance with the provisions of section 12 of the consultants' section.

[5] In some cases job plans sampled covered one year and in others two years.

Nursing Premium Deductions not in accordance with Guidelines

A nursing premium allowance is paid on a quarterly basis to staff providing nursing or midwifery services and is given in lieu of any form of shift allowances. This allowance, which in 1993 ranged between €931 (Lm400) and €1,747 (Lm750), has increased substantially over the years, ranging between €4,152 and €8,345 during 2019, depending on grades, roster and conditions. In contrast, nursing premium deductions are effected in line with the applicable agreement, at the rate of €13.98 (Lm6) for each absence on night duty and €9.32 (Lm4) for each absence on day duty, which rates[6] have remained the same for over 25 years since they date back to 1994.

Sub-section 6.1(vii) of the prevailing agreement clearly stipulates that the nursing premium deductions are to be effected in accordance with PSMC outlined in the Manual of Allowances. Thus, the deduction is expected to be equivalent to the daily portion of the allowance.

Recommendations

Discussions are to be held between the parties concerned in order to align this issue in accordance with PSMC. Such clarification is also to feature in future agreements which are drawn up between the Government of Malta and the respective Union.

Management Comments

SVPR Management cannot follow up on recommendations on nursing premiums as it is not party to such negotiations and discussions.

[6] Source: The addendum to the agreement on reclassification and grading of the nursing services grades.

Elderly and Community Care

Debtors and Prepayments

An audit on debtors and prepayments within the **Elderly and Community Care** revealed a clear lack of understanding of the accrual concept. Amongst others, ineffective collection procedures, inactive debtors' balances and amounts not due still featuring in the debtors' list, were noted.

Background

Total debtors reported by the Elderly and Community Care, known as Active Ageing and Community Care (AACC) within the Ministry for the Family, Children's Rights and Social Solidarity, as at 31 December 2019 amounted to €281,261. According to the Arrears of Revenue Return (ARR), the amount comprised the following:

- Revenue (Account 471) - €194,194
- Staff Salaries Overpayments (Account 12) - €83,229
- Commission Receivable (Account 22) - €3,838

Prepaid expenses of €30,136, 83% of which pertained to rent and the balance relating to contractual services, were also accounted for by AACC.

Audit Scope and Methodology

The main scope of this audit was to provide reasonable assurance that the balances due to AACC were correct and that there were effective management controls in place to ensure completeness of the amounts in question and the eventual payment. Compliance with the pertinent circulars issued by the Treasury Department was also taken into consideration.

The identification of shortcomings and recommendations thereto were also intended to assist AACC to make the necessary rectifications and get in line with accrual accounting.

Debtors

To address assertions of existence and completeness of the debtors' balances as at 31 December 2019, testing was carried out on receivables, amounting to €131,193 (47%) as follows:

a. The largest five balances from revenue account 471, totalling €53,136, were selected (27% out of €194,194) and the relevant files were obtained[1] and scrutinised accordingly. The amounts were dues from individuals who resided in homes falling under the public private partnership scheme, or in State homes managed by private contractors.

b. Another three balances, amounting to €78,058 (94% out of €83,229), were chosen from staff salaries overpayments account 12. These debtors were selected, based on the materiality of their balance and were requested to confirm the balances due through a circularisation letter.

Completeness of the debtors' list was also verified by means of an exercise whereby the National Audit Office (NAO) ensured that, for all the 18 debtors with a balance greater than €2,000, invoices pertaining to the period until December 2019 were included in the debtors' figure.

In a separate exercise, for receipts over €1,000, NAO also confirmed whether invoices pertaining to 2019 that were paid in 2020 were included as debtors in the year-end balance.

Prepaid Expenses

A sample of prepayments, amounting to €25,977 (86%), was selected to assess whether balances were correctly included in the appropriate return as at 31 December 2019 and also to ensure that these were duly backed up by the respective invoices and payment vouchers.

NAO also assessed transactions in the 2019 cash book to identify any payments that related to a period which spanned beyond the financial year under review.

Limitations on Scope of Audit

By the time this write-up was concluded, AACC had not yet circulated letters to the three selected debtors chosen for testing from the staff salaries overpayments account, despite numerous reminders. Furthermore, no documentation to support the sampled amounts from the foregoing account was presented for testing notwithstanding queries made by this Office in this respect. As a result, NAO could not confirm the existence of these debtors' balances, in total amounting to €78,058.

The file of another debtor, whose balance amounted to €21,497 from the revenue account, was not made available to this Office for audit purposes and testing thereon could not be conducted.

Requests for information in relation to three other debtors' balances from the same revenue account, amounting to €23,881, remained unanswered.

Management Comments

With regard to the three debtors to which no circularisation letters were sent:

- *One of the residences has been managed by a private contractor since 2013 and Government employees are no longer deployed there. Thus, no debtors' circularisation letter to verify this amount was sent.*
- *In connection with the second debtor's balance, the amount related to a member of staff who is on AACC's payroll. The monthly invoice is issued mainly for accounting purposes rather than for a reimbursement of such salary.*
- *As for the third balance, the amount due refers to reimbursement of salaries of staff on AACC's payroll but working at the debtor's end.*

With regard to the debtor whose file was not made available, AACC confirmed that it was at the lawyer's end for necessary legal action to recoup the balance due.

In connection with the three other debtors, AACC stated that in one instance, the amount due was being settled. The second debtor had passed away in 2015 while dues continued to increase but in actual fact these had to be cleared in the accounting software by means of a credit note issued in August 2020. Cheques submitted by the remaining debtor were not cleared by the bank and the file was referred for the necessary legal action.

Key Issues

Difference between Closing and Opening Figures

The debtors' figure of €4,320,659, reported as closing balance in the 2018 ARR, was substantially overstated when compared to the 2019 opening balance shown as €247,611. The main difference resulted from a significant reduction in the opening figure for staff salaries overpayments; this was reported as €4,188,045 in December 2018 but was shown as €118,898 in the 2019 opening balance.

It transpired that this difference pertained to dues to St. Vincent de Paul Residence (SVPR) which were part of AACC up to end December 2018 before the former was set up as a separate entity under the same Ministry. The majority of this balance related to refund of salary of staff on SVPR payroll who carried out duties in other hospitals. However, it was noted that SVPR did not include the respective debtors in its return.

Recommendations

AACC is to ensure that its closing and opening figures in returns agree. While in this case there was justification; a note to explain the variance was to be included in the return submitted by AACC, as well as by SVPR. The supporting records should also reflect the transfer of debtors from AACC to SVPR.

Management Comments

AACC agrees with the recommendation given and any drastic changes in figures will be accompanied with an explanation in the return.

Inactive Debtors' Balances

Ineffective procedures were in place at AACC for the collection of money due from individuals upon admission in a residential home for the elderly. There were instances where AACC submitted letters to elderly residents informing them of their amounts due; however, very limited action was taken to ensure that these were paid.

It was also noted that, from a total of 18 sampled debtors having a balance over €2,000, four of them, with total dues of €13,148 were found to be inactive, with two of the foregoing balances due for approximately 10 years, were not followed up.

Recommendation

The exercise to chase debts is not to be limited to sending a reminder to the individual concerned, but balances are to be followed-up on a periodical basis until the amounts due are collected.

Management Comments

As observed by NAO Officials, AACC submitted letters informing the residents or relatives with the amount still pending. In some cases, these were ignored from those concerned. As from May 2020, AACC adopted a new procedure, with the engagement of a private lawyer, whereby if no payments are made within six months from when they are due, such cases are referred for legal action.

Control Issues

Ineffective Collection Procedure

Debtors are usually created in those instances where an individual's yearly income arises from sources other than the Local Government pension. In these circumstances, the individual's contribution should be sent by cheque to AACC on a monthly basis; however, in a number of instances, sometimes due to the ailing condition of the elderly person concerned, this is not being done.

Recommendation

Ideally, deduction arrangements are to be made by direct debit mandate before admission in a residential home for the elderly financed by the State, especially when the individuals are not in receipt of a pension from the Government of Malta. This would not only reduce the number of debtors but also helps to mitigate the related risks of amounts remaining due and even becoming statute-barred.

Management Comments

AACC agrees with the recommendation given and will explore, with Ministry for Finance, the procedure to adopt direct debit mandate or else, that of having an account in the commercial banks where residents or relatives can settle the monthly payment. This will facilitate the payment process instead of sending cheques or going to the office to offset payments.

Amounts not due still featuring as Debtors

A minute in a personal file stated that even though the individual passed away in December 2015, the respective dues continued to accumulate from November 2016. By the end of December 2019, total amount recorded as payable by the foregoing amounted to €7,757. Queries in this respect remained unanswered by AACC.

Recommendations

The system is expected to have embedded controls that do not allow the accumulation of dues beyond the respective death date. In the meantime, AACC is to scrutinise the debtors' list to identify deceased persons and reverse the respective amounts accordingly, showing them as not due.

Management Comments

AACC acknowledges this and since this was not the only occurrence, AACC decided to include the contributions' section in the new software being adopted by AACC. This database incorporates all the sections falling under AACC, which render a service in the community. With the help of this software, communication between all sections, in this case contributions and accounts sections, will hopefully improve and such shortcomings will not be repeated.

Inaccurate Prepayment Balances

Prepayment for rent was erroneously understated by €9,341 while another amount of €3,197 included therein related to past period.

Recommendation

Invoices spanning over more than one year are to be duly taken proportionately when calculating prepaid expenditure to ensure accuracy of the amount shown as a prepayment.

Management Comments

With regard to the first point, AACC mistakenly calculated the rental prepayment based on a year rather than six months.

As for the second point, the premises are still being used as a day centre. The issue with the invoicing arose since the contract needs to be renewed again. AACC's procurement section prepared all the necessary documentation but still waiting for an appointment with the public notary for the signage of the new contract.

Incorrect Ageing of Debtors

While the debtors' return submitted to the Treasury Department showed that no debtors were pending for more than 365 days, the analysis of the debtors' list showed that nearly 50% of the debtors included in the revenue account (€95,065) were outstanding for more than one year, with the oldest balances dating back to 2009.

Recommendations

Adequate checks are to be carried out to ensure that debtors are categorised in the correct period. This is also to be reflected in the debtors' return.

Management Comments

As far as AACC is aware, the ageing of debtors and creditors is set as default in the accounting software used for reporting purposes and cannot be changed. This software was installed more than 10 years ago and no training was given in respect of reporting. This matter will be solved once the new Government accounting system, Corporate Financial Management Solution, will be adopted by AACC in April 2021.

Debtors omitted from the List

From an analysis of the receipts recorded in the Departmental Accounting System in 2020, it was noted that five debtors' balances, which were still outstanding at year-end, were not included in the debtors' list as at end December 2019.

Recommendation

To ensure completeness of figures, following the year-end, AACC is to draw up a list of the amounts received in 2020 which pertain to the previous financial year and eventually ensure that these are included as debtors in the respective return.

Management Comments

AACC's new information technology system will hopefully address these shortcomings; however, until it is fully implemented, AACC will set up a new mechanism in respect of internal checking. Lists compiled by the admissions section will be compared with others issued from the contributions and accounts section.

Compliance Issue

Delays in submitting the Return

The information required by the pertinent circular, stating which arrears were statute-barred, under contestation, recoverable by departmental action or recoverable, was not provided by AACC. As per same circular, ARR had to be submitted to the Treasury Department by 2 April 2020; however, it was submitted more than a month later.

Recommendation

The responsible officers within AACC are to ensure that returns are submitted to the Accountant General complete and within the stipulated timeframes.

Management Comments

AACC is committed in ensuring that returns are submitted within the stipulated timeframes.

Elderly and Community Care

Creditors and Accruals

An audit on creditors and accruals within the **Elderly and Community Care** revealed substantial differences between the balances shown by the foregoing to that claimed by third parties. Furthermore, creditors' balances were not regularly updated and all creditors were incorrectly shown as due within one year.

Background

Government is committed to switch from cash accounting to accrual basis and is underlining the importance that Ministries and Departments maintain complete, timely and accurate information on their figures of creditors and accruals.

The total creditors reported by the Elderly and Community Care, known as Active Ageing and Community Care (AACC), as at 31 December 2019 amounted to €26,964,132, all shown as outstanding for a period of less than one year. It also accounted for €720,326 as accrued expenditure, with the largest balances relating to Personal Emoluments and Programmes and Initiatives.

Audit Scope and Methodology

The main scope of this audit was to provide reasonable assurance on the completeness and accuracy of the year-end balances of creditors and accrued expenses reported by AACC and that the latter complied with the pertinent circulars.

A detailed breakdown of the two largest creditor's categories, amounting to 88% of the total creditors, was obtained from the auditee. Testing was carried out on different suppliers, ascertaining that all invoices prior to end December 2019 were included with the respective year-end balance.

Assertions for existence and accuracy procedures of amounts payable and accrued expenditure were looked into. Furthermore, the completeness and cut-off assertions were checked through a verification exercise, ensuring that:

- 2020 commitments as per the Departmental Accounting System (DAS), each amounting to more than €1,500, in respect of January to April 2020 invoices, were duly recorded as payable if the transaction occurred before year-end 2019; and

- a sample of 15 other invoices pertaining to 2019 or before, but still pending in 2020, was also verified. Invoices dated 2019 were chosen based on their materiality, while all the 2016 to 2018 transactions were tested. In this respect, the National Audit Office (NAO) also vouched these transactions to supporting documents, such as invoices and payment vouchers.

A sample of 18 creditors, amounting to €23,506,221 (87%) of the total payables reported as at 31 December 2019, was selected for testing based on materiality. These creditors were requested to confirm the balance due to them by AACC, by submitting an email to this Office.

Another sample of accrued expenditure, also chosen on the basis of materiality, amounting to €654,772 (91%) was selected by NAO to assess whether balances were correctly included in the accrued expenditure return as at 31 December 2019 and to ensure that the respective figures were duly backed up.

Limitation on Scope of Audit

On 4 August 2020, NAO requested AACC to submit creditors' circularisation letters, as mentioned above. However, respective emails were only submitted by AACC to the suppliers on 23 September. As a result of this delay, NAO could not confirm the existence of eight suppliers' balances, amounting to €9,146,672, out of the 18 sampled, since the suppliers in question had not yet submitted feedback confirming their respective outstanding balance as at the date of submission of Management comments towards the end of October 2020.

Key Issue

Overstated Balances in the Creditors' List

AACC did not perform any reconciliations between the creditors control account and the accounts in the trial balance, for accuracy of figures. From testing carried out, NAO identified an overstatement of €1,827,286 in the balance of creditors reported at year-end. The following relate:

a. According to AACC, six sampled invoices amounting to €895,754, with one dating back to 2017, were paid but not removed from the creditors' list.

b. Another five invoices, all relating to nursing hours at a particular Home, amounting to €90,714, were paid in November 2019, but were still included in the creditors' list. AACC confirmed that payment was done as a global figure, but the respective amounts were not posted against the individual invoices[1].

c. Eight invoices, for a total of €840,818, were posted twice in the creditors' list, thus again overstating the respective balance.

[1] Management stated that a credit note will be posted to rectify this error, but this is not the correct approach since the amount has to be posted against the respective creditors.

Recommendations

Input in the accounting system is to be done with due diligence so that a true and fair picture is shown of AACC's creditors' figure. All payments and credit notes issued are to be allocated to the respective creditor.

For control purposes, AACC is also encouraged to perform a reconciliation between the list of all creditors and the figure of creditors in the trial balance to identify any errors.

Management Comments

Reconciliation of suppliers' statements will help to eliminate such errors. An internal vetting measure was already discussed and approved.

Control Issues

Creditors' Year-end Balances not in Agreement with Third Party Confirmation

From the 10 confirmation replies received by this Office, only four balances as quoted by the respective suppliers agreed with the amount as reported by AACC as at year-end. The remaining six balances all had discrepancies which, in aggregate, amounted to €6,794,050. In all instances, AACC's balance was substantially overstated when compared to the amount reported by the suppliers.

These differences related to inappropriate cut-off procedures, since it was confirmed that when posting invoices in the accounting software, the last day of the month relating to the supply of service was recorded, irrespective of the actual invoice date. Hence, a number of invoices dated January 2020 were recorded as 31 December 2019 instead of accounted for as accrued expenditure.

Recommendations

In order to ensure completeness and accuracy of reported figures, AACC is to obtain statements on a regular basis from all suppliers and reconcile the respective balances.

For accurate records, if an invoice is dated before year-end, it should be included as creditor. However, if the invoice is dated after year-end but relates to services rendered in the prior financial period, then the amount should be included with accrued expenditure.

Management Comments

Statements, especially from suppliers with the largest expenditure, will be requested on a regular basis for reconciliation purposes.

AACC agrees with the recommendations given and these will be adopted. Invoices not received by period end, will be considered as accruals.

Outstanding Invoices at Year-end not reported

From the audit sample, NAO identified invoices worth €291,860, that were dated 2019 or before, but were not included in the creditors' return. These transactions pertained to the provision of goods and services during or before the end of the year under review.

Testing was also carried out on a sample of 12 invoices posted in DAS between January and April 2020, each with an amount greater than €1,500. It was noted that four of the sampled invoices pertaining to goods and services acquired in 2019, amounting to €13,887, were not reported in the accrued expenditure return, claiming that these were received after year-end. However, this could not be confirmed since AACC did not use a rubber stamp indicating the date when the invoices were received.

Recommendations

AACC is to coordinate with its suppliers to submit invoices pending at year-end without undue delay. A record is also to be kept of all purchases made before every quarter or year-end so that, if not yet paid, these are included in the respective return. Emphasis is to be made to all sections within AACC to provide all the information in a timely manner.

The date of receipt of invoice is to be clearly indicated by the use of a rubber stamp so that AACC will be able to identify whether the invoice should be included with accrued expenditure or as a creditor.

Management Comments

Although the majority of the suppliers send the invoices in a reasonable time, AACC cannot oblige them to send the invoices without undue delay especially during the month of December. This issue does not depend completely on AACC, but nonetheless it will bring up this issue up with suppliers. It is to be noted that the new accounting system may help in this respect, if a report would be generated to identify orders for which invoices are pending.

Invoices will be stamped on the received date as recommended.

Understated Balances in the Creditors' List

Invoices, amounting to around €860,000 relating to home help services during five months from 2019 were omitted from the creditors' list.

Invoices for the last six months of 2019, in aggregate amounting to around €1,080,000 were also not included due to an unsettled dispute.

Recommendation

AACC is to make sure that it invariably records all creditors in order to have complete and accurate figures in its returns.

Management Comments

The verification of invoices related to the provision of home help service was a cumbersome exercise until last year. A more linear one, based on sampling, was adopted from this year. This is facilitating the verification process and hence, invoices are being received by the Accounts Section more rapidly.

As regards to the particular home's invoices, the issue is that the operator of the home persists in billing rates which are totally different from the agreed and contracted ones. The difference between the actual total and that invoiced vary considerably, so AACC has to verify and calculate the residents' nights on the basis of contracted rates and pay accordingly.

Understated or Unsupported Accrued Expenditure

In total, expenditure accrued at year-end was understated by €45,000. The following relate:

a. Security Services

The figure for security services included in the accrued expenditure list, amounting to €53,772, covered services rendered between August and November 2019, invoiced on 31 January 2020. However, AACC did not accrue for December, an underestimate of around €13,000.

b. Hygienic products for the Elderly

The latest invoice received by AACC relating to supplies for hygienic products for the elderly was for the period 17 November to 16 December 2019, amounting to approximately €64,000. The last two weeks of the year were not accrued for, thus, a further €32,000 was required as accrued expense.

Recommendation

AACC is to ensure that it accrues for any expenditure remaining unpaid by year-end, taking an appropriate estimate based on previous months or on the respective purchase orders, as applicable.

Management Comments

One of the sections making up AACC is the Welfare Committee. It has a line item 5266 dedicated to the expenditure incurred by it. Since it forms part of AACC, payments are effected using the same DAS dataset. The Welfare Committee is responsible for the management and administration of this line item. The majority of the expenditure highlighted by NAO in fact relate to the Welfare Committee. A meeting with the Committees' Chairperson and administrator will be scheduled to highlight these shortcomings and recommendations.

Incorrect Ageing of Creditors

Amounts payable should be categorised in the creditors return according to the number of days due. No balance was included in the over 365 days category in the creditors return submitted by AACC. However, from testing carried out by NAO, it transpired that actually there was a considerable number of invoices, to the tune of €1.7 million, that had been due for more than one year. According to AACC, this problem is related to the accounting software.

Recommendations

All invoices should be categorised under their respective ageing bracket as from the date of their issue, in conformity with the requirements of MF Circular No. 10/2001 – 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors'. AACC is encouraged to contact the accounting software supplier for the necessary changes.

Management Comments

The accounting software was installed 10 years ago for reporting purposes, but this procedure never materialised. Default settings were never changed and this may have resulted in reporting invoices in the wrong categories. From April 2021, AACC will be adopting the Corporate Financial Management Solution which will surely overcome this issue.

2019-2020 (to date) Reports issued by NAO

NAO Annual Report and Financial Statements

May 2020	Annual Report and Financial Statements 2019

NAO Audit Reports

December 2019	Report by the Auditor General on the Public Accounts 2018
December 2019	An investigation of contracts awarded by the Ministry for Home Affairs and National Security to Infinite Fusion Technologies Ltd
January 2020	Performance Audit: Community Care for Older Persons
February 2020	Performance Audit: Assessing the Public Transport Contract and Transport Malta's visibility on the service
March 2020	Information Technology Audit: ICT across Local Councils
March 2020	The disposal of the site formerly occupied by the Institute of Tourism Studies
April 2020	A review of the ethical framework guiding public employees
April 2020	Addendum Investigation: The Mater Dei Hospital Project
May 2020	Performance Audit: Tackling Child Abuse
June 2020	Follow-up Reports 2020 Volume I
June 2020	Performance Audit: A Follow-Up on the 2016 Analysis on OHSA's Operations - A Case Study on the Construction Industry
July 2020	An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 1 - A review of the tender process.
October 2020	Follow-up Reports 2020 Volume II
October 2020	Information Technology Audit: Planning Authority
November 2020	Performance Audit: An analysis of Malta Medicines Authority recruitment process
November 2020	Information Technology Audit: Malta Industrial Parks Ltd
November 2020	Report by the Auditor General on the Workings of Local Government Public Accounts 2019