NAO
National Audit Office
MALTA

Report by the Auditor General

Public Accounts

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

Charles Deguara
Auditor General

National Audit Office
December 2022

OUR VISION
To provide a multidisciplinary professional service to Parliament, to Government and the taxpayer and to be an agent of change conducive to achieving excellence in the public sector.

OUR MISSION
To help promote accountability, propriety and best practices in Government operations.

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

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Annual Audit Report

Public Accounts 2021

Report by the Auditor General
December 2022

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Foreword

In terms of the Auditor General and National Audit Office Act, 1997, (Cap. 396), the issuance of the Annual Report on Public Accounts constitutes an annual statutory requirement for the National Audit Office.

This Report essentially incorporates 36 write-ups compiled by the Financial and Compliance Section on the operations of several public sector entities. As always, it includes also an extensive analysis of the Financial Report 2021, as well as an overview of the Statements of Arrears of Revenue for the same year, as submitted to Treasury by the respective Ministry, Department and Entity.

Whilst conveying our appreciation to the cooperation extended to us by the majority of auditees across the public sector, it is my duty to point out that in certain cases the submission of the required information was either forwarded to our Office quite late in the day or, even worse, in some instances, not all the required information was submitted. In such cases, our audit teams had no option but to include a limitation on scope, as per international standards.

In line with every Report we issue, the main focus of each audit assignment featuring in this publication is placed on a considerable number of feasible recommendations put forward by the respective audit team, in order to duly address in a timely and cost-effective manner any shortcomings identified during our work. This reflects our Office's principal objective, ultimately to promote good governance across the public sector.

Charles Deguara
Auditor General

December 2022

Annual Report 2021 at a Glance

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Write-ups

- Analysis of the Financial Report
- Arrears of Revenue

Main weaknesses encountered during the audits included:

- Inadequate audit trail.
- Limited internal controls and lack of segregation of duties.
- Public procurement regulations not adhered to.
- Insufficient effort to reconcile balances due between Government entities and to collect amounts owed to Government.
- Shortcomings in the payments of overtime and allowances.
- Lack of ownership of project management.

List of Abbreviations

AACC	Active Ageing and Community Care
ARR	Arrears of Revenue Return
CBM	Central Bank of Malta
CEO	Chief Executive Officer
CFMS	Corporate Financial Management Solution
CGS	COVID-19 Guarantee Scheme
CIRSS	COVID-19 Interest Rate Subsidy Scheme
CoS	Conditions of Service
CPSU	Central Procurement and Supplies Unit
CRM	Client Relationship Management
CROs	Customer Relationship Officers
CSA	Court Services Agency
DCS	Director Corporate Services
DMD	Debt Management Directorate
DSS	Department of Social Security
ECCP	Environment, Climate Change and Planning
ES	Executive Secretary
EWA	Energy and Water Agency
FAR	Fixed Asset Register
FES	Foundation for Educational Services
FMS	Foundation for Medical Services
FSS	Final Settlement System
FTZD	Foundation for Tourism Zone Development
GDP	Gross Domestic Product
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
LCs	Local Councils
LEMIS	Land and Estate Management Information System
LGD	Local Government Division
LRA	Land Registration Agency
MAT	Malta Air Travel Ltd
MCCAA	Malta Competition and Consumer Affairs Authority
MCST	Malta Council for Science and Technology
MDB	Malta Development Bank

MEI	Ministry for the Economy and Industry
MESD	Ministry for Energy, Enterprise and Sustainable Development
MFAA	Ministry for Active Ageing
MFE	Ministry for Finance and Employment
MFH	Ministry for Health
MGI	Malta Government Investments Limited
MGOZ	Ministry for Gozo
MGS	Malta Government Stocks
MIMCOL	Malta Investment Management Company Limited
MPWP	Ministry for Public Works and Planning
NAO	National Audit Office
NCRPD	National Commission for the Rights of Persons with Disability
NLA	National Literacy Agency
OPM	Office of the Prime Minister
PA	Planning Authority
PAA	Post Adjustment Allowance
PPP	Public Private Partnership
PPR	Public Procurement Regulations
PQQ	Prequalification Questionnaire
PREU	Permanent Representation of Malta to the European Union
PSMC	Public Service Management Code
RSSL	Resource Support and Services Limited
SABS	Sistema għall-Amministrazzjoni tal-Benefiċċji Soċjali
SBN	School Bus Net
SCH	Superintendence of Cultural Heritage
SCSA	Social Care Standards Authority
SOP	Standard Operating Procedure
SPML	Social Projects Management Limited
SVP	St. Vincent de Paul
TM	Transport Malta
ToRB	Test of Reasonableness Board
TWK	Tax Warehouse Keeper
UoM	University of Malta
VAT	Value Added Tax
WP	Widows' Pensions
WSM	WasteServ Malta Limited

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 entities, as well as 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 2021, 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 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.

Opinion on the Financial Report

Opinion on the Financial Report to the House of Representatives

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 avoided conflict of interest in line with 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.

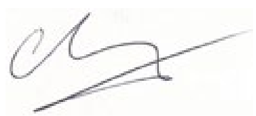
Opinion

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

December 2022

Financial Report

Analysis of the Financial Report 2021

Introduction

Details of Government financial operations can be found by referring to both the Annual Financial Statements and Financial Report for 2021.

In a letter addressed to the Minister for Finance and Employment, which was also included in the Financial Report, the Accountant General highlighted that the figures published in the 2020 Annual Financial Statements and Financial Report were revised and updated figures were shown in the 2021 Financial Report. This was mainly due to the migration to the new accounting system, namely, the Corporate Financial Management Solution (CFMS). Transactions were constantly being monitored to ensure accuracy of figures, especially at year-end. Any necessary revision of figures for financial year 2021 will then feature in next year's publication under the respective column.

To this effect, the analysis undertaken by the National Audit Office (NAO) on the 2021 Financial Report was based on the published figures.

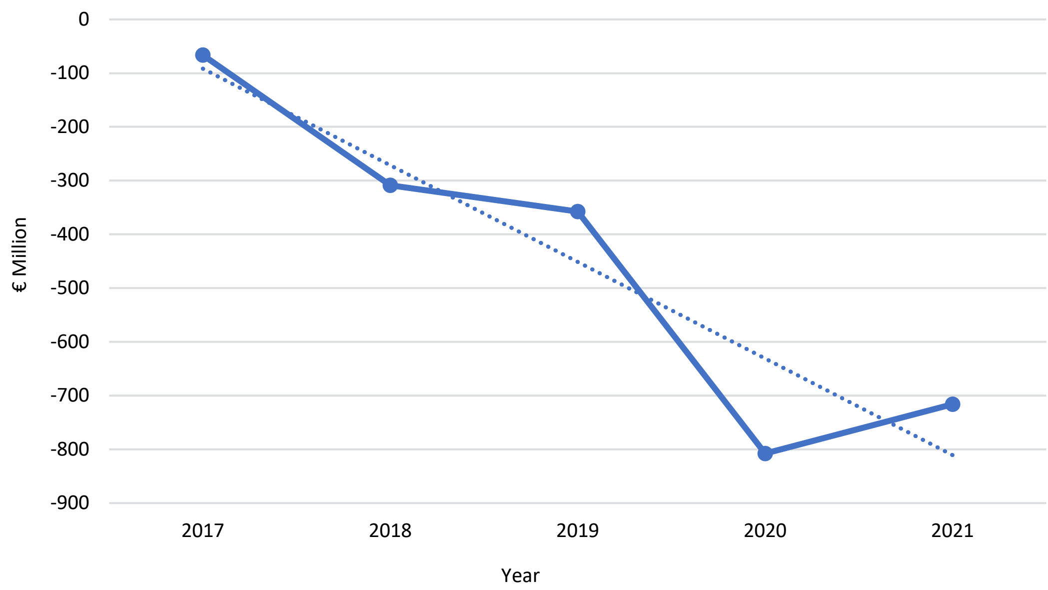
Consolidated Fund Statement – 2021

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 2021 Budget (Estimates)[2] for an aggregate expenditure of €6.5 billion and a further €1.1 billion was approved by Supplementary Estimates[3].

A line graph comparing the closing balance of the Consolidated Fund as at 31 December 2021 with the prior four years is depicted in Chart 1[4].

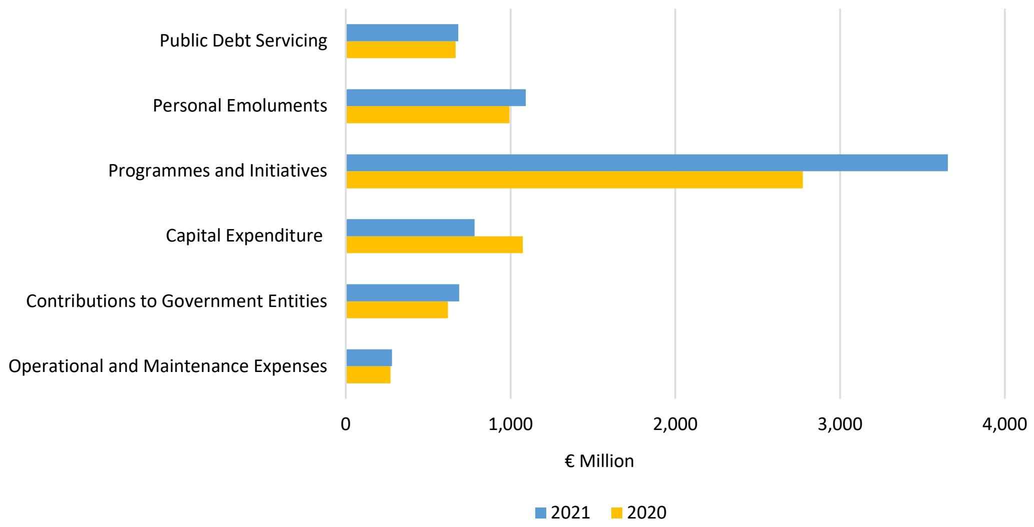
Chart 1: Trend Analysis of the Closing Balance of the Consolidated Fund (2017 – 2021)



(Source: Financial Report 2017 page xv, Financial Report 2018 page xv, Financial Report 2019 page xvi, Financial Report 2020 page xvi, Financial Report 2021 page xvi)

Despite an increase of 22% in total revenue in 2021, a negative balance of €716 million was still registered in the Consolidated Fund as at year-end. As shown in Chart 2[5], the most significant increase in expenditure incurred during 2021 pertained to Programmes and Initiatives, which grew by €879 million. Meanwhile, capital expenditure declined by €293.4 million when compared to the preceding year.

Chart 2: Fluctuations in Categories of Expenditure during 2021



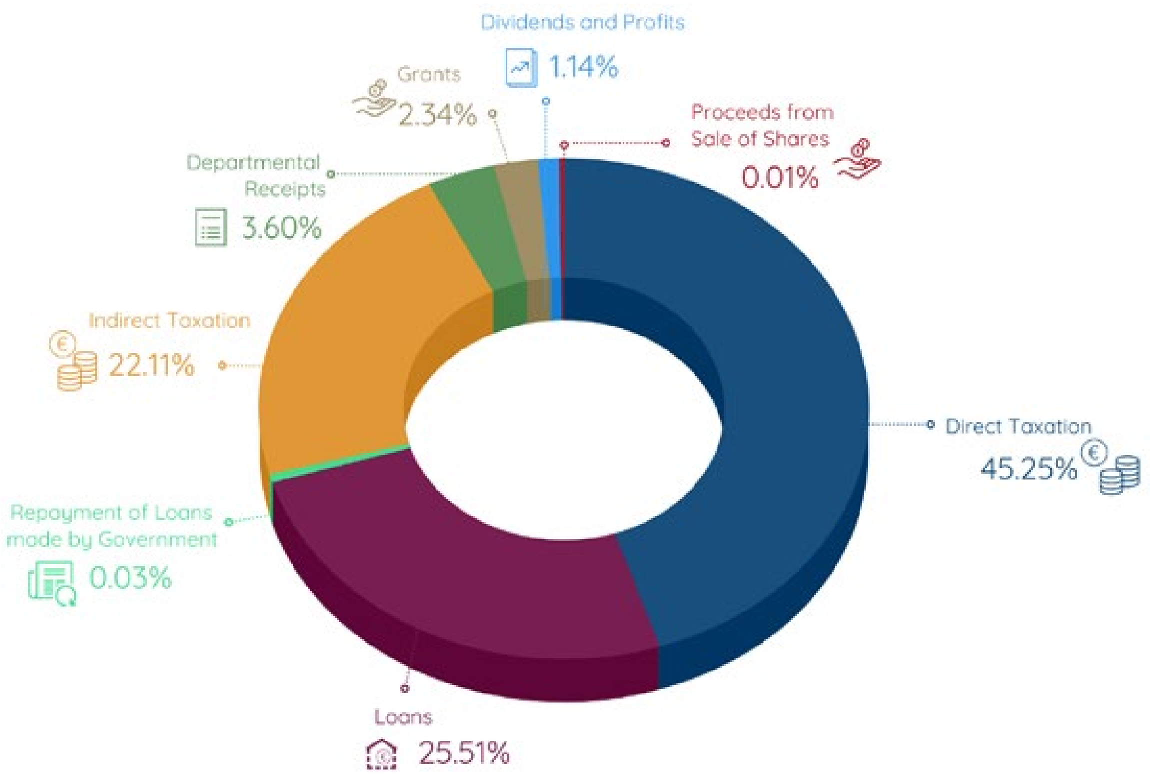
(Source: Financial Report 2021 page xvi)

Revenue

Revenue by Category

Actual total revenue collected during 2021 amounted to €7.3 billion, representing a 22% increase over the previous year. Chart 3 shows the different categories of revenue as a percentage of total consolidated amount.

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



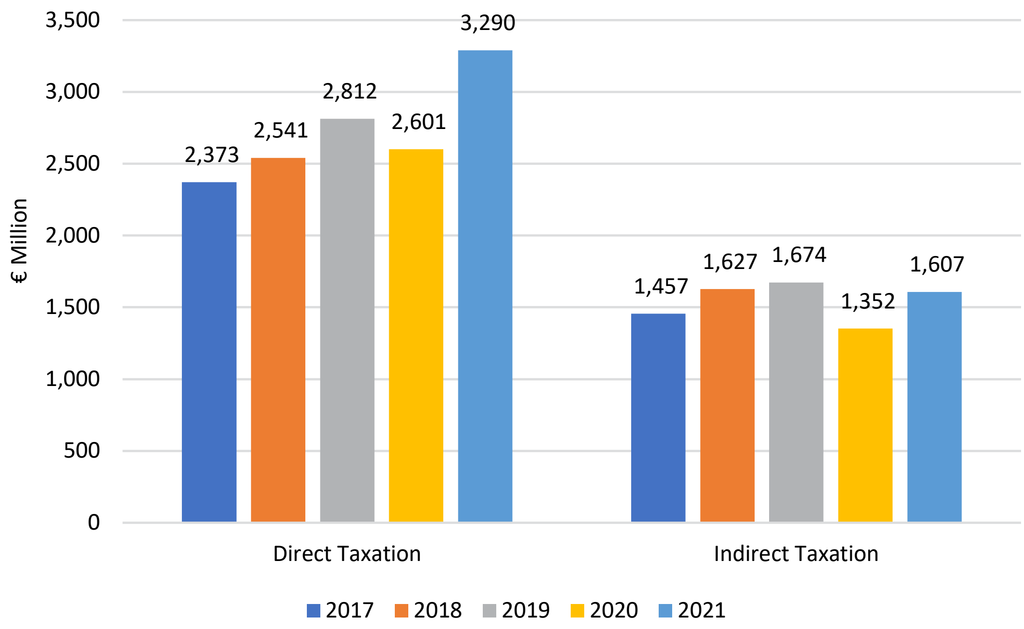
(Source: Financial Report 2021 pages xix, xxi)

Five-year Trend Analysis

a. Tax Revenue

An analysis of tax revenue for the years 2017 to 2021 is shown in Chart 4.

Chart 4: Tax Revenue between 2017 and 2021



(Source: Financial Report 2017 page xviii, Financial Report 2018 page xviii, Financial Report 2019 page xix, Financial Report 2020 page xix, Financial Report 2021 page xix)

Following a decrease in revenue from income tax and social security contributions during 2020, direct taxation resurged with a €689 million (27%) increase in the subsequent year, due to higher economic activity.

Similarly, indirect taxation also experienced a drop of 19% during 2020. However, this income stream recovered in 2021, with an increase of €255 million (19%). This growth occurred mainly in the categories mentioned in Table 1.

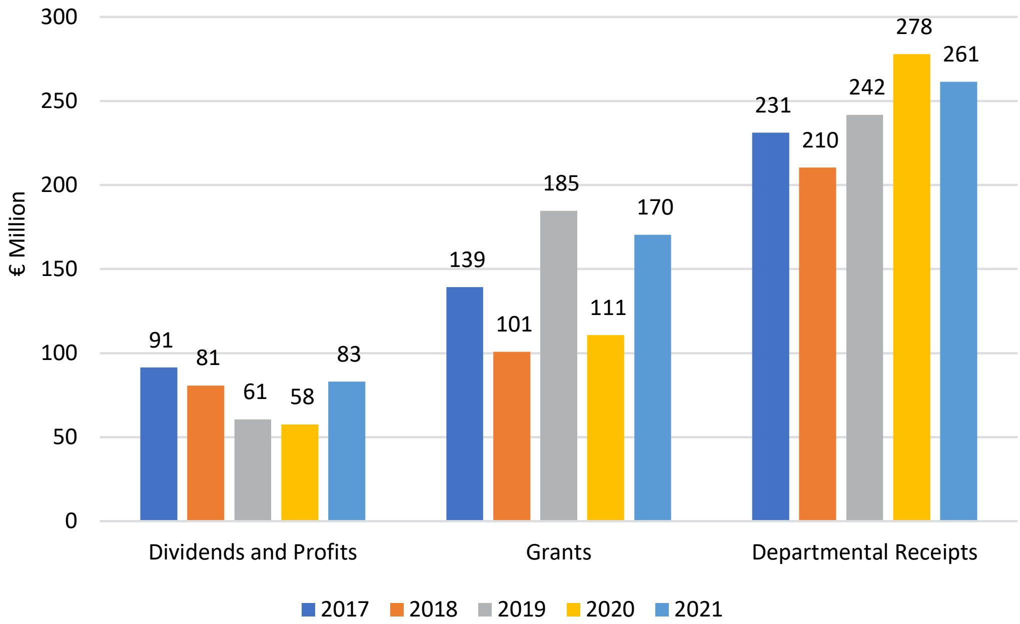
Table 1: Main Increases in Indirect Taxation during 2021

Revenue from Indirect Taxation	Increase during 2021	
	Increase Amount	Percentage Change
	€'000	%
Value Added Tax	192,761	25
Import Duties	6,758	45
Excise Duty on Petroleum	25,996	24
Duty on Documents	33,144	27

b. Non-tax Revenue

Chart 5 depicts non-tax revenue for the five years 2017 to 2021. An analysis of these figures follows.

Chart 5: Non-tax Revenue between 2017 and 2021



(Source: Financial Report 2017 page xviii, Financial Report 2018 page xviii, Financial Report 2019 page xix, Financial Report 2020 page xix, Financial Report 2021 page xix)

Dividends and Profits – After a few years of decline in revenue from dividends and profits, income generated in 2021 grew by over €25 million. This was influenced by the revenue collected by the Community Malta Agency[6] (€18 million), which entity was established towards the end of 2020, and dividends from public limited companies, that amounted to nearly €4.9 million.

Grants – During the last five years, grants experienced considerable fluctuations, with the most significant increase of 83% being registered in 2019. This was followed by a fall of 40% over the previous year in 2020 and a growth of 54% in 2021. These variations occurred due to timing differences in the actual receipt of funds from the European Union.

Departmental Receipts – After the increases registered between 2018 and 2020, Departmental receipts experienced a drop of over €16 million during 2021. This was mainly due to the decrease of over €15 million collected from Fees of Office.

Expenditure

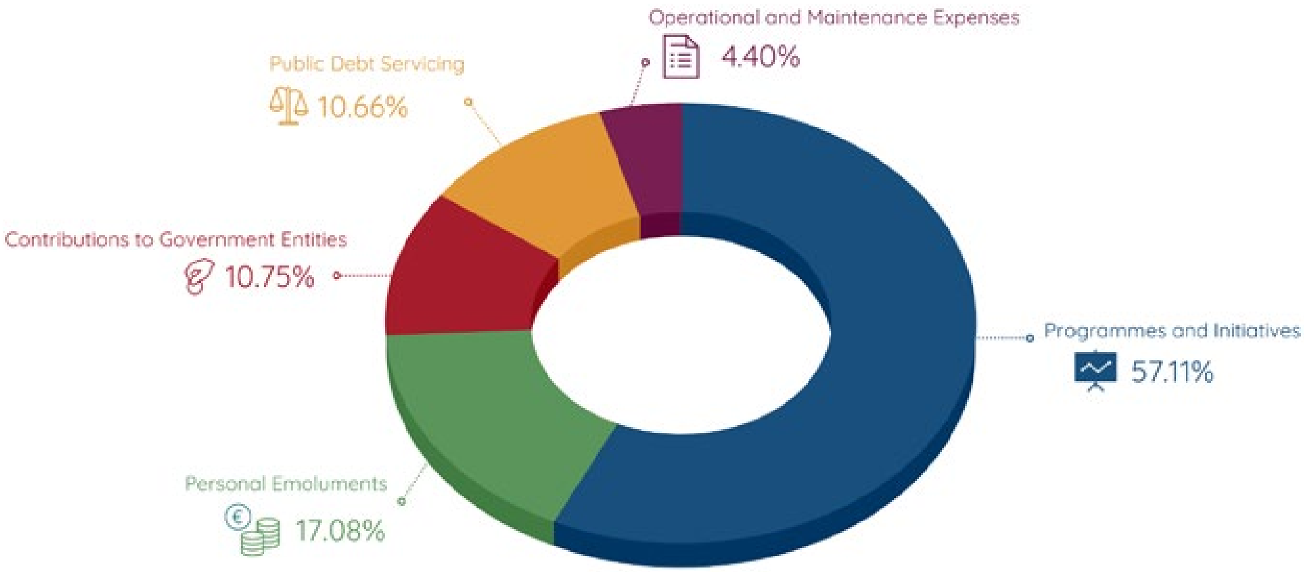
Recurrent Expenditure and Public Debt Servicing

The total recurrent expenditure during 2021 was around €6.5 billion, a 20% 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[7].

[6] This Agency is responsible for administering all Maltese citizenship-related matters.

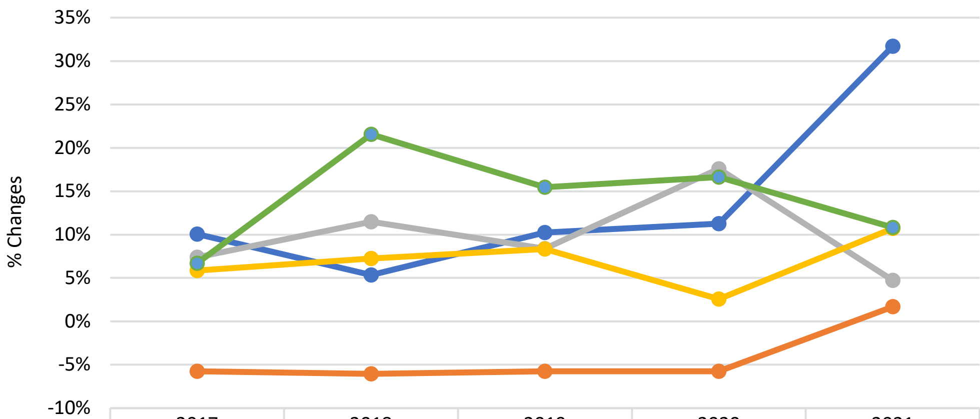
[7] Programmes and Initiatives and Contributions to Government Entities included a substantial amount that was also incurred on Personal Emoluments, as well as on Operational and Maintenance Expenses.

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



(Source: Financial Report 2021 page xxviii)

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



	2017	2018	2019	2020	2021
Programmes and Initiatives	10%	5%	10%	11%	32%
Public Debt Servicing	-6%	-6%	-6%	-6%	2%
Operational and Maintenance Expenses	7%	11%	8%	18%	5%
Personal Emoluments	6%	7%	8%	3%	11%
Contributions to Government Entities	7%	22%	15%	17%	11%

(Source: Financial Report 2017 page xxvi, Financial Report 2018 page xxvi, Financial Report 2019 page xxvii, Financial Report 2020 page xxvii, Financial Report 2021 page xxvii)

The fluctuations of the various categories[8] of recurrent expenditure over the last five years are depicted in Chart 7. The most significant increase during 2021 was noted in Programmes and Initiatives, which registered an increase of 32%, when compared to the average of the prior four years (9%). The main contributors for the rise in this category of expenditure are summarised in Table 2.

[8] Any repayments and contributions made to sinking funds were excluded from Public Debt Servicing expenditure.

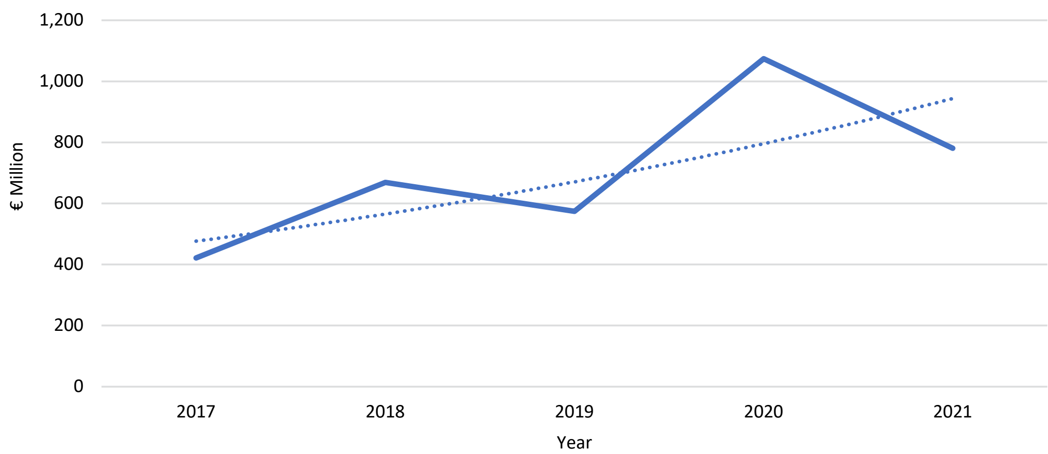
Table 2: Contributors for the Increase in Programmes and Initiatives Expenditure during 2021

Ministry or Department	Programme or Initiative	Increase €
Ministry for Energy, Enterprise and Sustainable Development	Pandemic Assistance Scheme	378,065,067
	Energy Support Measures[9]	179,513,984
Ministry for Finance and Employment	European Union Own Resources	98,242,396
Social Security Benefits	Retirement Pensions	41,401,082
	Widows' Pensions	9,891,029
Ministry for Health	Health Concession Agreement - Gozo General Hospital	27,927,712
	Waiting Lists for Medical Services	13,725,187
	Health Concession Agreement - Karen Grech Rehabilitation Centre	10,492,823
Ministry for the Senior Citizens and Active Ageing	St. Vincent De Paul Residence Service Contact[10]	20,015,234
	Residential Care in Private Homes[10]	9,306,880
Social Policy	State Contribution in terms of the Social Security Act, 1987	27,954,686

Capital Expenditure

An analysis of total capital expenditure incurred over the last five years revealed that after a substantial increase in 2020, such outflow declined by 27% to over €781 million, during 2021. Chart 8 refers.

Chart 8: Capital Expenditure over the last Five Years



(Source: Financial Report 2017 page xxx, Financial Report 2018 page xxx, Financial Report 2019 page xxxi, Financial Report 2020 page xxxi, Financial Report 2021 page xxxi)

[9] In 2021, Line Item 5463 was split between two Ministries. The actual expenditure under the Ministry for Energy, Enterprise and Sustainable Development amounted to €180,000,000, whilst that for the Ministry for Social Justice and Solidarity, the Family and Children's Rights was €5,268,940, i.e., an aggregate value of €185,268,940. Meanwhile, the actual expenditure in prior year was €5,754,956. Thus, expenditure increased by €179,513,984.

[10] Line item was previously within the remit of the Elderly and Community Care (Vote 41).

Analysis of Appropriations

The appropriations for expenditure during 2021, authorised by the Ministry for Finance and Employment (MFE) Warrant Nos. 1 and 2, were made under the following Statutes:

		€
a.	Appropriation Act	5,616,990,031
b.	In terms of Special Laws	1,950,017,600
c.	In terms of the Constitution	4,796,970
	Total Appropriations	**7,571,804,601**

a. Appropriation Act

	€
Appropriated by Act LXIII of 2020 (Original Budget)	4,533,332,030
Appropriated by Act LXX of 2021 (Supplementary)	1,083,658,001
Total	**5,616,990,031**

b. In terms of Special Laws

The following amounts, including Supplementary Estimates as detailed in Warrant No. 2 of 2021, were appropriated in terms of the various laws as indicated in Table 3.

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

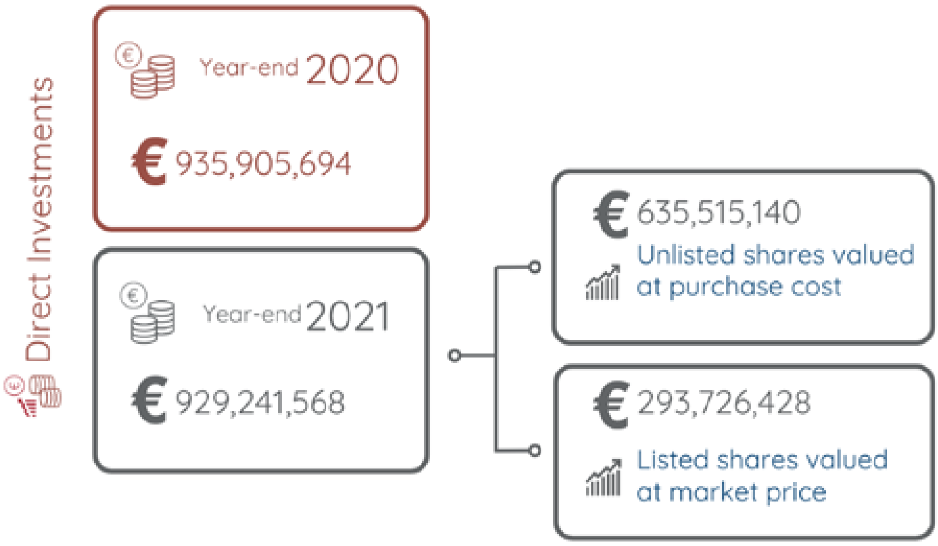
Description	2021 €'000	2020 €'000
Social Security Act (Cap. 318)	1,118,069	1,080,495
Government Borrowing and Management of Public Debt Act (Cap. 575)	706,993	697,855
Pensions Ordinance (Cap. 93)	98,600	97,200
Parliamentary Services Act (Cap. 562)	8,030	8,201
Lease of Parliament Building – Budget Measures Implementation (Act V of 2012)	4,618	4,430
Auditor General and National Audit Office Act (Cap. 396)	3,850	3,800
Value Added Tax Act (Cap. 406), Customs Ordinance (Cap. 37) and Excise Duty Act (Cap. 382)	3,800	3,000
Members of Parliament (Retiring Allowances) (Act XVII of 1966) and Members of Parliament Pensions Act (Cap. 280)	2,320	2,500
Ombudsman Act (Cap. 385)	1,427	1,340
Broadcasting Act (Cap. 350)	583	583
Standards in Public Life Act (Cap. 570)	478	640
Widows' and Orphans' Pensions Act (Cap. 58)	470	511
General Elections Act (Cap. 354)	330	330
Local Loans (Registered Stock and Securities) Ordinance (Cap. 161)	200	200
Arbitration Act (Cap. 387)	125	75
Permanent Commission Against Corruption Act (Cap. 326)	100	100
Personal Injuries (Emergency Provisions) Ordinance (Cap. 111)	25	32
Totals	**1,950,018**	**1,901,292**

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	95,512
The Attorney General	101,981
Judges and Magistrates	4,505,477
The Public Service Commission	94,000
Total	**4,796,970**

Public Credit – Shareholding



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

Movements in Values of Existing Investments

During 2021, the nominal value of the European Stability Mechanism decreased by €970,000, implying a decrease in paid-up share capital. On the other hand, the cost of investments in the following entities collectively increased by €6,176,010 due to favourable changes in the exchange rate of the American Dollar:

- Asia Infrastructure Investment Bank
- Council of Europe Development Bank
- International Bank for Reconstruction and Development
- Malta Freeport Corporation Ltd
- Malta Air Travel Ltd
- Mediterranean Offshore Bunkering Company Ltd
- Multilateral Investment Guarantee Agency

Public Credit – Other Investments

Investment in Industry

The Schedule of Investments submitted by Malta Government Investments Limited to the Accountant General showed that the total cost of investment in 41 companies as at 31 December 2021 amounted to €31,885,070. However, the estimated net book value of these investments amounted to €30,291,594, thus an aggregate unrealised loss of €1,593,476. This included nine companies that were undergoing liquidation procedures.

At the end of 2021, the investment in industry as reported by Treasury amounted to €31,907,352. As in previous years, this figure did not tally with the aggregate amount stated by the Malta Government Investments Limited due to a difference of €22,282 between Treasury's records and those of the respective company. This mainly represents an investment of €22,369 in Topwear Ltd that is not being reported on the Malta Government Investments Limited records. This investment was made by the former Malta Development Corporation.

Movements in Other Investments

Euro Coins

During 2021, the Central Bank of Malta (CBM) issued Euro Coins, totalling €3,131,000, on behalf of Treasury, bringing the total amount of Euro Coins in circulation as at 31 December to €93,502,000.

Malta Development Bank

During 2021, there was a further increase in the paid-up capital of €10 million by Government in the Malta Development Bank, in view that the latter was to embark on several new projects. Hence, the total invested in this bank as at 31 December amounted to €60,000,000.

Surplus Funds and Dividends Received

Central Bank of Malta

By the end of financial year 2021, CBM distributed a total dividend of €33,045,077 in six tranches.

Malta Business Registry

During 2021, Treasury also received surplus funds, amounting to €9,186,841, generated from the Malta Business Registry.

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 MFE Permanent Secretary, the Accountant General and a representative from Malta Investments Management Company Limited.

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

Public Credit – Loans made by Government and Repayments thereof

Balances of all loans issued by Government as at 31 December 2021, as reported in Appendix E of the Financial Report 2021, totalled €52,116,742.

Water Services Corporation

The loan to the Water Services Corporation is interest free and repayable either through a direct payment to Treasury, if a subvention is not required by the Corporation, or through a Transfer Voucher when there is the need of a Government's subvention. The initial amount of the loan granted in 1999 was of €10,482,180.

A loan repayment of €250,000 was made during the year 2021 bringing the closing balance at year-end to €3,867,885.

Loan Facility Agreement with the Hellenic Republic

The liability from the Hellenic Republic originated from an €80 billion loan facility agreement dated 8 May 2010, between the Euro Member States[11] (the lenders) and the former (the borrower). The principal repayments were scheduled between 15 June 2020 and 15 September 2026. The maximum amount that each country contributed was established in the respective agreement, which, in Malta's case, stood at €74,543,026. However, the actual contribution amounted to €50,683,923.

Four loan repayments totalling €1,976,027 were made during 2021 and at year-end, the closing balance stood at €48,043,023.

Loan – Mariam Al Batool School

As per agreements dated 28 April 2011 and 14 December 2011, Government lent a total of €399,854 to the Mariam Al Batool School, following a suspension of the financial subsidy which the School used to receive from Libya. The repayment dates were scheduled at a rate of €25,000 at end of each quarter for the period March 2014 to December 2017. However, none of the payments due were honoured.

On 21 December 2017, following Cabinet approval in August of the same year, the Government and Mariam Al Batool School entered into a new agreement whereby the outstanding amount of €399,854 was to be waived. The cancellation of this debt was factored in the budget estimates for Vote 21 – Line Item 7189: Contribution towards the Treasury Clearance Fund.

Subsequently, a total drawdown of €112,397 was made by the School in December 2018, following a request by the foregoing, to cover salaries for the last two months of the year.

Moreover, to assist the School in addressing its financial circumstances, the Government agreed to lend an annual sum of €460,000 for three scholastic years, starting 2018-2019, and €300,000 as from scholastic year 2021-2022 onwards, as per agreement dated 19 December 2018. The School bound itself to repay the full amount of the 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. However, the annual sums of €460,000 lent in years 2019, 2020 and 2021, as per said agreement, were accounted for as Advances in Appendix L[12].

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

[12] As reported later in Table 5 under Advances (Receivables).

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, required the Treasury to invest any contributions made in the Sinking Fund, as well as the return generated from the investment in other financial assets. To this effect, contributions and investment income were invested in Government Securities.

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	180,444,486	512,965
Malta Government Stocks	128,974,300	-
Totals	**309,418,786**	**512,965**

(Source: Financial Report 2021 pages 220 - 221)

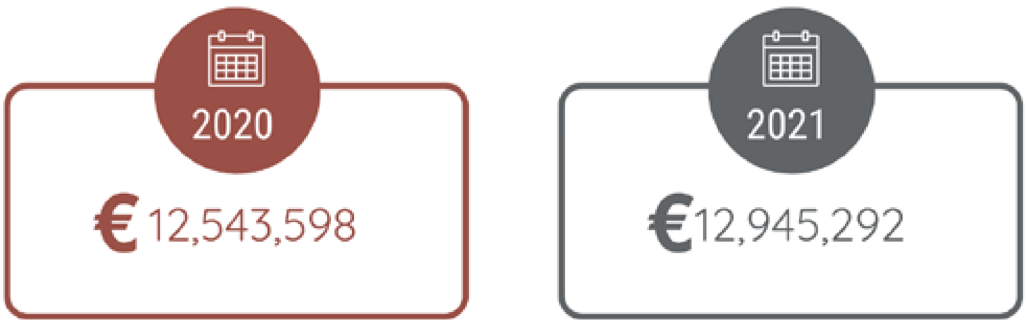
Advances (Receivables)

Accounting for Advances

Article 87 of the General Financial Regulations, 2017, which regulates Advances, stipulates that "*... it shall be the duty of 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 2021, 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 2021 were as reported in Table 5.

Table 5: Outstanding Advances

Description	Amount €
Ministry of Finance, advanced to Mid-Med Bank Employees Foundation, for the purpose of investment, pursuant to the agreement dated 3 December 2002, entered into between Malta Government and the Foundation in the interest of the members of the said Foundation	6,714,999
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 of Finance to the Bank of Valletta Employees Foundation, for the purchase of 1,385,406 ordinary shares by the same Foundation, in Bank of Valletta Ltd in 1995	1,484,215
Ministry for Education and Employment, advanced loan facility to Mariam Al Batool School[13]	1,380,000
Total	**12,945,292**

Remarks

Mid-Med Bank Employees Foundation

The loan continued to be repaid through annual instalments in accordance with the loan agreement. During 2021, a repayment of €58,306 was effected.

Maltacom Employees Foundation

During 2021, MFE continued to look into the potential repayment of this loan, in the light of representations made by the Maltacom Employees Foundation but no developments were registered.

Bank of Valletta Employees Foundation

MFE confirmed that since there had been no dividend distribution declared by Bank of Valletta plc, nothing was recovered since respective repayment was linked to the declaration of a dividend by the Bank to the Foundation.

Mariam Al Batool School

During 2021, an accounting adjustment of €115,000 was effected to correct an erroneous transaction made in the accounting system, thus resulting in an issued net amount of €460,000.

Central Bank of Malta Public Account

The Departmental Accounting System was in use up till the beginning of April 2021[14], and the monthly reconciliation statements for the Public Account for the period January to March 2021 were prepared accordingly by Treasury. From there onwards, the accounting records started being kept on CFMS. However, there was no link between the foregoing two systems, as well as with CBM accounts. Moreover, since the process to match the numerous transactions during each month was not automated in CFMS, it was very difficult to prepare the bank reconciliation manually, mainly due to lack of human resources and time constraints. In the meantime, Treasury provided NAO with CBM statements showing the closing balance every month.

[13] Refer also to 'Loan – Mariam Al Batool School' under 'Public Credit – Loans made by Government and Repayments thereof' on page 26 in this write-up.
[14] CFMS went live in all Ministries and Departments as from April 2021.

Following consultations between the parties involved in the development of CFMS, it was decided to split transactions into separate bank accounts for each transaction type, for example, cheques issued or encashed, deposits, cheques returned unpaid and direct credits. Payments within the European Union, international and the Single Euro Payments Area payments, as well as bank charges are accounted for in another single bank account. These bank accounts were created by CBM and in CFMS in May 2022.

By the time this write-up was concluded[15], the bank reconciliation system in CFMS was not yet functioning as per Treasury requirements. Hence, the need for an update was required. Manual reconciliations were made for each of the categories included in the aforementioned single bank account, as well as non-Single Euro Payments Area payments, travel, pensions and salaries.

As reported in prior years' Annual Audit Reports, the monthly bank reconciliation statements showed discrepancies, classified as Other Adjustments, between the balance as per CBM Statement and that reported in the Cash Book, an average of €618 million between January and March 2021. Treasury confirmed that the main variance was triggered by a cancellation of a cheque amounting to €50, on 17 October 2018, which was inadvertently inputted as €621,318,406, being the reference number of the transaction instead of the actual amount. Although corrected immediately, the amount in question continued to feature as an unreconciled balance for the three months in question.

Moreover, to compute the monthly reconciliation, since January 2020, an amount of €90,363,370 had to be added to Departmental Accounting System balance every month to arrive to the balance as per Cash Book. This figure[16] was inadvertently imported in CFMS Cash Book and thus had to be shown as a recurring reconciliating amount from one period to the next.

With regard to the Reconciliation for the period June 1992 to December 2001, Treasury once again confirmed that no development was made 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.

Furthermore, review of the Abstract of the Receipts and Payments in the Public Account for 2021 showed that the opening debit balance mentioned in the Financial Report, amounting to €25,851,617 did not agree to the closing credit book balance of €7,602,468 as reported in at the end of 2020. According to Treasury, given that it was the first year when CFMS was in use, the figures for 2020 kept changing, thus the opening balance for the subsequent year had to be revised accordingly.

[15] Being end October 2022.
[16] Transactions related to January till 19 February 2020.

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 2021.

NAO received the 2020 Board of Survey Report on 3 February 2022. The relevant statements for the year were duly certified correct with no adverse remarks. However, the Board commented on the fact that a Cash Book report could not be extracted from CFMS at the time, so balances were obtained by Treasury in letter form.

The Board of Survey's Report for the Ministry for Gozo for the year ended 31 December 2021 reached this Office in April 2022. The Board noted some issues, as also commented upon in the prior year, mainly related to deposits and document management, and suggested appropriate measures to rectify these issues.

At the date of this publication, NAO had not yet received the Report from the Board of Survey for Treasury, certifying amongst others, the correctness of the List of Securities held as at end 2021.

Ministerial and Departmental Bank Accounts

Treasury Circular No. 1/2022 – 'End of Year (2021) Statements of Account Cash in Hand and Bank Balances held at local Commercial Banks and Central Bank of Malta', dated 10 January 2022, requested Heads of Departments and other Accounting Officers to submit a return, both in soft and hard copies, indicating the cash and bank balances as at 31 December 2021, 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 bank balances were published accordingly in the Financial Report 2021 (pages i to vii). The credit balance as per Bank Statement consists of the liability, trust and resulting balances, while the debit balance should only show 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 2021 and comparative figures of the preceding year are shown in Table 6.

Table 6: Government Debt

Type of Debt	2021		2020	
	Amount	Percentage of Total Debt	Amount[17]	Percentage of Total Debt
	€'000	%	€'000	%
Malta Government Stocks (Consolidated)	6,508,852	76.12	5,529,519	76.74
Treasury Bills	599,420	7.01	644,000	8.94
Malta Government Retail Savings Bond	474,942	5.56	380,517	5.28
European System of National and Regional Accounts Rerouted Debt	284,383	3.33	272,597	3.78
Extra Budgetary Units and Local Councils	168,817	1.97	168,065	2.33
Euro Coins	93,502	1.09	90,371	1.25
Foreign Loans	420,718[18]	4.92	120,839	1.68
Total Debt	**8,550,634**	**100**	**7,205,908**	**100**
Gross Domestic Product (GDP)	**14,681,315**		**13,073,853**	
Ratio of Public Debt to GDP	**58.24%**		**55.12%**	

(Source: National Statistics Office News Releases 053/2022, 154/2022; Debt Management Directorate (DMD) computations)

Foreign loans account for less than 5% of total debt. As at end 2021, the percentage of Government Debt to the country's GDP amounted to 58.24%, resulting in an increase of 3.12% over the previous year[19]. However, this remained below the 60% Maastricht Treaty requirements.

[17] Public Debt and GDP balances as at 31 December 2020, as reported in the previous year's Annual Audit Report, were updated in line with most recent publications to provide a more accurate analysis.

[18] The commitment of the European Union Member States and European Union institutions towards significant joint fiscal measures in response to the COVID-19 pandemic crisis, gave the opportunity to the Maltese Government, to fund a small portion from its medium to long-term borrowing programme for 2020 and 2021, that was entered into through loan agreements with the European Commission on favourable terms under the Support to mitigate Unemployment Risks in an Emergency programme. The amount funded through this instrument as at 31 December 2021 totalled almost €421 million.

[19] The policies adopted by the Maltese Government to shield the economy from the consequences of the crisis caused by the pandemic continued to inflate expenditure and thus borrowing requirements for 2021 again turned out to be substantial by historic standards.

Debt Management

Methodology used for the Analysis of Public Debt Management

The analysis on 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 (Cap. 575).

The five main aspects of Debt Management analysed in line with the International Best Practices include:

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[20] 7 and 8 provide filled-in checklists, as listed in ISSAI 5440, of issues drawn from the Revised Guidelines for Public Debt Management, which auditors should consider when developing their understanding of Public Debt Management.

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[21]
Domestic and foreign currency public debt programmes 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[22]
Business recovery procedures in place	Yes

[20] 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.
[21] In the case of Malta, the public debt ceilings arise from four different legislations or Parliamentary resolutions.
[22] Subject to Code of Ethics incorporated in the First Schedule of the Public Administration Act (Cap. 595).

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[23] System	No[24]
Universal access to auctions	Yes
Limits of foreign participation	No
Collective action clause, domestic issues	Yes
Collection action clause, external issues	Not Applicable
Features of Secondary Markets for Public Debt Instruments	
Over the counter market	Yes
Exchange traded market mechanism	Yes
Sound clearing and settlement systems	Yes
Limits on foreign participation	No

Policy

The scope of the Government Borrowing and Management of Public Debt Act (Cap. 575) is 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.

The Treasury published the Annual Borrowing Plan in January 2021, in terms of Article 18(4). It also announced the issuance of Malta Government Stocks (MGS) and debt instruments for financial year 2021, with maturity of more than one year, that shall not exceed €1.1 billion.

However, the gross borrowing requirement was subsequently revised upwards to a sum not exceeding €2.1 billion in July 2021, due to a forecasted substantial revision to the projected budget deficit figure. To this effect, the Government was compelled to raise the amount that it could borrow through medium-to-long-term debt instruments, whilst the capping of outstanding treasury bills at any time was raised again from €1 billion to €1.3 billion on 13 June 2021.

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.

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

[24] In the absence of a Primary Dealer System, DMD has a comprehensive process of reconciliation in place.

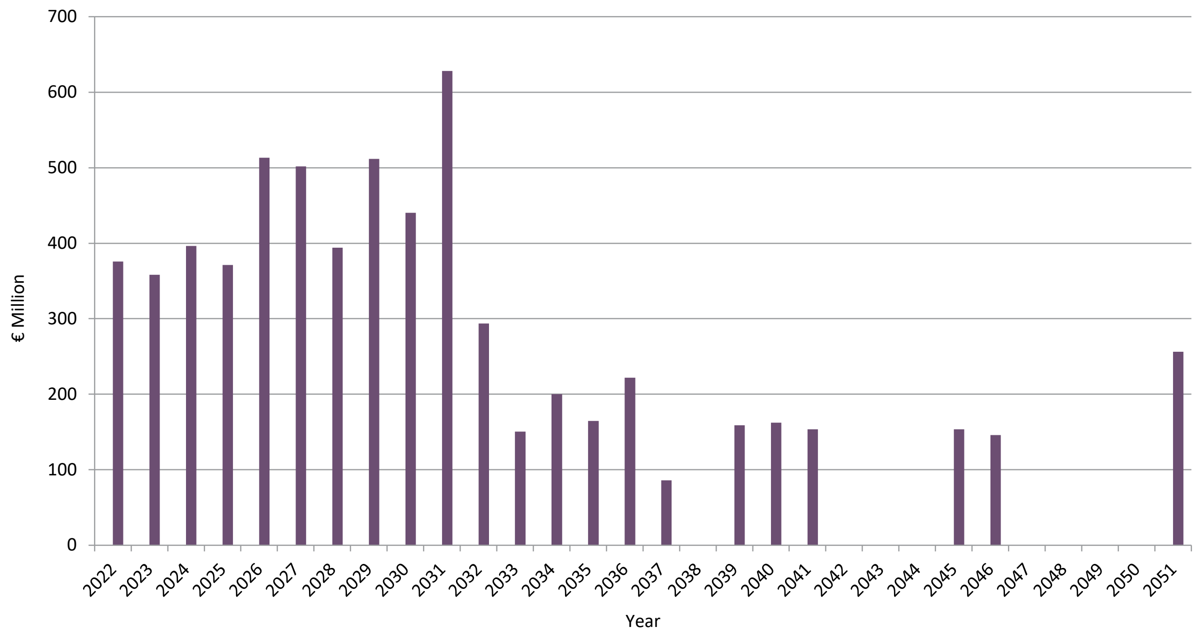
Table 9: 2021 Issuance Performance

Month	On Offer (plus over-allotment) € Million	Total Participation € Million	Bid-to-Cover
Malta Government Stocks			
February	180 + 120	408.8	2.27
May	180 + 120	393.3	2.19
July	50 + 30	103.6	2.07
August	180 + 120	313.1	1.74
September	140 + 80	290.3	2.07
November	180 + 120	317.0	1.76
62+ Malta Government Retail Savings Bond			
October	65 + 35	133.8	2.06

(Source: DMD 2021 Annual Report pages 11 - 12)

The gross outstanding nominal value of MGS as at 31 December 2021 stood at €6.6 billion. This represented an 18% increase over the preceding year-end balance. This was a consequence of the sizeable increase in financing needs due to the negative impact of COVID-19 pandemic. Chart 10 illustrates the distribution of outstanding MGS by year of maturity.

Chart 10: Maturity Profile of Malta Government Stocks as at 31 December 2021



(Source: Financial Report 2021 pages 198 - 199)

The refinancing volume within the next four years is more or less evenly 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. The Directorate may also make use of Bond switches to mitigate further the rollover risk, as it had done in the past, if it is deemed appropriate.

At the beginning of 2021, the Weighted Average Maturity of MGS stood at 8.5 years. By the end of the year, it increased to 9.4 years, further reducing the refinancing risk for the Government.

A publication by the Organisation for Economic Co-operation and Development[25], on the Sovereign Borrowing Outlook for the year 2022, estimated that the average term to maturity of outstanding marketable Central Government Debt in several countries reached almost eight years in 2021; thus, comparing well with the situation in Malta.

Risk Control Procedures

A Medium-Term Debt Management Strategy was published for a four-year period, starting 2019, on which 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 refers.

Table 10: Major Risks faced by Debt Management Directorate

Risk	Details	Action by Management
Market	Risk mainly relates 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. • Adopting prudent risk management policies that feed in the formulation of funding strategies.
Refinancing	Rollover risk is traditionally and conceptually assessed by the debt metric, known as the Weighted Average Maturity.	• Over the past years, DMD has pursued a strategy of lengthening the Weighted Average Maturity of its debt portfolio. In fact, that of MGS has risen steadily from 6.6 to 9.4 years for year ending 2010 to 2021 respectively.

Information Technology Systems

As 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, dealing with debt management.

Over the years, DMD has built up its own comprehensive database of debt. This is held on spreadsheets and managed by the middle office. Such data is widely used for Government debt portfolio analysis, budgetary estimates, formulation of debt management strategies, as well as risk management. These are complemented by the debt recording in CFMS. All records pertaining to debt are backed up on recoverable servers operated by the Malta Information and Technology Agency.

[25] The Organisation for Economic Co-operation and Development 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 for 2021 when compared to the preceding year.

Table 11: Central Government Debt Interest Expense

Description	2021 €	2020 €	Variance €
Local Loans:			
Malta Government Stocks and 62+ Malta Government Retail Savings Bonds	183,803,360	181,195,925	2,607,435
Treasury Bills[26]	238	327	(89)
Sub-Totals (Local)	**183,803,598**	**181,196,252**	**2,607,346**
Foreign Loans	445,157	8,631	436,526
Totals	**184,248,755**	**181,204,883**	**3,043,872**

(Source: Financial Report 2021 pages 147 - 148)

During year 2021, the overall servicing cost of Government Debt totalled €184.2 million, resulting in an increase of €3 million over the previous year. This is 1.7% more than the interest paid in 2020. Despite the substantial amount of MGS issued in 2021, interest on MGS remained stable. To this effect, MGS portfolio Weighted Average Coupon[27] as at 31 December 2021 continued to decrease to 2.4% from the 3.0% registered year earlier.

On the other hand, the higher sub-total local interest outlay was almost entirely due to higher outstanding 62+ Malta Government Retail Savings Bonds which pay a 3% annual coupon. Moreover, the increase in interest paid on foreign loans was attributable to the first interest payments paid on the 30-year 0.30% and 25-year 0.75% loans – 'Support to mitigate Unemployment Risks in an Emergency'.

Impact of Recent COVID-19 Crisis on Public Debt

The Government's funding needs surged in the years 2020 and 2021, as fiscal deficits increased substantially, and the economy contracted significantly in the wake of the COVID-19 pandemic crisis. In fact, as at end 2020 and 2021, total public debt increased by 26% and 19% over the prior year, respectively. An increasing outstanding level of debt also affects the amount of debt to be refinanced, which will most likely be refinanced at higher rates, given the move by the European Central Bank towards the tightening of monetary policies in response to rising inflation.

The Treasury's policy and strategy for meeting its financing needs continued to be that of relying almost exclusively on issuing euro-denominated debt instruments in the domestic capital market. The debt issuance strategy for 2020 and 2021 was a continuation of previous related policies, whereby around 92% of the amount of debt issued was raised from the domestic market, mainly through the competitive issuance (auctions) of MGS. Except for €194 million raised through the 62+ Malta Government Savings Bond over 2020 and 2021, all the debt instruments sold by Government in the domestic market were marketable. In line with past years, the conventional fixed rate used for MGS remained the primary instrument through which the Treasury financed Central Government borrowing requirements for 2020 and 2021.

The Treasury Bill instrument and cash buffers acted as a shock absorber for the sudden and substantial increase in financing needs during the foregoing two years and helped to keep Government funding costs suppressed, since all Treasury Bills issued were allotted at negative interest rates.

[26] Cost represents bank charges. On the other hand, negative interest in favour of Government, received from Treasury Bills, amounting to €3,054,055 (2020: €2,577,239) was reported as Revenue under line item Bank Interest.

[27] 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 2021.

Contingent Liabilities

As reiterated in previous years, DMD is expected to perform a risk assessment prior to granting a guarantee in favour of the respective entity. So far, Government guarantees were not being managed by the former but resided within MFE's remit. Moreover, where contingent liabilities exist, information on their cost and risk aspects should be disclosed in the Government Accounts. Thus, the Directorate is to be properly equipped with adequate resources to carry out the necessary risk assessments. Enhanced communication between Treasury and MFE regarding Government guarantees is also solicited.

Moreover, it had been suggested 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 and also conscious of the conditions that any contingent liabilities could trigger.

However, DMD again confirmed that up to the date of this publication, the responsibility, including the scrutiny and risks arising from Government guarantees, still rested within MFE. Furthermore, since Part 4 of the Government Borrowing and Management of Public Debt Act (Cap. 575) had not yet come into force, the Treasury was not yet informed of any requests made to MFE for new guarantees. Thus, the same concerns as in previous years prevail. The foregoing provision should eventually come into force once an officer with a strong accounting and risk management background is assigned to DMD and the relative notification is published via a legal notice.

Letters of Comfort and Bank Guarantees

The position of contingent liabilities as at 31 December 2021, otherwise referred to as Government Potential Debt, as reported upon in Part I of the Financial Report 2021, and comparative figures for 2020 are reproduced in Table 12.

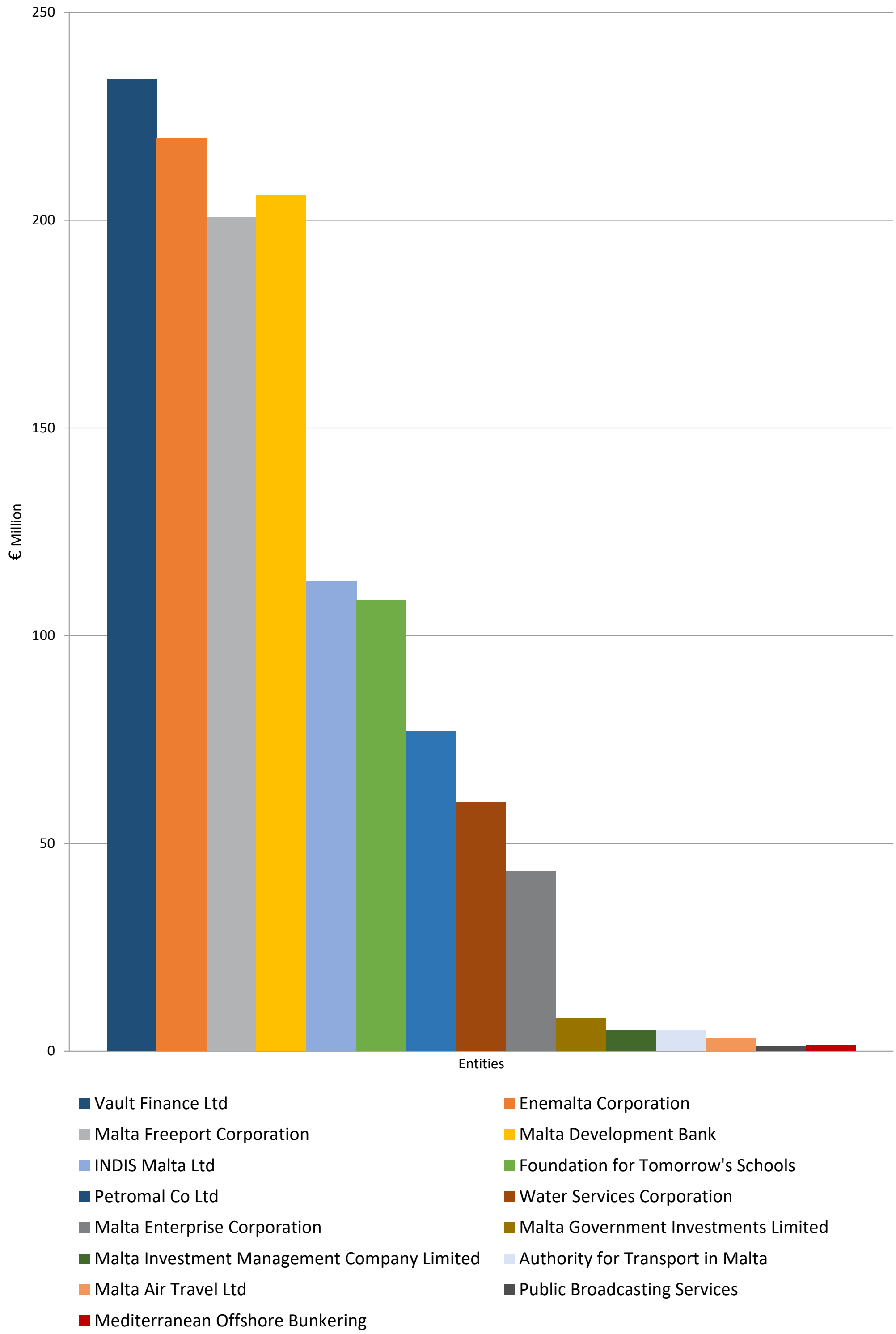
Table 12: Contingent Liabilities

Description	2021 €	2020 €
Government Guarantees:		
Local	862,656,299	825,863,973
Foreign	405,414,821	461,706,120
Sub-totals	**1,268,071,120**	**1,287,570,093**
Letters of Comfort	19,046,576	22,280,926
Totals	**1,287,117,696**	**1,309,851,019**

Premiums received by Government during 2021, with respect to Letters of Comfort and Bank Guarantees, amounted to €2,175,436 (2020: €2,830,235), which revenue was appropriately accounted for by MFE under Guarantee Fees.

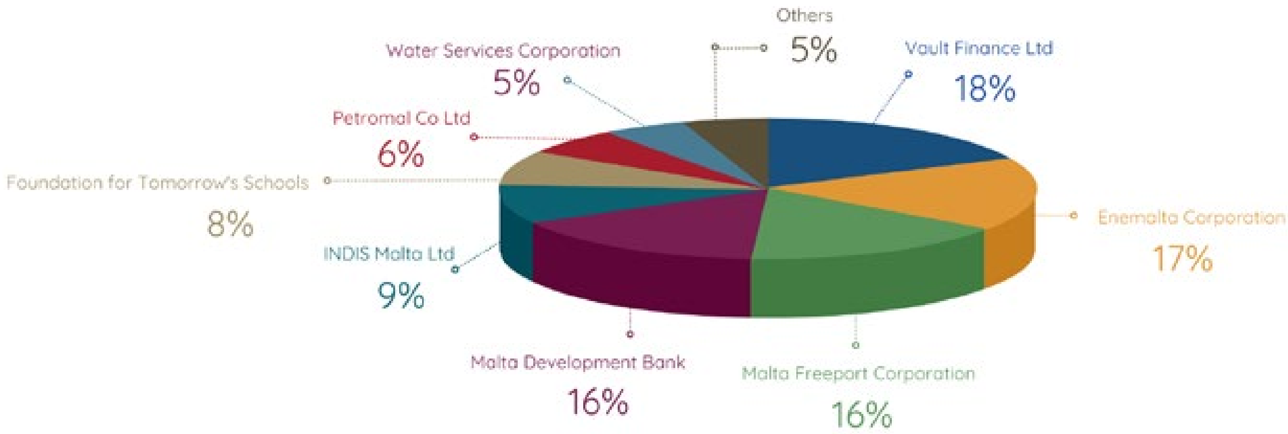
Chart 11 shows the 15 Government entities in favour of which a spread of 42 Letters of Comfort and Bank Guarantees were issued.

Chart 11: Letters of Comfort and Bank Guarantees for the year ended 31 December 2021



A total of 95% of the aggregate amount of guarantees as at end 2021 was given in favour of eight entities. Out of the total guarantees, 41% was absorbed by the energy sector, whilst other sizeable guarantees related to water services, the industrial sector and education. Chart 12 refers.

Chart 12: Outstanding Guarantees



These Letters of Comfort and Bank Guarantees offered to Government entities may potentially translate into dues, up to more than €1.28 billion from public funds, should the entities concerned call upon Government to make good for their debts. The guarantees actually decreased by €22,733,323 (1.7%) when compared to the amount reported in the previous year, which movement also represented 0.15% of GDP for 2021, bringing total guarantees at 8.76% of the foregoing monetary measure.

The National Statistics Office confirmed that, in line with the European System of Accounts 2010, its data includes guarantees granted by the Government entities, but excludes guarantees provided by Government in favour of the latter. This triggered a difference between the figures reported to Eurostat by the National Statistics Office and those reported by Treasury, showing the amount of €1,197,902,387 and €1,287,117,696 respectively, as at end 2021.

Creditors' Analysis

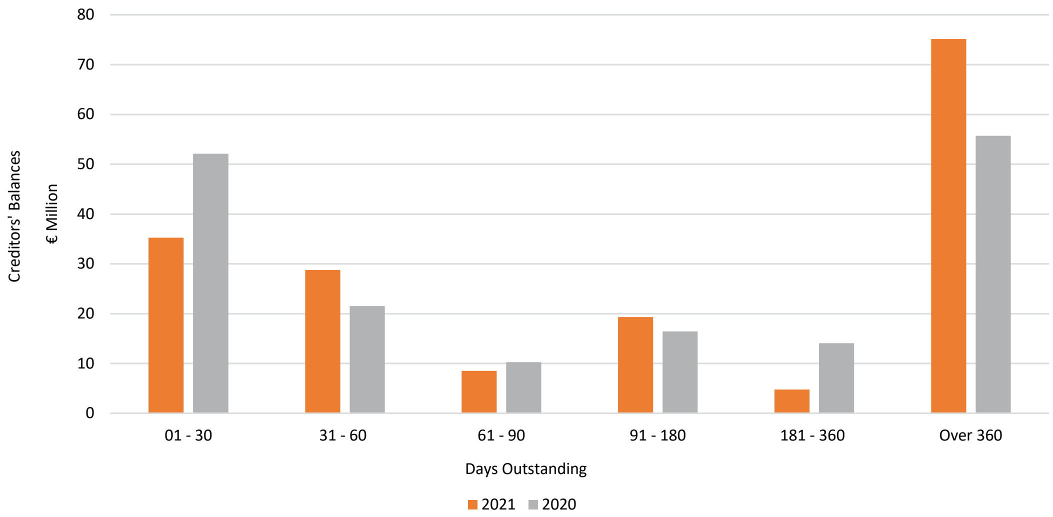
In order to facilitate regular monitoring and evaluation of the implementation of the approved budget, Article 39(5) of the Fiscal Responsibility Act, 2014 (Cap. 534), mandates that *"Heads of Ministries, Departments, Authorities and other entities shall ensure full observance and compliance with the 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 52 Ministries and Departments submitted this analysis as at 31 December 2021 to the Treasury. Aggregate reported creditors amounted to €172,666,307, out of which €939,926 related to contested amounts. The total opening balance as at 1 January 2021 amounted to €171,171,192. Thus, there was a slight increase of less than 1% in creditors in 2021. Three out of the fifty-two Ministries and Departments reported a Nil creditors' balance in their return. Meanwhile, four[28] Ministries and Departments did not submit the return.

Chart 13 depicts an ageing analysis of the aggregate creditors' balances as at 31 December 2021, categorised by the number of days overdue, compared to prior year. The most significant increase was in the amounts outstanding for over 360 days, which registered an increase of over €19 million when compared to end 2020.

Chart 13: Ageing of Creditors' Balances in 2020 and 2021



Credit balances outstanding by over 360 days related mainly to the Ministry for the Economy and Industry[29], Ministry for Transport, Infrastructure and Capital Projects, as well as Mater Dei Hospital, with aggregate amounts of €44.5 million, €25.8 million and €4.5 million respectively.

Transition to Accrual Accounting

Background

The Government of Malta is in the process of 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 these standards has brought about considerable challenges, including the need of a complete overhaul of current policies and circulars, as well as changes in business processes across Government.

[28] Ministry for Social Justice and Solidarity, the Family and Children's Rights, Active Ageing and Community Care Department, Ministry for Home Affairs, National Security and Law Enforcement, as well as the Police.

[29] Pertaining to Lands Authority.

The project also included 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 core CFMS has been live in all Ministries and Departments since 1 April 2021.

Update and Upcoming Developments

An update, including upcoming developments, as at date of reporting follows:

- Since the Go-Live date, users have been supported by CFMS Implementation Team, who has addressed several queries in the past months. Treasury continued to provide online training and issued CFMS post implementation newsletter to users.

- However, by the time of writing of this write-up[30], there were a number of technical issues which were impacting on the operation of CFMS. These issues involved the overall performance of the system, including issues related to the processing and reporting of transactions. Discussions were ongoing between MFE and the respective Consortium to find a solution to the pertinent problems. At this stage it was difficult to anticipate when these issues could be resolved since there were also a number of contractual matters which needed to be discussed with the Department of Contracts.

- Matters in respect of phase three implementation were being discussed at CFMS Implementation Board level. This included budgetary groundwork and forecasting, cost management, as well as the management of financial assets and liabilities.

- IPSAS Project Team and IPSAS Board Committee met to discuss the way forward on a set of Standards and Guidelines. As at date of reporting, there were 14 IPSAS uploaded on the Treasury website together with the respective Guidelines. Two other IPSAS have been approved by the Board but were not yet uploaded on the Treasury website. The remaining IPSAS and the respective Guidelines were work in progress, some of which were at an advanced stage.

- General CFMS training sessions were delivered by the Treasury during September and October 2022. A training portal was also available for all CFMS users.

- Opening balances and financial statements for the first year on an accrual basis had not yet been issued.

General Comments

Both the Treasury as well as MFE staff were cooperative during the conduct of this analysis by NAO. Recommendations were in general acted upon, with corrective action taken immediately, wherever possible.

[30] Being end September 2022.

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 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 avoided conflict of interest in line with 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

December 2022

Arrears of Revenue

Arrears of Revenue 2021

Background

Statements of arrears of revenue were submitted by Government Departments[1] to the Treasury, in line with Treasury Circular No. 3/2022 – 'End of Year (2021) Statements of Account – Arrears of Revenue – Amounts due to Government'.

Table 1: Arrears of Revenue Analysis (2017 – 2021)

	2017 €'000	2018 €'000	2019 €'000	2020 €'000	2021 €'000
Gross outstanding arrears	3,367,138	4,203,320	5,109,558	6,308,114[2]	6,395,457
Arrears estimated as not collectable	2,840,882	3,546,664	4,290,654	5,507,998	5,406,086
Net collectable arrears	526,256	656,656	818,904	800,117[3]	989,371
Past arrears collected	209,512	232,475	329,818	268,186	372,849
Gross domestic product	11,302,828	12,490,970	14,047,607	13,073,853[4]	14,681,315

(Source: Reports by the Auditor General 2017 – 2020, National Statistics Office News Release 154/2022)

An analysis of the figures in Table 1, which displays data relating to arrears of revenue for the years 2017 to 2021, shows that gross outstanding balances as at 31 December 2021 amounted to €6,395,457,030, an increase of €87 million over the previous year's figure (€6,308,114,239). This is substantially less than the increase experienced between 2019 and 2020, which amounted to around €1.2 billion.

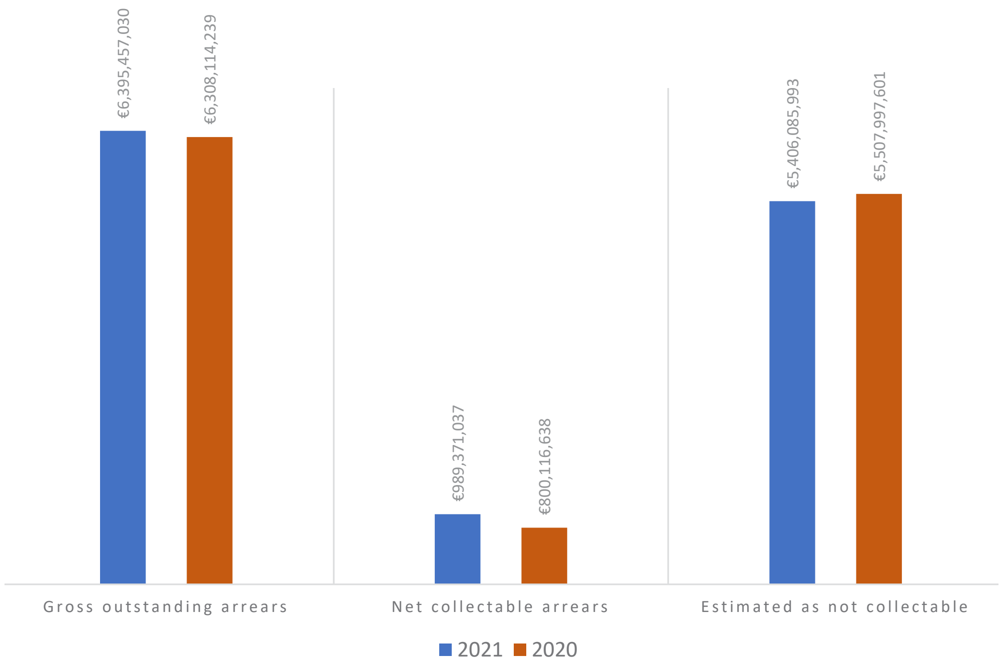
The Department which contributed to most of this increase (73%) over the one-year period was the Office of the Commissioner for Revenue[5], with reported gross collectable arrears of €6,186,738,924 in 2021, a growth over its own figures of €63.5 million pertaining to the preceding year.

Overall, net collectable arrears increased by €189 million from 2020 to 2021, a sheer contrast when compared to the decline in this figure from 2019 to 2020. This upsurge was partly experienced as a result of the reduction in the amounts estimated as not collectable of €102 million over the previous year's figure.

Chart 1 further illustrates the comparison between the figures reported for 2020 and 2021.

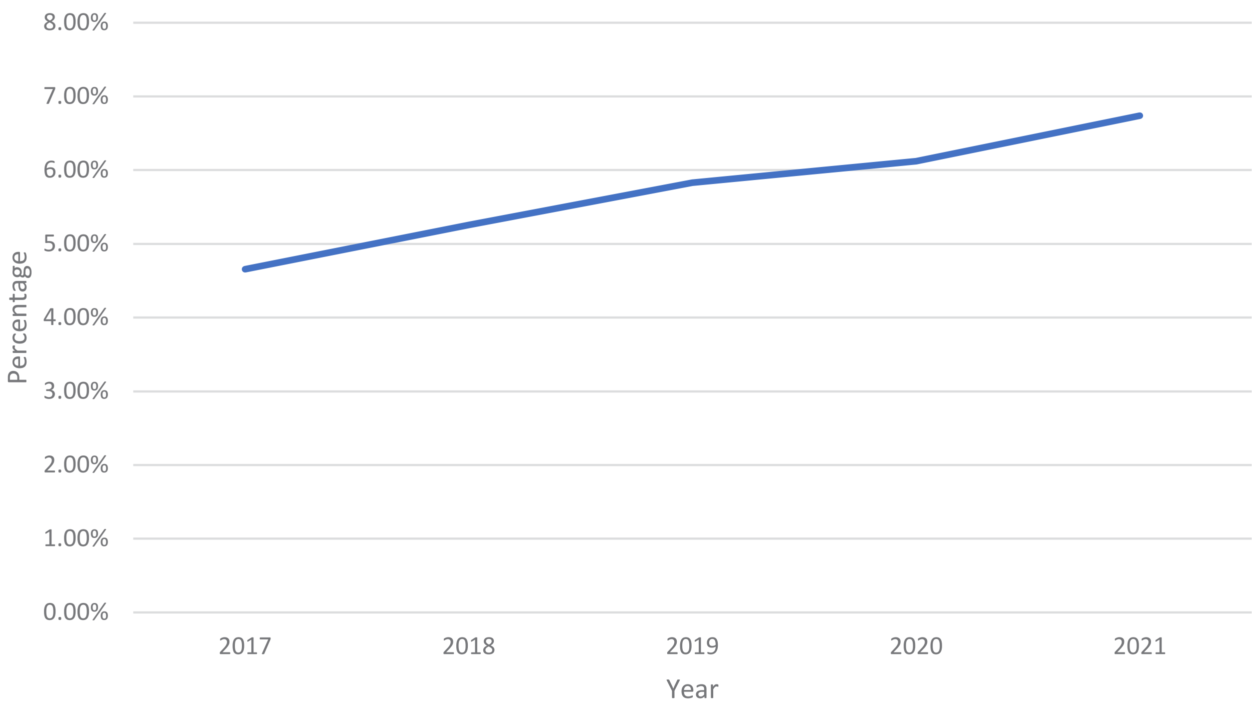
[1] Throughout this write-up, mention of Department refers either to the Ministry, Department, Authority or Entity, as applicable.
[2] Due to various reconciling items, the corresponding opening balance for 2021 was restated at €6,296,808,415.
[3] Due to various reconciling items, the corresponding opening balance for 2021 was restated at €800,109,644.
[4] Revised 2020 figure of gross domestic product as reported in National Statistics Office News Release 154/2022.
[5] Figures include totals for the Departments of Inland Revenue, Capital Transfer Duty and VAT.

Chart 1: Comparison of Closing Balances between End 2020 and 2021



When taken as a percentage of gross domestic product, which increased by almost €1.6 billion from 2020 to 2021, net collectable arrears fluctuated between 4.7% and 6.7% of this economic indicator. As reported last year, this increase had been on an upward trajectory since 2017, a trend which was also maintained during 2021, as shown in Chart 2.

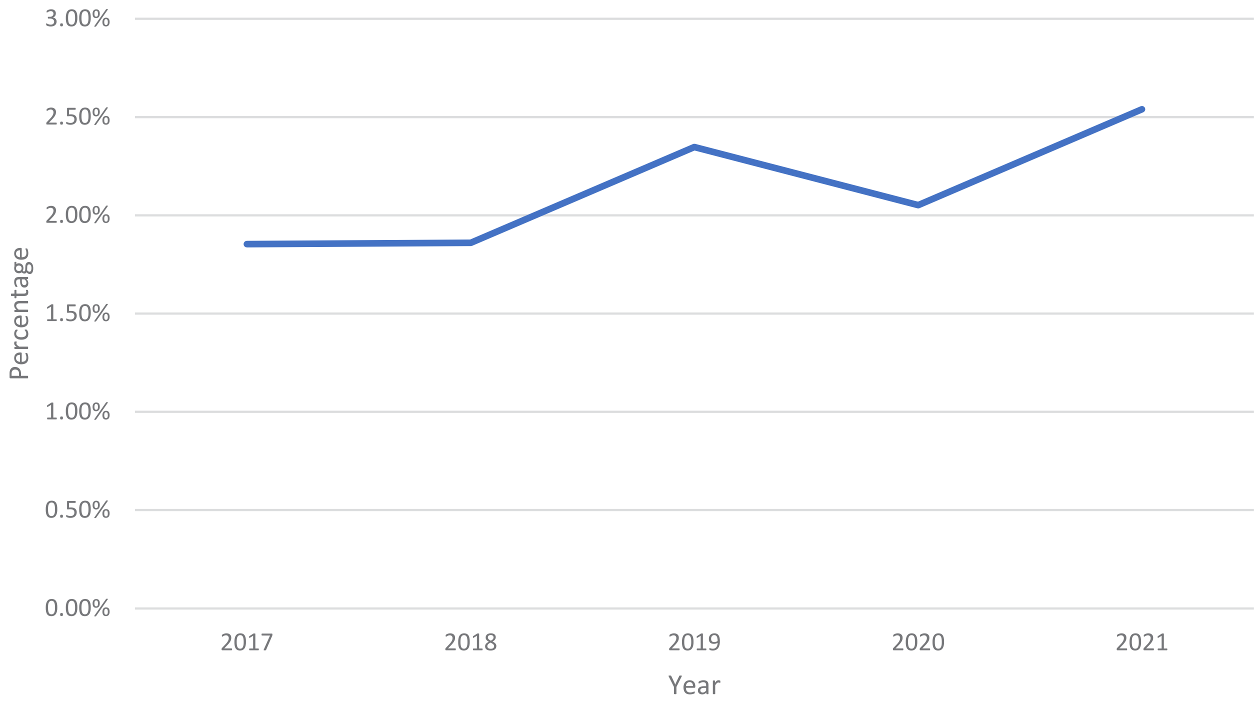
Chart 2: Net Collectable Arrears as Percentage of Gross Domestic Product



Arrears of revenue collected during 2021 increased by €105 million when compared to 2020, which was a positive sign following the decrease in this figure from 2019 to 2020.

Chart 3 illustrates the collected arrears as a percentage of gross domestic product in the last five years. It shows that whilst collection has been constant from 2017 to 2018, it increased steadily over the remaining years, except for a slight dip in 2020.

Chart 3: Collected Arrears as a Percentage of Gross Domestic Product



From further analysis of the statement of arrears of revenue on the 2021 year-end balances (Table on page 72), it was estimated that, out of the total reported gross arrears of revenue:

- €187,224,435[6] was statute-barred;
- €147,955,963 was under contestation and pending court action;
- €186,181,111 was under contestation but not pending court action;
- €583,284,804 was deemed recoverable by departmental action; and
- €1,122,971,085 was considered recoverable.

Returns showing Outstanding Balances

Details of arrears of revenue included in the Table on page 68 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, with the exception of Transport Malta, the Ministry for the Economy and Industry, and the Ministry for Inclusion and Social Wellbeing, which defaulted from submitting this information, whilst the return of the Office of the State Advocate was not received in time for publication.

[6] The difference of €4,167,839,632 between this amount and that quoted in Table on page 72 relates to the figure reported by the VAT Department as statute-barred, which actually reflects the amount estimated as not collectable rather than prescribed by law.

Notes and Comments on Major Balances of Arrears of Revenue

Ministry for Health

The gross closing balance of €36,292,446, reported as arrears of revenue as at 31 December 2021, was made up of the following:

		€
a.	Central Procurement and Supplies Unit	20,973,072
b.	Mater Dei Hospital: Hospital Fees	9,497,905
c.	Mater Dei Hospital: Sundry Bills	1,013,285
d.	Mater Dei Hospital: Overpayments	630,715
e.	European Union Countries E125 Claims	2,575,846
f.	Addolorata Cemetery	1,345,199
g.	National Blood Transfusion Service	37,371
h.	Licences	31,262
i.	Ship Sanitation	28,165
j.	Pharmacy of Your Choice	18,733
k.	Sir Anthony Mamo Oncology Centre	140,292
l.	Primary Health Care	601
	Gross Closing Balance	**36,292,446**

The total newly accrued during the year was €11,019,980, while only €2,715,967 was collected from the gross opening balance of €28,006,968 brought forward from the preceding period. The downward revision of €18,535 pertained mainly to cancelled E125 claims due to duplicate entries or claims not due[7], to the value of €19,944, and debtors amounting to €1,421 pertaining to Sir Anthony Mamo Oncology Centre which were unaccounted for in the previous annual return.

From the gross receivables at year-end, an estimate of €82,425, mainly relating to dues owed to the Oncology Centre, was considered as statute-barred, and therefore not collectable. However, when considering that nearly €7 million have been outstanding for over five years, NAO does not consider the amount estimated as not collectable to be realistic.

The net closing balance of €36,210,021 can be analysed as follows:

	€
Amount outstanding for less than one year (2021)	11,019,979
Amount outstanding for over one but less than two years (2020)	9,137,529
Amount outstanding for over two but less than five years (2017 – 2019)	9,093,735
Amount outstanding for over five but less than ten years (2012 – 2016)	5,662,435
Amount outstanding for over ten but less than fifteen years (2007 – 2011)	895,719
Amount outstanding for over fifteen years (prior to 2007)	400,624
Net Closing Balance	**36,210,021**

[7] Patients were entitled to free healthcare.

Central Procurement and Supplies Unit

The balance of €20,973,072 due to the Central Procurement and Supplies Unit at end of year 2021 related mainly to the provision of medical supplies to St. Vincent de Paul Residence (€18,352,251) and Active Ageing and Community Care (€2,117,885). This amount has been increasing steadily since January 2015 without any reimbursements.

Moreover, an exercise conducted by NAO in this regard[8] revealed that both St. Vincent de Paul Residence and Active Ageing and Community Care did not report any amounts payable to the Central Procurement and Supplies Unit. Although the latter was aware that the amounts in question could not be recovered, it was instructed to keep accruing for such dues without writing them off. However, notwithstanding the material recorded amount, a provision for doubtful debts to this effect was not taken.

Mater Dei Hospital

The debtors of Mater Dei Hospital, comprising hospital fees, sundry bills and overpayments, stood at €10,678,154 at the beginning of the year. Of this amount, €893,850 was collected, while €1,357,601 became newly accrued, resulting in a closing balance of €11,141,905. There were no write-offs during the year. However, notwithstanding the fact that debtors accumulated between 1997 and 2016 reached nearly €4.5 million, none of the amounts were estimated as not collectable as a proper evaluation exercise in this respect has still not been carried out. Through consultation with the legal team of the pertinent Ministry, Management was considering different options for the establishment of a debt recovery programme. The possibility of outsourcing this task was also being considered.

Management was not in a position to support all amounts reported in the return with detailed breakdowns. In particular, such concern was noted with respect to the €893,850 reported as past arrears collected, and to newly accrued overpayments, amounting to €153,184. However, NAO satisfactorily confirmed that the billing process at Mater Dei Hospital with respect to hospital fees, which made up 85% of the hospital's aggregate outstanding balance, was enhanced.

Ministry for Transport, Infrastructure and Capital Projects

Lands Authority

The Lands Authority reported a gross and net closing balance of €56,352,808 in the Arrears of Revenue Return (ARR) for the year ended 31 December 2021.

Ageing Analysis

The outstanding arrears can be analysed as follows:

	€
Amount outstanding for less than one year (2021)	29,217,592
Amount outstanding for over one but less than five years (2017 – 2020)	12,820,788
Amount outstanding for over five years (prior to 2017)	14,314,428
Gross and Net Closing Balance	**56,352,808**

[8] Write-up on page 94 of this publication.

Collection Efforts

In order to recoup outstanding arrears, the Department sent statements to defaulters followed by letters which were issued electronically. Furthermore, the officers in charge contacted defaulters personally to urge them to settle their balances. In the eventuality that tenants still failed to pay, legal action was initiated to avoid prescription.

Although over €14 million have been outstanding for over five years, similar to previous years, the Lands Authority did not report any amounts estimated as not collectable, even though MF Circular No. 10/2001 – 'Government Accrual Accounting: Procedures for the control of Debtors and Creditors', states that a monthly estimate of possible doubtful debts is to be made by the Head of Department or authorised delegate. A balance of €2,175,562 has in fact been declared as statute-barred; however, according to the Authority, such outstanding dues are followed, even if these are under contestation. It usually proceeds with immediate write-off when amounts are deemed as not collectable.

Write-off Approvals

Although the General Financial Regulations, as well as the Lands Authority Write-off Policy stipulate that the approval of the Permanent Secretary is required to write off amounts between €2,500 and €10,000, out of a total write-off amounting to €25,270, the Authority did not request the necessary approval with respect to four amounts, totalling €17,719, that were written off.

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

Social Security Benefits

The Department of Social Security (DSS) reported a figure of €28,801,070 as gross arrears in relation to Social Security Benefits as at end 2021. An analysis of the amounts pertaining to each benefit or assistance have been summarised as follows:

		€
a.	Social Assistance	11,966,736
b.	Age Pension	5,136,649
c.	Retirement Pension	3,194,181
d.	Children's Allowance	2,475,301
e.	Medical Assistance	2,170,746
f.	Widows Pension	1,652,435
g.	Invalidity Pension	507,104
h.	Short Term Benefits	434,911
i.	Disability Pension	385,914
j.	Non-contributory Bonus	316,632
k.	Supplementary Assistance	275,755
l.	Energy Benefit	179,603
m.	In-work Benefits	89,407
n.	Senior Citizen Grant	15,596
o.	Contributory Bonus	100
	Gross Closing Balance	**28,801,070**

Of the total gross arrears, an amount of €4,660,730 was estimated as uncollectable. DSS confirmed that, as in previous years, this calculation includes amounts which have been due for more than 10 years.

Ageing Analysis

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

	€
Amount outstanding for less than one year (2021)	8,089,827
Amount outstanding for over one but less than two years (2020)	2,904,463
Amount outstanding for over two but less than five years (2017 – 2019)	6,232,340
Amount outstanding for over five but less than ten years (2012 – 2016)	6,913,710
Amount outstanding for over ten years (prior to 2012)	4,660,730
Gross Closing Balance	**28,801,070**

Collection Efforts

During 2021, the Overpayment Section issued a total of 6,475 intimation letters and several searches of wills and causa mortis were also conducted through the Inland Revenue Department and the Public Registry, respectively. This was done to identify possible heirs of deceased individuals with outstanding balances of overpayments. Defaulters who ignored the intimation letters were notified by means of a legal letter through the Unit's legal advisor. Moreover, individuals with overpayments greater then €1,500 were served with a judicial letter. Progress of such cases is being jointly monitored by the Authority.

The Income Support and Compliance Division was also conducting an exercise to identify outstanding overpayments which were deemed to be of a small amount, as well other overpayments which were created more than 10 years ago and cannot legally be recouped. Through this exercise, the amount that will be written off will be identified.

During the said year, with the collaboration of the Malta Information Technology Agency and its Chief Information Officer, notification letters have been fully automated. This enhancement enables timely monitoring of outstanding amounts.

Pensions Section

The outstanding balance reported as at 31 December 2021 by the Pensions Section consisted of:

		€
a.	Cost sharing regarding Treasury Pension[9]	46,306,076
b.	Refunds of Deceased Pensioners	64,828
c.	Overpayments	15,293
	Gross Closing Balance	**46,386,197**

During the year under review, the Section collected a total of €663,934 from past arrears, representing just 1.5% of the balance carried forward from the previous period. This resulted in a decrease when compared to the respective amount of 3.3% collected in the preceding year.

[9] 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 debtors was categorised as follows:

	€
Amount outstanding for less than one year (2021)	3,854,306
Amount outstanding for over one but less than two years (2020)	903,710
Amount outstanding for over two but less than five years (2017 – 2019)	24,591,445
Amount outstanding for over five but less than ten years (2012 – 2016)	694,959
Amount outstanding for over ten years (prior to 2012)	16,341,777
Gross Closing Balance	**46,386,197**

Collection Efforts

Letters are sent by the Pensions Section to remind or inform debtors of the amounts due; however, no further action was being taken.

Ministry for Justice, Equality and Governance

Judicial

The Court Services Agency had a gross closing balance of €12,231,603 in arrears as at 31 December 2021, an increase of 9.8% over the amounts due at the beginning of the year. The amount was made up of the following:

		€
a.	Fines: Criminal – Judges Superior Courts	3,720,993
b.	Fines: Criminal – Magistrates Inferior Courts	5,005,190
c.	Fines: Civil – Superior Registry	42,289
d.	Fines: Civil – Inferior Registry	127,246
e.	Fines: Gozo Registry	514,993
f.	Fees: Malta	2,461,054
g.	Fees: Gozo	359,838
	Gross Closing Balance	**12,231,603**

During the year under review, arrears collected amounted to €877,557 which was €185,657 less than the previous year. Newly accrued amounts totalled €2,238,525, an increase of €550,364 over the previous year, with around half of the former amount relating to the Fines Inferior Criminal Courts. Write-off approval was obtained from the respective level of authority, for the aggregate amount of €23,355, pertaining to Malta Court Fees.

The amount of €3,595,048, i.e., 29.4% of the gross closing balance, was considered recoverable through departmental action, whilst the amount of €4,200,001 (34.3%) was to be recouped without departmental action.

The amount of €4,436,554 (36.3%) was considered statute-barred. This includes fines amounting to €3,631,914 that were referred to the Police Department over the years, with the possibility of being converted into imprisonment; these were not yet executed. These dues were estimated as not collectable at year-end.

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

	€
Amount outstanding for less than one year (2021)	2,238,524
Amount outstanding for over one but less than two years (2020)	1,052,516
Amount outstanding for over two but less than five years (2017 – 2019)	1,599,754
Amount outstanding for over five but less than ten years (2012 – 2016)	1,043,169
Amount outstanding for over ten years (prior to 2012)	1,861,086
Net Closing Balance	**7,795,049**

Court Fines

Criminal – Judges Superior Courts

The opening balance of €3,391,187 was revised upwards by a net amount of €60,973. This was mainly due to adjustments necessary when converting fines into prison sentences and amounts collected in the preceding period which were not taken into consideration.

During 2021, only €270,142 from past arrears was collected whilst amounts newly accrued totalled €538,975.

Criminal – Magistrates Inferior Courts

During 2021, €388,993 which is equivalent to 8.5% of the opening balance of €4,552,566, was collected. This mainly related to amounts due from the previous six years. The newly accrued arrears for 2021 amounted to €1,138,148.

The opening balance was revised downwards by a net amount of €296,531. This was due to various deductions, mainly relating to fines which were either converted into imprisonment, revoked, settled in previous year, or appealed.

Civil – Superior Registry

The opening balance of €38,407 was revised downwards by a net amount of €450. An estimated amount of €1,060 was considered as not collectable, €600 was collected from past arrears and €4,932 became newly accrued, resulting in an outstanding balance of €41,229.

Civil – Inferior Registry

During 2021, out of the €66,624 opening balance, which was revised downwards by €1,460, only the amount of €370 (0.56%) was collected. The amount of €62,452, which accrued during the year, was equivalent to 49% of the net collectable arrears as at 31 December 2021.

Gozo – Registry

The amount of €21,822 (4.9%) was collected from the opening balance of €449,205 which was revised downwards by €4,420. The amount of €92,030, which newly accrued during the year, was equal to 17.9% of the net collectable arrears of €514,993 as at 31 December 2021.

Court Fees

Malta

The opening balance of €2,328,661 was slightly revised downwards by €683. During the year, €195,032 was collected from past balances while €351,463 was newly accrued. Dues equivalent to €575,520 were estimated as not collectable. This provision included court registry fees due by a foreigner amounting to €496,169 who was untraceable. The amount €23,355 was also written off during the year.

Gozo

During 2021, only the negligible amount of €597 (0.19%) was collected from the opening balance of €309,909. The amount of €50,526, which accrued during the year, made up 14% of the net collectable closing balance of €359,838.

Ministry for Agriculture, Fisheries, Food and Animal Rights

The Ministry for Agriculture, Fisheries, Food and Animal Rights reported a gross closing balance of €1,389,886 as at year ended December 2021. Out of this amount, €101,823 was considered as not collectable. This resulted in a net balance of €1,288,063, which was split under the following categories:

		€
a.	Hard Standing Facility (Agriculture)	369,992
b.	Public Abattoir	268,494
c.	Fish Market	257,814
d.	Aquaculture	190,283
e.	Paying Agency	110,304
f.	Salaries – Ministry for Agriculture, Fisheries, Food and Animal Rights	59,702
g.	Animal Health and Welfare	31,038
h.	Fisheries	436
	Net Closing Balance	**1,288,063**

Ageing Analysis

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

	€
Amount outstanding for less than one year (2021)	261,896
Amount outstanding for over one but less than two years (2020)	230,698
Amount outstanding for over two but less than five years (2017 – 2019)	214,667
Amount outstanding for over five but less than ten years (2012 – 2016)	570,796
Amount outstanding for over ten years (prior to 2012)	10,006
Net Closing Balance	**1,288,063**

At the end of 2020, Pitkali had a gross closing balance of €19,029 which was considered as not collectable. However, as from 2021, Pitkali was transferred to the Malta Food Agency; thus, the respective figures are not included. In 2021, outstanding dues of €30,895, relating to Salaries, were also transferred to another Ministry, namely the Ministry for the Environment, Climate Change and Planning.

Amounts under Contestation

An amount of €847,542 was reported as being under contestation. This was made up of the following:

a. An amount of €355,721 pertaining to Hard Standing Facility was made up of dues from three vessel owners. Another amount of €110,563 was paid during 2021 by one of these vessel owners, with the remaining balance of €14,904 considered as statute-barred and thus also provided for as bad debt. As reported in previous years, judicial letters were sent regularly along the years to the other two vessel owners with the aim of retrieving the pending dues; however, no amount was recouped in this respect. The Office of the State Advocate recommended that no further court action is to be taken due to lack of evidence, however the remaining amounts totalling €340,817 were not provided for.

b. €238,762 due to the Public Abattoir:

   - A court sentence of a particular case was ruled in favour of the Ministry in 2015. The disputed amount totalled €165,874[10]; however, this still remained pending from a private company. According to the Ministry, any efforts to identify assets belonging to the firm in question were futile. The Office of the State Advocate recommended that, considering that the company ceased to exist in June 2020, the outstanding amount is either to be provided for or written off as a bad debt. However, the Ministry is considering taking action against the company's directors, particularly since, as noted in the court judgement, one of the directors of the company had personally recognised the liability against the Government.

   - According to the Ministry, the other amount of €72,888 relates to a tenderer who failed to honour the contract commitments and was charged penalties as per contract. The respective file could not be traced but it was stated that judicial letters were sent; however, no feedback on the case was received from the Office of the State Advocate, whose office is contacted by way of follow-up every six months by the Public Abattoir. So far, no provision has been taken to cover the possibility of bad debt.

c. €170,940 due to the Paying Agency: Out of a total debtor figure of €186,490, €15,550 was considered as recoverable by departmental action. Another €77,933 was pending court action and relates to debts due since October 2012. The remaining balance of €93,007 was being contested but was not pending court action. The Agency fully provided for €76,186 worth of debts which date back to periods between 2010 and 2016.

d. €66,271 owed to Aquaculture: A legal letter was sent to recover the amount due. Discussions with the debtor were ongoing in order to try and reach an out-of-court settlement agreement. This same situation prevailed also in the prior year.

e. €12,643 relating to Animal Health and Welfare: This balance is due from one veterinarian and a court case has been initiated.

f. €3,205 relating to Salaries: This pertains to one debtor, which has been due since 2014 and a court case with the Ministry was still ongoing.

Amounts written off

A total of €380 was written off during the year following decision by the Objection Board to accept the objection put forward by the three debtors in question.

[10] In 2020, according to the Ministry, this amount needed to be processed for write-off since it was deemed unlikely to be collected.

Collection Efforts

Various measures were taken to collect outstanding amounts, depending on the ageing of the debt. This included contacting debtors personally, issuing reminders, as well as taking legal action with the assistance of the Office of the State Advocate.

In the case of the Fish Market, the Department forwarded statements to the hawkers concerned on a regular basis, for them to pay the pending amounts. In those cases where hawkers did not comply, the Department issued notices, including those through legal means, to inform them to settle their dues without delay. In line with Fish Marketing Regulations (S.L. 425.02), there were instances where defaulters were precluded from making further purchases from the Fish Market until dues were settled. From financial year 2021, the Fish Market was transferred to the Malta Food Agency, but for the year in question the respective arrears of revenue of the Fish Market were still being reported under this Ministry.

Similarly, the Public Abattoir also prohibits debtors from slaughtering at its premises unless the majority of invoices are settled.

Legal action was still ongoing with the Aquaculture's sole debtor.

In the meantime, recovery measures taken at the Paying Agency included the setting up of an Objection Board, letters and frequent reminders to debtors, set-off or settlement agreements, the application of interest on unpaid amounts and legal action if deemed necessary.

With respect to the Animal Health and Welfare, following the publication of Electronic Identification of Dogs Regulations (S.L. 437.101), which was issued in August 2020, a reminder was sent to each veterinarian, reminding them of their dues. The same publication also indicated that any outstanding fees will trigger a 5% interest charge, which is in fact being charged accordingly. Requests for payments started being sent quarterly as from 2021.

In relation to the Hard Standing Facility, several legal notices were sent to the owners of the vessels requesting the respective payments, but this proved futile. The Office of the State Advocate recommended that no further court action is to be taken since there was no sufficient evidence to proceed with a court case against the said parties. This situation dates back to the years when no contract was entered into whenever a vessel was hoisted within the facility.

Estimated Amounts considered as not collectable

Following an analysis carried out on each individual pending amount, every Section decides what further action needs to be taken, once several possible collection procedures are exhausted. The amount of €101,823, which related to various long outstanding cases, was considered as not collectable.

Ministry for Education

Ministry

From the gross opening balance of €1,375,111, the amount of €415,747 was recorded as collected, whilst €220,359 was newly accrued. The estimated amount of €7,342 was considered difficult to recover, leaving a net collectable amount of €1,172,381.

Education Department

From the gross opening balance of €510,210, the amount of €26,926 was collected, whilst €41,603 was newly accrued. An estimated amount of €195,922 was taken as a provision for bad debts, resulting in a net collectable figure of €328,965.

General Comments

As reported by NAO in previous years, the Ministry continued to show minimal interest in the proper reporting of arrears. In this regard, this Office's concerns are reiterated below:

a. Both returns were revised following the original submission due to inconsistencies and/or incomplete information noted by the Auditors. As an example, in both returns the estimated amounts considered as not collectable were also classified as recoverable by departmental action in the analysis of the same return.
b. Figures reported were again not adequately supported.
c. A consolidated ageing of debtors, analysed by year, was not prepared, neither by the Ministry nor by the Department.

Ministry for Home Affairs, National Security and Law Enforcement

Police Department

The Police Department reported a gross closing balance amounting to €1,260,273, for the year ended 31 December 2021, comprising:

		€
a.	Miscellaneous Fines (Airline and Shipping Companies)	104,530
b.	Services to Third Parties (Extra Duty)	679,105
c.	Sporting Licences (Weapons)	379,282
d.	Other Revenue	97,356
	Gross Closing Balance	**1,260,273**

From the total of €1,260,273, an amount of €19,701 was estimated as not collectable, leaving a net closing balance of €1,240,572. NAO compiled the following ageing analysis of the debtors, excluding those relating to sporting licences, as the respective ageing report[11] was still not available.

	€
Amount outstanding for less than one year (2021)	749,568
Amount outstanding for over one but less than two years (2020)	61,172
Amount outstanding for over two but less than five years (2017 – 2019)	49,913
Amount outstanding for over five but less than ten years (2012 – 2016)	4,417
Amount outstanding for over ten years (prior to 2012)	15,921
Net Closing Balance	**880,991**

[11] The only breakdown provided was the total arrears under each locality, in aggregate amounting to €156,273 and which amounts have been due for more than four years.

The Department identified the amount of €175,974 as statute-barred and another amount of €425,367 to be recouped following departmental action, whilst a further €29,874 was pending court action.

During 2021, the amount reported under Services to Third Parties, increased to €679,105[12] compared to €11,579 reported in the previous year. This was due to change in policy, since previously, the Department only accrued for 2% administration charges, since police officers were remunerated when third parties settled the related dues. As from 2021, after obtaining approval from the Ministry for Finance and Employment, the Department started paying the officers immediately for services rendered, hence accrued for the respective revenue.

On the other hand, there was a significant decrease of newly accrued amounts categorised as Other Revenue, from €98,429 in 2020 to €1,956 in 2021, since upon Treasury's instructions, salary refunds due to the Department were no longer to be reported as debtors under this category.

Ministry for Finance and Employment

The Ministry for Finance and Employment reported a gross and net arrears balance of €1,080,070[13] as at end December 2021. This was split under the following categories:

		€
a.	Quality Assurance Unit	30,793
b.	Malta Chess Federation	967
c.	Institute for International Public Sector Accounting Standards	3,600
d.	Private Individuals	388
e.	Enemalta – Guarantee	36,667
f.	Malta Air Travel – Guarantee	34,355
g.	Foundation for Tomorrow's Schools – Guarantee	780,000
h.	Petromal – Guarantee	170,000
i.	Continental Shelf	23,300
	Gross and Net Closing Balance	**1,080,070**

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

	€
Amount outstanding for less than one year (2021)	1,063,884
Amount outstanding for over one but less than two years (2020)	3,214
Amount outstanding over two but less than five years (2017 – 2019)	3,680
Amount outstanding over five but less than ten years (2012 – 2016)	7,766
Amount outstanding over ten years (prior to 2012)	1,526
Gross and Net Closing Balance	**1,080,070**

[12] Out of which, the amount of €536,635 was collected by 30 June 2022.
[13] Made up of two returns, Ministry for Finance and Employment (€1,056,770) and Continental Shelf (€23,300).

Collection Efforts

The bulk of the pending balances at end 2021 amounting to €1,044,322[14] (97%) were amounts due by Government-owned entities. The Ministry confirmed that action is being taken to recoup the amounts by sending regular email reminders to the entities concerned to settle their dues at the earliest. The remaining 3% (€35,748) of the arrears of revenue was made up of small amounts of annual registration fees and fines payable by individual warrant holder accountants. Despite the efforts of the Quality Assurance Unit within this Ministry, a number of warrant holders still did not regularise their position; thus, a disciplinary committee was set up to start proceedings against these defaulters. As a result, the Accountancy Board within the Ministry, decided to suspend certain individuals. Additional disciplinary proceedings were scheduled for 2022.

Commissioner for Revenue

Inland Revenue Department

The Inland Revenue Department reported a gross closing balance of €1,620,711,172 in its ARR for the year ended 31 December 2021, classified as follows:

		€
a.	Pre '99 System (Up to Year of Assessment 1998)	152,989,314
b.	Self-assessment System (Post Year of Assessment 1998)	772,243,753
c.	Final Settlement System (FSS) (Employers)	213,339,556
d.	Social Security Contributions Class 1 (Employers)	339,522,412
e.	Social Security Contributions Class 2 (Self-employed or Self-occupied)	142,616,137
	Gross Closing Balance	**1,620,711,172**

Collectability of Arrears

Out of the gross closing balance, the amount of €1,198,166,063 was considered as not collectable, thus resulting in net collectable arrears totalling €422,545,109.

As reported in previous years, the highest instance of non-collectability related to the Self-assessment System (Post Year of Assessment 1998), with €621,586,221 (80.5%) estimated as uncollectable out of gross arrears of €772,243,753.

Balances from the Pre '99 System also had a high percentage of non-collectability amounting to 90%, which was estimated to amount to €137,690,383.

The non-collectability rate of the FSS and Social Security Contributions (Class 1) stood at 70% and 50.2% respectively, resulting in provisions for bad debts of €149,337,689 and €170,334,167. Furthermore, a balance of €119,217,603, owed in relation to Class 2 Contributions, was considered as not collectable.

[14] Made up of Ministry for Finance and Employment (€1,021,022) and Continental Shelf (€23,300).

Ageing Analysis

The ageing of the net collectable arrears can be analysed as follows:

	€
Amount outstanding for less than one year (2021)	80,735,578
Amount outstanding for over one but less than two years (2020)	62,472,923
Amount outstanding for over two but less than five years (2017 – 2019)	114,933,305
Amount outstanding for over five but less than ten years (2012 – 2016)	67,817,935
Amount outstanding for over ten but less than twenty years (2002 – 2011)	63,104,677
Amount outstanding for over twenty years (prior to 2002)	33,798,212
Net Closing Balance	**422,862,630**[15]

Collection Efforts

The Collection Section within the Commissioner for Revenue regularly issues various statements highlighting the outstanding amounts, 10-day and 15-day notices for FSS dues, as well as demand notes and judicial letters for both FSS and income tax.

Further enforcement included the filing of garnishee orders and privileges on immovable property. A number of reminders were also sent to Social Security Class 2 defaulters. Moreover, action through the Criminal Court was taken against a number of employers both with regard to the non-submission of statutory returns and non-payment of the respective tax.

Capital Transfer Duty

The gross closing balance as reported by the Capital Transfer Duty as at end December 2021 consisted of:

		€
a.	Duty on Documents	28,908,078
b.	Death and Donation Duty	4,611,928
	Gross Closing Balance	**33,520,006**

Out of this gross closing balance, an amount of €12,461,348 was reported as being under contestation, while €24,691,397 was considered as not collectable. This resulted in net collectable arrears pertaining to Duty on Documents and Death and Donation of €7,952,343 and €876,266 respectively.

[15] The total of the ageing analysis differs from the net collectable arrears by €317,521. The amount in question, which relates to amounts due to the Inland Revenue Department in connection with the Pre '99 System collection schemes, is included in the ageing of debtors but excluded from the return.

Ageing Analysis

The outstanding balances were analysed as follows:

	€
Amount outstanding for less than one year (2021)	3,134,022
Amount outstanding for over one but less than two years (2020)	516,422
Amount outstanding for over two but less than five years (2017 – 2019)	511,481
Amount outstanding for over five but less than ten years (2012 – 2016)	193,601
Amount outstanding for over ten but less than fifteen years (2007 – 2011)	589,421
Amount outstanding for over fifteen but less than twenty years (2002 – 2006)	1,022,296
Amount outstanding for over twenty years (prior to 2002)	2,861,366
Net Closing Balance	**8,828,609**

Amounts under Contestation

Duty on Documents under contestation amounted to €10,692,200, while €1,769,148 pertained to Death and Donation Duty. The majority of the former amount, relating to 1,007 cases and amounting to €9,009,732 (84%), were statute-barred. Thus, the likelihood of the non-collection of these amounts is very high. The remaining balance of almost €1.7 million (relating to 245 cases) was either undergoing collection procedures or dealt with by the Administrative Review Tribunal at objection stage; with their collectability also more improbable.

Revisions

Downward revisions during 2021, totalling €2,083,097, were mainly due to revaluations made by architects following objections, which at times also led to the cancellation of claims.

Estimated Amounts considered as not collectable

The dues estimated as not collectable during the year amounted to €24,691,397 (2020: €23,400,706), and in the majority of cases, related to additional duty imposed on buyers and sellers of property. A provision of 10% was taken for newly accrued arrears and a gradual higher percentage reaching 80% for the remaining amounts due, depending on their ageing.

Collection Efforts

During 2021, the Department issued 1,167 reminders and submitted 200 letters from the Legal Unit to various debtors. Furthermore, it proceeded with 436 demand notices, 3 garnishee orders and 100 formal legal warnings. There were also two applications for the actual withdrawal of funds. Collection procedures are automated, thus ensuring timely action.

VAT Department

The net closing balance as reported by the Value Added Tax (VAT) Department in its ARR for the year ended 31 December 2021 comprised:

		€
a.	VAT (post-1998)	353,984,093
b.	VAT (pre-1997)	620,381
c.	VAT (pre-1995)	631,588
d.	Customs and Excise Tax	640,714
e.	Eco-contribution (Accommodation)	7,924,353
f.	Eco-contribution (Environmental)	866,985
	Net Closing Balance	**364,668,114**

The gross closing balance amounted to €4,532,507,746. A total balance of €4,167,839,632 (92%) was reported as not collectable by the VAT Department; a decrease of €120,632,649 over the previous year. The figure of uncollectable amounts includes tax calculated on estimated audit assessments, as well as penalties and relative interest generated when a taxpayer fails to submit a VAT return by the due date.

The newly accrued figure for 2021 (€1,016,480,438) was much lower than the one for 2020 (€1,975,883,791). According to Management, this was due to the change in the Estimated Tax Generated formula that was implemented in January of 2021, whereby the automated capping for the maximum estimated tax amount per tax period was substantially reduced from €580,000 to €50,000.

On the other hand, increases in the newly accrued figures were noted with regard to Eco-contribution (Accommodation) (€5,809,808) and Eco-contribution (Environmental) (€513,434) when compared to the previous year. The Department confirmed that an audit was commissioned by the Eco-contribution Approving Body (under the Ministry responsible for the Environment) on recycling schemes, whereby the exemptions previously granted were reduced. This decision triggered an increase in the Eco-contribution (Accommodation) payable. However, no reply was forthcoming to justify the reason for increase in the pending Eco-contribution (Environmental).

As reported in previous years, this time again, an ageing analysis of net collectable arrears was not made available to NAO. In addition, for the fourth consecutive year, the VAT Department's figures of the arrears of revenue were once again excluded from the Commissioner for Revenue's debtors' return.

To recoup arrears due, various approaches were taken, including issuing of regular demand notices, judicial letters, the filing of privileges on immovable property, as well as garnishee orders. Furthermore, the Collection Section accepted and processed a number of remission applications and repayment commitments. With respect to VAT (pre-1995) and Customs and Excise Tax arrears, an aggregate amount of €12,391 was recovered mainly through legal action and remission. No action was taken with respect to VAT (pre-1997) in view of the ageing of these dues.

Customs

The net closing balance reported by Customs at year ending 2021 consisted of:

		€
a.	Import and Excise Duties	9,976,007
b.	Licences, Taxes and Fines	1,231,425
c.	Reimbursements	1,279,377
	Net Closing Balance	**12,486,809**

Amounts under Contestation

The Department reported an aggregate of €7,410,618 as contested, out of which, €7,156,790 related to pending court cases. Another €36,333 was considered as statute-barred. Notwithstanding that over €6.5 million have been due for over 10 years, only €8,549 was indicated as uncollectable in the ARR.

Ageing Analysis

The ageing of the net collectable arrears can be analysed as follows:

	€
Amount outstanding for less than one year (2021)	3,485,382
Amount outstanding for over one but less than two years (2020)	669,983
Amount outstanding for over two but less than five years (2017 – 2019)	149,231
Amount outstanding for over five but less than ten years (2012 – 2016)	1,628,531
Amount outstanding for over ten but less than fifteen years (2007 – 2011)	5,897,703
Amount outstanding for over fifteen but less than twenty years (2002 – 2006)	549,675
Amount outstanding for over twenty years (prior to 2002)	106,304
Net Closing Balance	**12,486,809**

Collection Efforts

Regulation 45 of the Customs Regulations (S.L. 37.05) was amended through the Budgetary and other Measures Implementation Act (Act XVIII of 16 April 2021). Defaulting economic operators have, since then, been denied access to Customs' further services until arrears were duly settled. Furthermore, with effect from 16 November 2021, through the Enforcement Measures to Recoup Established Duties and Taxes Regulations (S.L. 337.47), Customs has introduced the appropriation of property and disposal thereof to recoup its dues. Where legal action is warranted, the Legal Section issues an official letter to initiate court action and garnishee orders to the local banks so that Customs is notified through the Court whether the respective debtors have any funds available.

Conclusion

NAO commends the various Departments, which have once again made substantial collection efforts in pursuit of their outstanding debts. A fact, which is clearly reflected in the increase in amounts collected when compared to 2020.

This Office, however, is still concerned on the substantial amount of arrears, approximately 85%, that are estimated as not collectable. Whilst prudence is important in the reporting of these figures, NAO reiterates once again that it is also imperative that a true and fair picture is given of the amounts owed to Government.

Arrears of Revenue 2021[a]

Department		Gross Outstanding on 31/12/2020 [b]	Collected during 2021	Written off 2021	Revisions 2021	Arrears 2021
Office of the Prime Minister [c, d]	€	2,078	7,319	-	-	11,917
Department of Information	€	67,615	64,401	3,094	-	40,510
Government Printing Press	€	817,253	371,855	-	-	358,132
Malta Gaming Authority	€	3,023,821	563,180	-	-	975,362
Malta Communications Authority	€	362,023	330,901	-	-	1,101,278
Industrial and Employment Relations	€	286,252	1,653	-	-	-
Ministry for Health	€	28,006,968	2,715,967	-	(18,535)	11,019,980
Ministry for Foreign and European Affairs	€	182,861	39,663	-	272	54,436
Ministry for Senior Citizens and Active Ageing						
Active Ageing and Community Care	€	387,371	48,181	-	-	-
Ministry for the National Heritage, the Arts and Local Government	€	-	-	-	-	9,819
Ministry for Transport, Infrastructure and Capital Projects	€	867,136	631,632	2,879	-	166,834
Transport Malta [e, f]	€	e	e	e	e	e
Lands Authority [c, d]	€	37,267,636	9,614,527	25,270	(5,214)	28,730,183
Ministry for Social Justice and Solidarity, the Family and Children's Rights						
Social Security Benefits	€	26,818,001	4,563,903	54,294	(52,835)	6,654,101
Pensions Section	€	43,187,272	663,934	-	2,661	3,860,198
Ministry for Justice, Equality and Governance	€	61,287	1,724	-	10,615	68,477
Judicial	€	11,136,561	877,557	23,355	(242,571)	2,238,525
Office of the State Advocate [g]	€	289,180	g	g	g	g
Ministry for Agriculture, Fisheries, Food and Animal Rights [d, h]	€	1,415,908	313,190	380	28,572	258,976
Ministry for Education	€	1,885,321	442,673	-	-	261,962
Ministry for the Economy and Industry [e, i]	€	e	e	e	e	e
Commerce	€	2,117,449	3,864	-	-	74,889
Ministry for Inclusion and Social Wellbeing [e, j]	€	j	e	e	e	e

Gross Outstanding on 31/12/2021	Gross Variation	Amounts Est. as not Collectable	Net Collectable Arrears as at 31/12/2021	Net Collectable Arrears as at 31/12/2020	Net Variation	Due from Govt. Depts. and Para. Bodies	Due from Individuals and Private Cos.	Amounts Coll. during January 2022	Balance as at 31/01/2022
6,676	4,598	-	6,676	6,237,968	(6,231,292)	-	6,676	-	6,676
40,630	(26,985)	-	40,630	67,615	(26,985)	40,630	-	17,160	23,470
803,530	(13,723)	-	803,530	817,253	(13,723)	786,349	17,181	86,096	717,434
3,436,003	412,182	3,034,098	401,905	126,163	275,742	37,790	364,115	819,971	(418,066)
1,132,400	770,377	-	1,132,400	362,023	770,377	30,715	1,101,685	1,082,225	50,175
284,599	(1,653)	206,238	78,361	80,015	(1,654)	-	78,361	163	78,198
36,292,446	8,285,478	82,425	36,210,021	27,925,963	8,284,058	23,625,541	12,584,480	-	36,210,021
197,906	15,045	-	197,906	182,862	15,044	166,855	31,051	4,234	193,672
339,190	(48,181)	-	339,190	387,371	(48,181)	-	339,190	34,655	304,535
9,819	9,819	-	9,819	-	9,819	-	9,819	-	9,819
399,459	(467,677)	44,375	355,084	833,406	(478,322)	297,348	57,736	19,593	335,491
e	e	e	e	f	f	e	e	e	e
56,352,808	19,085,172	-	56,352,808	38,302,567	18,050,241	12,582,885	43,769,923	900,208	55,452,600
28,801,070	1,983,069	4,660,730	24,140,340	22,640,255	1,500,085	-	24,140,340	467,671	23,672,669
46,386,197	3,198,925	-	46,386,197	43,187,271	3,198,926	46,306,076	80,121	-	46,386,197
138,655	77,368	-	138,655	61,287	77,368	121,565	17,090	-	138,655
12,231,603	1,095,042	4,436,554	7,795,049	6,572,004	1,223,045	-	7,795,049	144,324	7,650,725
g	g	g	g	228,582	g	g	g	g	g
1,389,886	(26,022)	101,823	1,288,063	1,390,272	(102,209)	25	1,288,038	170,339	1,117,724
1,704,610	(180,711)	203,264	1,501,346	1,682,927	(181,581)	-	1,501,346	-	1,501,346
e	e	e	e	-	e	e	e	e	e
2,188,474	71,025	2,168,885	19,589	14,296	5,293	-	19,589	809	18,780
e	e	e	e	j	e	e	e	e	e

Arrears of Revenue 2021[a] *cont./*

Department		Gross Outstanding on 31/12/2020 [b]	Collected during 2021	Written off 2021	Revisions 2021	Arrears 2021
Ministry for the Environment, Climate Change and Planning	€	30,894	16,949	-	-	5,059
Ministry for Gozo	€	319,966	35,360	-	-	8,959
Ministry for Home Affairs, National Security and Law Enforcement						
Armed Forces of Malta	€	203,026	68,748	-	(16)	91,186
Police	€	575,452	145,159	11,824	(8,040)	849,844
Civil Protection	€	50,820	46,808	-	-	26,145
Ministry for Tourism and Consumer Protection	€	951,121	126,468	-	(2,526)	3,730
Cleansing and Maintenance	€	130,985	47,944	-	-	64,872
Ministry for Energy, Enterprise and Sustainable Development	€	6,348	6,348	-	-	43,527
Ministry for Finance and Employment [k]	€	76,991	60,805	-	-	1,063,884
Commissioner for Revenue:						
Income Tax	€	872,714,865	23,908,079	-	(208,451,169)	284,877,450
Social Security Contributions: Class 1 and Class 2	€	452,404,171	94,999,821	-	(1,208,244)	125,942,443
Final Settlement System	€	217,352,441	76,777,582	-	(1,400,811)	74,165,508
Duty on Documents	€	29,014,091	1,144,477	579	(2,083,097)	3,122,140
Death and Donation Duty	€	4,611,928	-	-	-	-
VAT	€	4,547,125,235	147,973,096	24	(883,124,807)	1,016,480,438
Customs	€	12,895,365	6,233,250	6,144	1,121,320	4,718,067
Contracts	€	162,723	1,750	-	-	-
Totals [l]	**€**	**6,296,808,415**	**372,848,768**	**127,843**	**(1,095,434,425)**	**1,567,348,831**

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. The difference in opening balance relates to figures for accounts, which featured in last year's return but not this year.

d. Opening balance 2021 did not tally with closing balance 2020 (vide comments where applicable).

e. The ARR for 2021 was not submitted.

f. The ARR for 2020 was not submitted.

g. The ARR for 2021 was not received in time for publication.

h. Difference in opening balance explained on page 57.

i. Figures for the Television Licensing Unit should also have been shown under the return of the Ministry for the Economy and Industry.

j. Ministry was not in place in 2020, thus no return was available at the time.

k. Includes figures for the Continental Shelf Department.

l. Totals are incomplete in view of the applicable points above.

Gross Outstanding on 31/12/2021	Gross Variation	Amounts Est. as not Collectable	Net Collectable Arrears as at 31/12/2021	Net Collectable Arrears as at 31/12/2020	Net Variation	Due from Govt. Depts. and Para. Bodies	Due from Individuals and Private Cos.	Amounts Coll. during January 2022	Balance as at 31/01/2022
19,004	(11,890)	-	19,004	30,894	(11,890)	-	19,004	350	18,654
293,565	(26,401)	232,602	60,963	255,296	(194,333)	60,183	780	-	60,963
225,448	22,422	113,830	111,618	89,196	22,422	60,004	51,614	100,808	10,810
1,260,273	684,821	19,701	1,240,572	555,752	684,820	476,817	763,755	321,081	919,491
30,157	(20,663)	-	30,157	50,820	(20,663)	455	29,702	-	30,157
825,857	(125,264)	-	825,857	951,123	(125,266)	-	825,857	70	825,787
147,913	16,928	75,827	72,086	114,133	(42,047)	58,872	13,214	24,229	47,857
43,527	37,179	-	43,527	6,348	37,179	22,488	21,039	34,589	8,938
1,080,070	1,003,079	-	1,080,070	76,992	1,003,078	1,044,321	35,749	170,000	910,070
925,233,067	52,518,202	759,276,604	165,956,463	109,281,773	56,674,690	-	165,956,463	2,546,583	163,409,880
482,138,549	29,734,378	289,551,770	192,586,779	190,463,681	2,123,098	-	192,586,779	7,891,772	184,695,007
213,339,556	(4,012,885)	149,337,689	64,001,867	65,205,731	(1,203,864)	-	64,001,867	2,971,860	61,030,007
28,908,078	(106,013)	20,955,735	7,952,343	9,349,047	(1,396,704)	-	7,952,343	127,797	7,824,546
4,611,928	-	3,735,662	876,266	876,266	-	-	876,266	-	876,266
4,532,507,746	(14,617,489)	4,167,839,632	364,668,114	258,652,954	106,015,160	-	364,668,114	-	364,668,114
12,495,358	(400,007)	8,549	12,486,809	12,886,815	(400,006)	63,431	12,423,378	2,932,895	9,553,914
160,973	(1,750)	-	160,973	162,723	(1,750)	-	160,973	-	160,973
6,395,457,030	**98,937,795**	**5,406,085,993**	**989,371,037**	**800,109,644**	**189,489,975**	**85,782,350**	**903,588,687**	**20,869,482**	**968,501,555**

Arrears of Revenue Analysis of the Outstanding Balance as at 31 December 2021[a]

Department		Net Collectable Arrears as at 31/12/2021	Amounts Est. as not Collectable	Gross Outstanding on 31/12/2021	Analysed as follows:				
						Under Contestation			
					Statute-barred	Pending Court Action	Not pending Court Action	Recoverable by Dept. Action	Considered Recoverable
Office of the Prime Minister	€	6,676	-	6,676	-	-	-	-	6,676
Department of Information	€	40,630	-	40,630	-	-	-	40,630	-
Government Printing Press	€	803,530	-	803,530	-	-	-	803,530	-
Malta Gaming Authority	€	401,905	3,034,098	3,436,003	-	2,940,515	-	495,488	-
Malta Communications Authority	€	1,132,400	-	1,132,400	1,132,400	-	-	-	-
Industrial and Employment Relations	€	78,361	206,238	284,599	-	4,135	-	270,343	10,121
Ministry for Health	€	36,210,021	82,425	36,292,446	82,425	-	-	15,236,949	20,973,072
Ministry for Foreign and European Affairs	€	197,906	-	197,906	-	-	-	197,906	-
Ministry for the Senior Citizens and Active Ageing									
Active Ageing and Community Care	€	339,190	-	339,190	-	339,190	-	-	-
Ministry for the National Heritage, the Arts and Local Government	€	9,819	-	9,819	-	-	-	-	9,819
Ministry for Transport, Infrastructure and Capital Projects	€	355,084	44,375	399,459	16,781	16,949	10,645	355,084	-
Transport Malta [b]	€	b	b	b	b	b	b	b	b
Lands Authority	€	56,352,808	-	56,352,808	2,175,562	1,890,633	5,831,076	34,168,704	12,286,833
Ministry for Social Justice and Solidarity, the Family and Children's Rights									
Social Security Benefits	€	24,140,340	4,660,730	28,801,070	4,660,730	-	195,716	5,904,264	18,040,360
Pensions Section	€	46,386,197	-	46,386,197	-	-	-	46,386,197	-
Ministry for Justice, Equality and Governance	€	138,655	-	138,655	-	-	-	59,563	79,092
Judicial	€	7,795,049	4,436,554	12,231,603	4,436,554	-	-	3,595,048	4,200,001
Office of the State Advocate [c]	€	c	c	c	c	c	c	c	c
Ministry for Agriculture, Fisheries, Food and Animal Rights	€	1,288,063	101,823	1,389,886	25,637	398,813	448,729	48,006	468,701

Arrears of Revenue Analysis of the Outstanding Balance as at 31 December 2021[a] *cont./*

Department		Net Collectable Arrears as at 31/12/2021	Amounts Est. as not Collectable	Gross Outstanding on 31/12/2021	Analysed as follows:				
						Under Contestation			
					Statute-barred	Pending Court Action	Not pending Court Action	Recoverable by Dept. Action	Considered Recoverable
Ministry for Education	€	1,501,346	203,264	1,704,610	-	-	-	203,264	1,501,346
Ministry for the Economy and Industry [b, d]	€	b	b	b	b	b	b	b	b
Commerce	€	19,589	2,168,885	2,188,474	2,144,411	24,474	-	-	19,589
Ministry for Inclusion and Social Wellbeing [b]	€	b	b	b	b	b	b	b	b
Ministry for the Environment, Climate Change and Planning	€	19,004	-	19,004	-	-	-	19,004	-
Ministry for Gozo	€	60,963	232,602	293,565	-	-	232,602	-	60,963
Ministry for Home Affairs, National Security and Law Enforcement									
Armed Forces of Malta	€	111,618	113,830	225,448	107,155	-	-	27,489	90,804
Police	€	1,240,572	19,701	1,260,273	175,974	29,874	-	425,367	629,058
Civil Protection	€	30,157	-	30,157	-	-	-	-	30,157
Ministry for Tourism and Consumer Protection	€	825,857	-	825,857	-	-	-	-	825,857
Cleansing and Maintenance	€	72,086	75,827	147,913	14,557	2,183	51,154	80,019	-
Ministry for Energy, Enterprise and Sustainable Development	€	43,527	-	43,527	-	-	-	-	43,527
Ministry for Finance and Employment [e]	€	1,080,070	-	1,080,070	-	-	-	910,070	170,000
Commissioner for Revenue (Inland Revenue and Capital Transfer Duty)	€	431,373,718	1,222,857,460	1,654,231,178	172,215,916	-	179,157,361	244,381,199	1,058,476,702
Commissioner for Revenue (VAT) [f]	€	364,668,114	4,167,839,632	4,532,507,746	4,167,839,632	135,152,407	-	229,515,707	-
Customs	€	12,486,809	8,549	12,495,358	36,333	7,156,790	253,828	-	5,048,407
Contracts	€	160,973	-	160,973	-	-	-	160,973	-
Totals [g]	**€**	**989,371,037**	**5,406,085,993**	**6,395,457,030**	**4,355,064,067**	**147,955,963**	**186,181,111**	**583,284,804**	**1,122,971,085**

a. Figures may not add up due to rounding.
b. Did not submit part or all the submissions required by Treasury Circular No. 3/2022.
c. The ARR for 2021 was not received in time for publication.
d. Figures for the Television Licensing Unit should also have been shown under the return of the Ministry for the Economy and Industry.
e. Includes figures for the Continental Shelf Department.
f. Although the VAT Department reported a figure of €4,167,839,632 as statute-barred, a comment in the respective ARR explained that this balance reflects the amount estimated as not collectable, which in reality is not statute-barred.
g. Totals are incomplete in view of the applicable points above.

Office of the Prime Minister

Servizz.gov

Revenue and Expenditure

In view of the charging structure for services rendered in respect of **Servizz.gov**, coupled with insufficient human resources, the Agency had very limited control over the respective expenditure. Moreover, the financial situation of the Agency was a precarious one. The contracted terms for contact centre services did not protect Government's interests adequately.

Background

Servizz.gov is an Agency set up through Servizz.gov Agency (Establishment as an Agency) Order, 2016 (L.N. 171 of 2016). The Agency falls under the remit of the Minister responsible for Public Administration[1] while its supervision is entrusted to the Principal Permanent Secretary. In line with the provisions of the same legal notice, the Agency's operations are also governed by an Agency Performance Agreement, covering the period January 2021 to December 2023, entered into by the then Principal Permanent Secretary and the Agency's Chief Executive Officer on 21 December 2020.

The main objective of the Agency is to provide better accessibility of Government services to the general public. In this regard, the Agency is a bridge between the foregoing and the Malta Public Service. Amongst other services, the Agency operates the freephone 153 and email service through servizz@gov.mt, together with the subcontractor, who provides various contact centre services. As at end December 2021 the Agency had 22 regional and 2 technical hubs across Malta, manned by the subcontractor's employees, as well as 6 public officers on loan with the Agency, providing one-stop shop service in local communities. The Agency had 22 employees on its payroll, 2 of whom were part-time students at year-end.

As a recurrent budget allocation, the Agency received €8,440,000, through Line Item 6814 – Servizz.gov, Recurrent Vote 6 under the Office of the Prime Minister (OPM). Additional funds of €1,419,000 were approved through a warrant, of which €1,213,380 was requested by the Agency besides the initial allocation. Other amounts received by the Agency during the year under review comprised €20,000 in Line Item 5016 – Digitisation of Public Administration under the same recurrent vote, and €36,260 received in connection with budgetary measure 228 – Artificial Intelligence for Customer Service. Capital expenditure was financed from Line Item 7607 under Capital Vote III, with a budget of €700,000[2]. Thus, the aggregate amount transferred to the Agency during the year under review amounted to €9,976,640.

Total expenditure incurred during the year under review amounted to €10,396,142, covering administrative expenses of €10,309,601, of which €8,697,854 i.e., 84%, related to contractual services.

[1] During the year under review, Public Administration was within the portfolio of the Office of the Prime Minister.

[2] Only €267,000 was actually provided to the Agency. Approval was obtained from the Ministry for Finance and Employment to add the unutilised amount of €433,000 to the approved budgetary provision for 2022 under Capital Line Item 7607. This will be provided to the Agency as and when required, once the Agency approaches full utilisation.

Up to December 2020 the Agency's budgetary allocation was administered by the Finance and Administration - Support Services Division within OPM. The Agency took over the financial process with effect from 1 January 2021; thus, accordingly presenting its first set of audited accounts for the year then ended.

Audit Scope and Methodology

The main scope of this audit was to assess the adequacy and effectiveness of internal controls over expenditure and income. Testing aimed to establish whether:

a. adequate procedures were in place to reduce the possibility of fraud and error;
b. procurement of goods and services was carried out in line with standing regulations;
c. rates paid were in line with standing regulations and agreements; and
d. all income received was duly accounted for.

An introductory meeting was held with the Chief Executive Officer, the Head (Corporate & Training) and the Senior Manager (Finance and Procurement) of the Agency, in order to obtain a general overview of the respective operations. This was followed by an analysis of a sample of 37 transactions, which amounted to around €1,757,787. Further meetings were held, whereby explanations on the operations and transactions reviewed were provided. The sampled transactions were verified for compliance with the Public Procurement Regulations (PPR), as well as with the respective agreements, invoices and approvals for payment.

In relation to the multi-channel contact centre services provided by the subcontractor, surprise site visits were carried out at two randomly selected hubs, namely at Birkirkara and Msida.

Disclaimer

The audit focused on transactions undertaken during 2021. Hence, opening balances included in the audited financial statements, which were not substantiated[3], were considered beyond the scope of this audit.

Amounts paid by the Agency on behalf of other entities, to the call centre subcontractor, were also deemed beyond the scope of the audit[4]. This mainly comprised payments related to COVID-19 services effected on behalf of the Ministry for Health[5].

Limitation on Scope of Audit

Despite the requirement for the contact centre subcontractor to maintain attendance sheets and the right of the Agency to request these records, as stipulated in the agreement entered into on 15 July 2020, these were only available from November 2021. As a result, related invoices and payments for January to October, covering 115,750 hours to the value €2,560,040[6] excluding Value Added Tax (VAT), were only supported by the rosters. In the circumstances, the accuracy and validity of such payments could not be ascertained.

[3] Opening balances were the reason for the qualified opinion issued by the independent auditor since no information was provided to substantiate the amounts in question.
[4] Since the amounts were refunded to the Agency.
[5] Between 2020 and 2021, the amount of €14,424,068 was paid on behalf of the Ministry for Health for COVID-19 related services.
[6] This amount excludes €96,476 which was still unpaid at year-end.

Key Issues

Limited Control Over Expenditure

The fee structure applicable for the contact centre services, as per the terms of the contract, is mainly variable, depending on the number of calls, emails and chats undertaken by the general public. As a result, the Agency has very limited control over such expenditure.

Furthermore, this concern is augmented when one considers the annual increase in rates, in line with inflation, and the precarious financial situation of the Agency as reported under the following Key Issue.

Recommendations

The Agency is to ensure that negotiated contracts can be duly managed and that there are adequate internal controls in place.

Management Comments

Expenditure is in line with the estimated annual budget for the contract. Moreover, the Agency is always looking into additional measures to improve internal controls in parallel with the ever-increasing services under its remit.

Incorrect Revenue Recognition

The financial statements' policy on revenue recognition stated that "*Government grants related to assets are presented in the Statement of Financial Position by setting up the grant as deferred income and is recognised in the income statement on a systematic basis over the useful life of the asset*". However, the audited financial statements showed the full capital allocation of €700,000 as income, rather than the €261,840[7] which should have been recognised in line with the policy disclosed in the accounts. Consequently, the reported financial position of the Agency was significantly distorted.

While the audited financial statements showed a slim surplus before tax of €13,498 and an after-tax deficit of €65,953 for the Agency's first year of operations following the disengagement of financial processes and procedures from OPM, the actual position is a pre-tax loss of over €420,000. Moreover, the Agency ended the year with a negative working capital of €182,503.

Recommendations

The Agency is to raise this issue with the independent auditor in order to make the necessary adjustments so that the reported results are accurate and give a true picture of the Agency's state of affairs. Furthermore, the Agency is to control its spending in order to avoid accumulating losses, hindering the achievement of set goals.

Management Comments

The issue was raised with the external auditor during the annual audit. The amount of €433,000, which was already recognised as revenue in 2021, will be received and utilised in full in the year 2022. Hence, the position shown in the financial statements for 2022 would make up for this recognition.

[7] €261,840 is the depreciation charge for the year as per audited financial statements.

Control Issues

Contact Centre Services

Background

Following a call for proposals by the Privatisation Unit for a multi-channel contact centre operations and staff for the Government of Malta's servizz.gov one-stop shop unit, a concession agreement was entered into in July 2015 between the selected service provider and Malta Investments Management Company Limited. The agreement was to remain effective for five years, allowing for the possibility to be extended for further periods.

Five years later, in July 2020, an amendment agreement was entered into between the same service provider and the Agency, signed by the then Chief Executive Officer, whereby the Agency assumed the obligations and responsibilities emanating from the contract, instead of Malta Investments Management Company Limited. This was covered by approval from the Department of Contracts following a negotiated procedure. The new agreement was for a further five-year period, up to July 2025, with an aggregate estimated cost of €35 million (VAT excl.) for the duration of the contract.

The applicable fees as per contract comprise a mix of fixed and variable costs. Charges are based on the number of items (calls, emails, live chats) handled and their respective duration, referred to as average handling time. In addition, in terms of the agreement, Customer Relationship Officers (CROs) manning the regional and technical sites are paid a fixed rate per agent hour, subject to a minimum number of annual hours.

No Evidence of Competition

The negotiated procedure was approved by the Department of Contracts on the basis of Article 154(1)(b)(ii) of PPR and was based on a number of conditions, including the consideration of the value for money aspect. The respective PPR article relates to services that can be supplied only by a particular economic operator, due to the fact that competition is absent for technical reasons. However, no documentation was provided showing that any market research was carried out in this respect. Consequently, it could not be confirmed that the decision to purchase this service was based on the most cost-effective (value for money) basis, as directed by the Department of Contracts in its approval.

Recommendations

The Agency is to take the necessary actions to ensure that it does not become reliant on the service provider. Thus, procurement by negotiated procedure is only to be resorted to under the strict provisions stipulated in PPR.

Management Comments

The Agency resorted for a negotiated procedure in view of the high cost of switching service providers due to the investment already made in training people, resources and technology, as well as the importance to attain the same level of knowhow and expertise. Along the years, the Agency has carried out various restructuring exercises in relation to its organisational structure with the aim of increasing specialisation and knowledge within its units.

Government's Interests not adequately safeguarded

The following provisions arising from the contract with contact centre's service provider hinder adequate safeguard of Government's interests:

a. Unlike other contracts reviewed[8] at the Agency, where the performance guarantee was based on the provisions included in the general conditions issued by the Department of Contracts[9], this was not the case in the agreement with the contact centre service provider. Despite that this contract had an estimated value of €35 million (VAT excl.), the performance guarantee payable as per terms of the agreement amounted to just €175,000, rather than the expected amount of €3.5 million. This translates to just 0.5% of the estimated contract value.

   Further to the above, the agreement also stipulated that the Agency was to place a deposit of an equivalent amount of €175,000 in favour of the service provider, to be refunded upon release of the performance guarantee. Hence, in actual fact, the Agency has no safeguards in place.

b. A clause included in the agreement stipulates that CROs manning the Agency's technical sites, namely, Taxpayer Service servizz.gov, Ċentru Servizz Familja servizz.gov and edu-servizz.gov, are not only paid for the operational hours, but also for any sickness and leave availed of, despite that they are employed by the service provider.

c. Technical training to CROs is limited to 10 concurrent working days. Any additional training costs were to be borne by the Agency, charged at €10[10] (VAT excl.) per hour for each individual.

d. The contract also provides for the set up of a Technical Board[11], which would have the power to adjust the service fees[12] and service levels.

Recommendation

When negotiating agreements, the Agency is to ensure that proposed clauses adequately safeguard the interests of Government.

Management Comments

The Agency is in discussion with the service provider to have the clause related to the payment for CROs' leave and sick leave rectified.

The other issues were not addressed.

Lack of Resources to ensure Effective Monitoring

In contrast to the first contract, which was mainly based on fixed costs, the agreement entered into in 2020 was more based on variable costs, requiring constant and continuous monitoring of metrics. Moreover, despite the risks involved, only two officers were carrying out the respective monitoring, besides other duties that they had.

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[8] Amongst others, contracts reviewed related to security, works and handyman services.

[9] The guidelines specify that the amount of the guarantee shall be 4% where the amount of the contract value is between €10,000 and €500,000 (both VAT excl.), and 10% where the amount of the contract value is €500,000 (VAT excl.) or above.

[10] 2020 rate as per contract.

[11] This shall come in force on the third year of the amendment agreement, i.e., in 2023. Each party shall submit the names of three individuals, one of which will represent it on the Board. The selected two shall then intern the third member.

[12] Over and above the annual increases related to inflation.

Checking involved:

a. reconciliation of monies collected by the service provider and remitted to the Agency;

b. confirmation of the eligibility of transactions effected on behalf of the applicants through the Agency's 24 credit cards; and

c. verification of all items charged by the service provider, which comprised checks against attendance sheets for 24 hubs, as well as against data recorded in the Client Relationship Management (CRM) system.

However, given the lack of resources, the possibility of undetected errors, whether intentional or unintentional, is considered high and may result in a significant monetary impact.

Furthermore, according to the Agency, during the year under review, ad hoc surprise visits to monitor service provision and administrative issues were carried out by the foregoing on random basis; however, no documentation to this effect was available.

Recommendations

Adequate resources are important to ensure that proper monitoring is possible. A surprise inspection plan covering all hubs is to be drawn up, and such visits are to be formally documented. Moreover, in order to achieve better administrative control and to ascertain productivity and accuracy in the work carried out, once there are adequate resources, the Agency is to ensure that there is proper division of work between personnel, based on their skills and nature of the respective tasks. It is also recommended to undertake the necessary restructuring, where required, to enhance efficiency.

Management Comments

As of July 2022, inspections are carried out at all sites on a monthly basis. These are managed by the internal Quality Department, formalised through an online application. Mystery shopping visits are also in place. These are conducted by the Quality Service Department within the People and Standards Division, OPM, which is the central Department entrusted with the conduct of such visits within the Public Administration. Recommendations drawn up are followed by the Agency's personnel.

Control over Contact Centre Services' Billing

Other than charges relating to calls covering a six-month period[13], which were verified through an information technology audit performed by an independent auditor engaged by the Agency[14], verifications carried out by the latter to confirm billings, were entirely based on data provided by the service provider and subcontracted employees.

Moreover, invoiced amounts for the number of calls, emails, and chats were based on data recorded on the CRM system by the service provider's agents, while payments related to the hubs' manning were based on attendance records filled in by the service provider's agents and CROs. However, the Agency had no means to ensure accuracy of this data and consequently no control over amounts billed, if not by resorting to the engagement of information technology professionals at an additional cost to confirm some of the billed items[15].

[13] Covering the period 1 October 2020 to March 2021.
[14] For the cost of €5,500.
[15] Up to August 2022, verifications by the engaged professionals were limited to calls.

Recommendation

Given that the cost of the contract is significant, the Agency is to ensure that it has an adequate level of control over all the amounts billed, besides the phone billing.

Management Comments

The Agency is striving to ensure billings' correctness by adopting different measures of internal control. The engagement of the independent auditor, to carry out an audit on the service provider's Private Automatic Branch Exchange, ensures that the whole process is objective and free from bias. Moreover, the Agency has full control on the CRM system, although information is inserted by the service provider's agents. With regard to the manning of the hubs, the Agency intends to introduce electronic attendance verification system. With respect to the email communication channel, the Agency has full control of generic accounts, while chat intents are verified through the backend system.

Shortcomings related to Hubs' Customer Relationship Officers

On 23 June 2022, officers from the National Audit Office carried out two surprise visits at the Birkirkara and Msida hubs. Shortcomings noted were related to unsigned attendance records, as well as attendance already recorded for the following days. Such shortcomings may go unnoticed, since attendance records are forwarded to the Agency on a monthly basis.

Recommendations

As an interim measure, until the Agency's plans to install punch clocks in the hub materialise, attendance sheets are to be forwarded to the Agency on a daily basis, rather than monthly, in order to identify similar shortcomings. Moreover, regular inspections are to be carried out and concerns addressed in a timely manner.

Management Comments

The monitoring of timesheets on a daily basis cannot be done in practice in view of the shortage of staff within the Finance and Operations Sections. However, Management agrees that regular inspections are to be carried out by the Hubs Manager and Executive to ensure that such shortcomings are addressed immediately. Moreover, the Agency is working on a proposal to introduce the role of Hub Leaders within its sites to ensure constant monitoring and supervision.

Ambiguous Clause

Article 3.4 of schedule 3 of the amendment agreement stipulates that the service provider "*… shall only charge the client for contacts*[16] *handled by the provider and not those contacts which are transferred to a Government ministry, department or entity*". However, the Agency was still being charged for those cases whose reply was provided by a Government department or entity, and paid accordingly, claiming that eventually it was the service provider's agent who was forwarding the necessary feedback to the client. According to the Agency, only the email forwarded to the respective entity was not being charged.

Recommendations

The Agency is to seek legal advice to clarify what payments are actually due. Any amounts paid in excess are to be recouped.

[16] A single support request via any communication channel (telephone voice, electronic correspondence or live chat).

Management Comments

Legal advice has been sought with regard to the interpretation of this clause. It is to be noted that emails are sent rather than transferred to the department and/or entity to request additional feedback and advice, in order to be processed by the hubs' agents. In this regard, the latter remain the main point of contact for the citizen, hence why these emails are billed to the Agency.

Adequate Control not exercised through the Fixed Asset Register

Upon review of the Fixed Asset Register (FAR) maintained by the Agency, it was noted that although FAR showed a code for each asset, this was generated by the accounting system and was not reflected on the actual asset to enable the necessary monitoring. Furthermore, not all assets in FAR showed the relevant details, such as serial number, hindering identification of assets. It also transpired that FAR included entries which were not considered as fixed assets.

Recommendations

Guided by the provisions of the pertinent circular, FAR is to show full details of the respective asset, enabling easy identification and full audit trail. Moreover, only those assets which meet the criteria of a fixed asset are to be included.

Management Comments

Albeit the limited resources, effort is being made to regularise the shortcomings in FAR. The respective exercise is scheduled to be concluded by the end of 2022.

Non-submission of VAT Defaulters' Returns

VAT receipts to cover payments effected were not always sought. Furthermore, the Agency did not submit quarterly returns, listing VAT defaulters to the VAT Department, in line with standing regulations.

Recommendations

Although it was noted that staff at the Agency was striving to comply with standing regulations notwithstanding the limited resources, effort is to be made to request all VAT receipts and submit the necessary returns, including nil returns as applicable, to the VAT Department on regular basis.

Management Comments

Effort is being made to request all VAT receipts from suppliers for payments made in 2022 and submit the necessary returns to the VAT Department on a regular basis.

Ministry for Health

Construction works in Government Cemeteries and Sale of Graves or Grave Sites

Revenue and Capital Expenditure

An audit on the **Construction works in Government Cemeteries**, namely the extension, restoration, operations and maintenance works carried out at the Addolorata Cemetery, revealed various departures from the terms of the applicable 15-year concession agreement. Of particular concern was the fact that the Concessionaire did not fulfil its yearly obligation in the form of a concession fee of €150,000 payable to the Government. On the other hand, funds derived from the **Sale of Graves or Grave Sites** were not passed on to the Concessionaire as part of its project management rights.

Background

The Burial Ordinance of 1865 declares the Santa Maria Addolorata Cemetery as the main burial place in Malta, with every Maltese citizen entitled to being buried in the said Cemetery, in accordance with the provisions of the same Ordinance. Over the years, various applications for permits to develop new cemeteries were submitted to the Planning Authority. However, in view of land being a scarce resource and considering the potential adverse environmental impacts posed by cemeteries, including the adverse effects on ground water, such applications were a cause of concern.

Consequently, in October 2013, the Government requested the Authority to prepare a Cemeteries Policy and Design Guidance, prohibiting the construction of new cemeteries and permitting only extensions to or additional graves within existing cemeteries. This policy, which came into force in April 2015, further denotes that burying at greater depths maximises the use of land committed for cemeteries, making it mandatory to construct four-tier graves where geological conditions allow.

Following an application filed with the Authority, in February 2016, the foregoing, approved the extension and development of 2,880 new graves at the Addolorata Cemetery. These graves consist of four-tiers and an ossuary below, thereby maximising burial space as required by the policy. A landscaping scheme, including the introduction of various tree species to compliment those already existing, as well as an additional 55 car parking spaces, also formed part of this project.

Accordingly, on 20 September 2016, a call for competitive dialogue was issued in the Government Gazette. This related to a Prequalification Questionnaire (PQQ) for a public works concession titled 'Sale of and the Building of an Extension of 2,880 Graves at the Santa Maria Addolorata Cemetery, Restoration of Parts of the Complex, the Operations and Maintenance of the Entire Site and the Raising of Proposals for the Commercialisation of the Complex'. According to the PQQ, this public works concession was to undertake a four-staged project, as per Figure 1.

Figure 1: Santa Maria Addolorata Cemetery Public Works Concession – Project Stages

To this effect, as stipulated in the PQQ, the Government intended to transfer the site and complex to the selected Concessionaire, for a period of 15 years, after which it will be returned in toto to the Government. Moreover, while the latter was to retain the prerogative for the sale and respective allocation of the grave plots emanating from the extension, the entire proceeds of the sale, were to be transferred to the selected Concessionaire "*… as part of its project management rights*".

Following analysis of the submissions received in response to the PQQ, during April 2018, the General Contracts Committee decided on the preferred tenderer, with a concession fee of €150,000 per year payable to the Government; i.e., €2,250,000 over the lifetime of the concession agreement. This decision was based on the Concessionaire's bid of €15,164,372 (VAT excl.). Thus, when factoring in the concession fee of €2,250,000, the total cost for the extension, restoration works and the operations and maintenance over the 15-year concession period was €17,414,372 (VAT excl.). The concession agreement, entered into between the Department of Contracts on behalf of the Central Procurement and Supplies Unit and the selected Concessionaire, was then signed on 29 October 2018.

As stipulated in L.N. 425/2016[1], the price payable for the acquisition of a grave in a Government cemetery is €8,000, whilst that of a grave site is €58.23.

Financial Information

As per Financial Estimates for 2021, the Ministry for Health (MfH) was allocated a budget of €2 million for Construction works in Government Cemeteries, under Capital Vote IV, Line Item 7139. This was eventually supplemented with a warrant of €1.1 million in December 2021, resulting in total available funds of €3.1 million for the year under review. By mid-March 2022, accounting records illustrated that a total net amount of €2.53 million was expensed from this line item[2] in 2021.

Moreover, according to the same Financial Estimates, it was forecasted that MfH will earn revenue of almost €5.5 million from the sale of graves and grave sites for the same year. In this regard, as per MfH's accounting records, net sales registered in 2021 were €6.39 million[3].

Audit Scope and Methodology

The main scope of the audit was to establish whether extension and restoration works carried out at the Addolorata Cemetery, as well as the operations and maintenance thereto, were compliant with the terms and conditions of the concession agreement. Amongst other verifications, the audit focused on ascertaining whether:

a. The construction phase was proceeding in line with the detailed programme of works submitted by the Concessionaire.
b. Restoration works carried out were limited to those stipulated in the concession agreement.
c. Documentation emanating from the concession agreement, including insurance covers and performance guarantees, was in place.
d. The concession fee of €150,000 per annum due to the Government was being paid by the Concessionaire on a yearly basis.
e. The Concessionaire was refunding the Government of Malta for the salaries issued to the personnel assigned to the Addolorata Cemetery on a timely basis.
f. Works carried out on the extension and restoration were backed up by the necessary supporting documentation, including bills of quantity and architect certifications, and that operations and maintenance works carried out by the Concessionaire were in line with those listed in the concession agreement.

The revenue aspect of the audit sought to ascertain whether income from the sale of graves was as stipulated in the concession agreement and covered by the required documentation, such as the respective contractual agreements and receipts. It also sought to determine whether revenue generated was in line with applicable regulations, mainly, L.N. 425/2016 concerning the price payable for the acquisition of graves and grave sites.

The audit was conducted in accordance with generally accepted auditing standards. Audit procedures were designed to obtain reasonable assurance on the effectiveness of the internal control system adopted in relation to the works being carried out and to revenue collection. To achieve the audit objective, documentation retained by MfH, in relation to the project under review, was examined. Conclusions reached in this write-up only relate to those areas that have been reviewed.

[1] Price Payable for the Acquisition of Graves and Grave Sites Amendment (Order), 2016.
[2] Aggregate budget amounts for the three-year period 2020-2022 under this line item originally stood at €4.1 million and increased to €7.8 million following a warrant and a virement effected. During the said period, accounting records illustrate a total expense of €5.2 million as paid from this line item.
[3] Proceeds from the sale of graves tallied to €6,489,550 out of which €96,000 was refunded due to cancelled promises of sale.

Key Issue

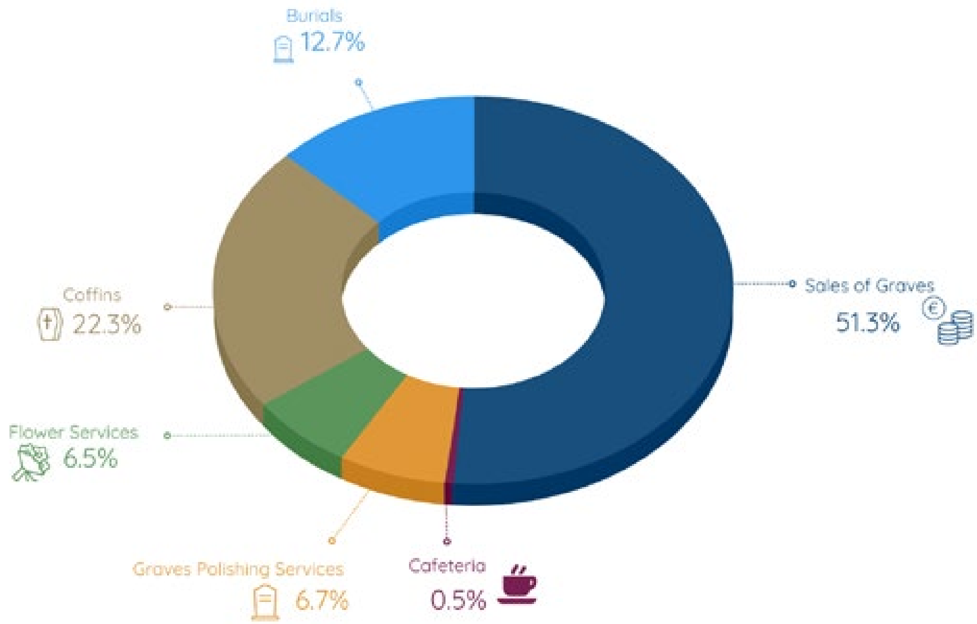
Departures from the Terms of the Concession Agreement

Sale of Graves

As previously explained, the call for competitive dialogue as issued in relation to this project was for the "*Sale of and the Building of an Extension of 2,880 Graves* …". Accordingly, as stipulated in the PQQ, prospective concessionaires were to present plans on how they intended to adequately manage the capital raised from the selling of the graves, which was also to be used by them as a source of financing throughout the concession period. Moreover, as indicated in the evaluation report submitted to the Department of Contracts, the funds available to finance this project were based on the principle of self-financing, emanating from the sale of graves. Any commercialisation activities were to be considered as "… *enhanced income for the concession* …". This was further denoted in the 15-year concession agreement as entered into between the pertinent parties, whereby it was specifically stipulated that the Concessionaire was "… *being funded from the sale of the graves* …", as well as from the provision of other services.

To this effect, as illustrated in Chart 1, in its business plan and financial projections, in addition to income from other commercial activities, the Concessionaire projected income from the sale of graves as the highest revenue-generating activity, yielding 51% of total revenue over the 15-year concession period. Moreover, for the initial years of the concession agreement, i.e., financial years 2019 and 2020, revenue from the sale of graves was projected at €9.3 million per year, summing up to 92% and 89% respectively of total projected revenue for the said years.

Chart 1: Concessionaire Projected Revenue during the 15-year Concession Period



However, audit verifications carried out revealed that revenue from the sale of graves was not being passed on to the Concessionaire for the latter to be able to self-finance costs related to the project. Instead, this was retained by the Government of Malta. On the other hand, the Concessionaire was invoicing MfH for expenditure incurred in relation to the extension and restoration works, as well as those covering operations and maintenance works. Explanations as to this deviation[4] from the agreed terms were never provided to this Office.

[4] MfH did not provide specific explanations as to why revenue from the sale of graves is not flowing to the Concessionaire. The Department of Contracts also confirmed that it was not aware of any deviations from the contract regarding the sale of graves.

Concession Fee

As laid down in the concession agreement, the Concessionaire was bound to pay the Government an annual concession fee of €150,000, i.e., €2,250,000 over the 15-year concession period. This concession fee is payable "… *on a pre-payment basis and shall become due every year on the anniversary of the signing of this concession agreement*" i.e., on the 29 October of each year. Verifications carried out in this regard revealed the following:

a. The invoice concerning the first concession fee, i.e., that payable on 29 October 2018 with a credit period of 30 days, was only issued by MfH on 8 August 2019, i.e., more than nine months later. Moreover, the first two concession fees were only settled by the Concessionaire by means of a set-off of €200,000, in connection with restoration and extension works, together with a payment of €100,000, both towards the end of the first quarter of 2020.

b. While the invoices for the third and fourth years of the concession were issued by MfH on 12 December 2020 and 16 December 2021 respectively, these were still due for payment by mid-March 2022. In this regard, despite that invoice payment terms required the contractor to settle amounts due within 30 days from invoice date, with unsettled invoices being subject to an interest rate of 8%, no transactions concerning charges for late or non-settlement of invoices were traced.

c. The concession agreement specifically stipulated that the "… *contract shall take effect on the date on which it is signed by the last of the contracting parties* …", i.e., 29 October 2018. However, during November 2021, MfH issued a credit note of €37,500 to the Concessionaire, described as covering a portion of the concession fee "… *charged erroneously for the period 29 October 2018 to 31 January 2019*". In this regard, MfH claimed that the credit note was issued since the "*concession had actually started during February 2019*" and it was agreed with the Concessionaire for billing to start covering the period February till January of the following year "… *to reflect the actual concession dates*".

Salary Reimbursements in Arrears

For the entire duration of the concession, the Concessionaire agreed to take on deployment of the Government's employees carrying out functions within the Addolorata complex, with these employees remaining public officers and receiving their salary from the Government of Malta. In this regard, in line with the terms of the concession agreement, the Concessionaire was responsible to reimburse MfH with the respective officers' salary packages[5], not later than eight weeks following the Government's payment of salaries.

However, up to mid-March 2022, payroll costs amounting to €880,843, dating back from Payroll 2 of 2019 onwards[6], were still due to MfH.

Cleaning of Graves and General Cleaning

The general cleaning of tombs was one of the Concessionaire's project deliverables under the concession agreement. However, it was noted that an amount of €194,493[7] was due to MfH by the Concessionaire in respect of cleaning of graves and transportation of human remains to other locations. An explanation as to why this expense was borne by the Government rather than by Concessionaire as per the terms of the concession agreement, was also not provided.

[5] Inclusive of statutory bonuses, overtime payments and other benefits.
[6] Covering invoices issued by MfH up to date of audit testing, i.e., mid-March 2022; 62% of this amount has been due for over one year.
[7] Covering amounts due between February 2019 to December 2021.

Recommendations

MfH is to establish appropriate actions aimed at addressing the deviations identified and regularise its position in line with the agreed terms and conditions over a pre-defined rectification period.

MfH is also to ensure that addendums to the contract are in line with the original award. If agreed otherwise, deviations from original contracted prices, especially those concerning large sums, are to be properly documented, endorsed by the Department of Contracts and supported by valid explanations.

Management Comments

No reply was provided by MfH with respect to funds emanating from the sale of graves not being passed on to the Concessionaire in line with the terms of the concession agreement.

In view that there were various outstanding disputable issues with the Concessionaire, including financial dues which the latter attributed to MfH, late payment fees were not invoiced by the Ministry.

The credit note was issued to the Concessionaire after the holding of a meeting between the Project Team, Finance Unit and Concessionaire representatives. The amount indicated in the credit note covered the period between 29 October 2018 and 31 January 2019, on account of the fact that the Concessionaire took over the concession in February 2019, i.e., three months after the contract for the Addolorata project was signed.

Regarding dues owed to MfH, it was agreed that the Concessionaire would issue the pending bill covering recharging of operational expenditure and that an exchange of payment would ensue once the bill was verified and approved.

Control Issues

Inadequate Project Management

While the contract for the Addolorata project was signed in October 2018, the Foundation for Medical Services (FMS) only took over on behalf of MfH, in 2020.

Being the Ministry's main reference point in healthcare infrastructure, with project management, including design and architecture falling within its remit, this Office deemed the fact that the Addolorata project was not managed by FMS since inception as somewhat incongruous. This also resulted in delays in the execution of the project, as well as undue spending of public funds. The following matters pinpoint towards weak project management.

Rather than by FMS's own architects, completed works were certified by external architects who in turn were paid for professional services rendered. MfH claimed that the pertinent "*agreements … … were already in place when the project was taken over*" by the Foundation in 2020. A copy of the related agreements was requested as a means of attesting this explanation and the following were noted:

a. Certification of restoration works, borne by MfH, charged at a rate of 2% of the value of works, translated in a total expense of €120,000.

b. The same private architect certifying restoration works also certified operation and maintenance works carried out at the Addolorata Cemetery, at the same fee of 2%. This translated in a further cost of approximately €16,000. No explanations were provided as to whether such certifications were covered by a separate agreement to that concerning restoration.

c. Certification of construction works was carried out by another architect. No agreement was in place with the foregoing, being "*… a Public Service Officer … … remunerated at the hourly rate, as per collective agreement*".

Recommendation

MfH is encouraged to strengthen its internal controls with respect to project management and ensure that internal resources, in this case FMS, as well as its team of in-house architects, are utilised in the best manner possible to avoid unnecessary spending.

Management Comments

The National Audit Office's (NAO) comments have been noted. The project was taken over by FMS mid-way, hence at a juncture where all contracts regarding architects etc. were already in place. However, all the necessary actions are being taken with a view to strengthen internal controls, also as advised by NAO.

Reports in line with the Terms of the Concession Agreement not prepared

The concession agreement required the Concessionaire to submit to MfH specific reports, including yearly maintenance and waste management plans, as well as weekly and fortnightly progress reports, detailing works carried out. However, audit verifications revealed that these reports were not being prepared in line with the terms of the agreement. The following relate:

a. The only waste management plan made available for audit purposes was dated 30 January 2016.

b. MfH confirmed that the register for building works was only submitted on a monthly basis and not weekly. Moreover, that provided for audit purposes was merely in spreadsheet format with minimal details therein and not endorsed. Furthermore, the fortnightly maintenance works register was not made available to the Auditors, while that concerning restoration works was submitted by MfH following conclusion of the audit, as part of the Management comments. Still, this register did not cover all restoration works being carried out.

Recommendations

MfH is to supervise the implementation of this contract and ensure that the requirements emanating from the concession agreement are adhered to by the Concessionaire, with adequate documentation being invariably maintained and submitted. This will also enable audit trail and external verification.

Management Comments

It is agreed that to-date[8], the yearly maintenance plan reports and waste management plans have never been physically referred to the Department of Environmental Health (responsible for the operational aspect of this project), notwithstanding verbal and documented requests for such.

It begs to be highlighted that, although fortnightly reports have not been referred by the Concessionaire, however, the Directorate assigned a foreman to visit Addolorata Cemetery and report on any deficiencies related to the daily operations of the complex, such as cleaning, hygiene issues, rodent control, etc. Furthermore, the Directorate has a Complaints Unit through which negative remarks from the general public are received and duly investigated.

Whilst no effort will be spared to reach an agreement with the Concessionaire regarding the requested submissions, failure on the foregoing part to comply will necessitate action in line with the applicable provisions of the concession agreement.

[8] Management comments submitted on 11 May 2022.

Inadequate Insurance Policies

The insurance cover provided for audit purposes only covered from 1 December 2018 to 30 November 2019 and 4 May 2021 to 3 May 2022. Moreover, that covering the two-year period, from 4 May 2019 to 3 May 2021, was only submitted by MfH as part of the Management's feedback when the audit was finalised. It also transpired that the insurance policy provided did not cover all the relevant clauses[9] in the agreement. According to section 61 of the concession agreement, in such absence, although the contracting authority may terminate the contract, no action to this effect was taken.

Recommendation

MfH is expected to request and keep a copy of the related insurance policies in file and ensure that these are duly renewed by the Contractor upon expiration, to mitigate exposure to unnecessary risks.

Management Comments

Copy of policies covering period from 4 May 2019 to 3 May 2021 were submitted with the Management comments.

NAO notes that no reply was provided as to the coverage of all the relevant clauses.

Compliance Issue

Funds from Promises of Sale recognised as Revenue

According to MfH, funds from promises of sales and final contracts are initially received and retained by the Office of the Notary to Government. These are subsequently transferred by the latter to MfH by means of an interdepartmental journal with revenue being accounted for in the books of MfH upon receipt, irrespective of whether the related funds emanated from a promise of sale or an actual contract.

The accounting treatment adopted by MfH, i.e., that of recognising funds derived from promises of sale as revenue, goes against the requirements of accounting standards. This is due to the fact that ownership of the grave is not yet transferred to the purchaser.

Recommendation

In line with the requirements of International Public Sector Accounting Standard 9 – Revenue from Exchange Transactions, revenue derived from sale of graves is to be recognised when the legal title is passed to the purchaser. Accordingly, in preparation for the adoption of accrual accounting by the Government, MfH is recommended to comply with the requirements of the pertinent standard and recognise any funds earned at promise of sale stage as a liability under deferred revenue, since these represent prepayments made by customers for the sale of grave sites which have not yet been delivered.

Management Comments

MfH will liaise with the Notary to Government so that the only funds forwarded to this Ministry would be those materialising after the final deed of purchase. Funds arising from promises of sale are to be retained by the Notary to Government, in a below-the-line account, and transferred to MfH solely upon finalisation of contract. This procedure will thereby address the requirements of International Public Sector Accounting Standard 9 on account of the fact that funds will only be recognised by Government once legal title of the grave is transferred onto the purchaser. Furthermore, in so doing, any requests for refunds will be refunded through the Notary Public, rather than MfH.

[9] Contractors All Risks was not covered from 1 December 2019 onwards, whereas Fidelity Guarantee was not covered in the insurance policy document.

Central Procurement and Supplies Unit

Debtors and Creditors

Provision of medical supplies by the **Central Procurement and Supplies Unit** to St. Vincent de Paul Residence (€18,352,251) and Active Ageing and Community Care (€2,117,885) was not reported as payables by the latter two, giving rise to possible consolidation issues.

Background

In order to move to an accrual basis of accounting for the purpose of financial reporting, it is imperative for ministries and departments to maintain, on an ongoing basis, accurate and timely information on their debtors and creditors.

To this effect, as an introduction to the respective transition, the then Ministry of Finance had issued MF Circular No. 10/2001 – 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors'. The circular covered the procedures necessary for the proper management of debtors and creditors within every ministry and their respective departments.

From a review of the arrears of revenue returns, it was noted that substantial amounts were owed to the Central Procurement and Supplies Unit (CPSU) from St. Vincent de Paul Residence and Active Ageing and Community Care. As at 31 December 2021, CPSU reported an aggregate of €20,973,072 as debtors, out of which nearly 98% pertained to the foregoing two Government entities. Around 90% of the closing balance had been outstanding for more than six months.

Audit Scope and Methodology

The scope of this analysis was to ensure that the amounts reported by CPSU as due from Government departments and entities were recorded accordingly as payables by the latter and vice versa.

The identification of shortcomings and recommendations thereto were also meant to assist in making the necessary rectifications and get in line with accrual accounting.

Existence and completeness of the debtors' balances were verified by requesting the only two Government entities, with amounts payable to CPSU, to provide the balances that they owed to the latter.

Key Issue

Creditors not reported in the Respective Returns

The balance of €20,973,072 reported as due to CPSU at end of year 2021 related mainly to the provision of medical supplies to St. Vincent de Paul Residence (€18,352,251) and Active Ageing and Community Care (€2,117,885). However, the respective amounts were not reported as payables by the foregoing two entities.

This scenario did not give a true and fair view of the reported amounts since one was not able to set off these receivables with the respective payables on consolidation.

Recommendation

CPSU is to discuss the best way forward with the Ministry for Finance and Employment to establish the accounting treatment for these transactions, in order to report realistic figures of the amounts owed to Government.

Management Comments

Following a meeting with Director General Budget Affairs, Director General Finance and Administration Ministry for Health (MFH), Managing Director (CPSU) and Financial Controller (CPSU), an explanatory memorandum on the accounts receivable previously disclosed under Department 094 – CPSU Ministry for Health was drafted to explain that the accounts receivable disclosed over the past years pertaining to supplies made to St. Vincent de Paul Residence and other State run elderly homes should not have in fact been recognised as such, since these amounts did not fully meet the accounts receivable definition as regard to their recoverability in view of the budgetary allocation.

In this spirit, CPSU (MFH) will no longer report these transactions under accounts receivables but will continue reporting such supplies as part of the expenditure, under the relevant heading. It is pertinent to note that for statistical accounting, CPSU was already disclosing these supplies as expenditure, under the relevant heading.

Derecognition Process

Since the accounts receivables in question should not have been recognised so in the first place and in view that the budgetary holder remained always within the same Ministry, even after the departure of St. Vincent de Paul Residence and elderly homes from MFH to the Ministry for Active Ageing (MFAA), no write-off is recommended for such balances.

CPSU will no longer report these balances as receivables in its returns.

It is agreed that a standard operating procedure will be drafted to handle the official appointment of the relevant entities falling under MFAA and with formal approvals from the foregoing's side to authorise the orders being made under the said entities, with the aim of having a streamlined internal control environment in place over this expenditure through MFH (CPSU) for MFAA (St. Vincent de Paul Residence).

This procedure, agreed with the Ministry for Finance and Employment, was also approved by Permanent Secretary MFH on 30 September 2022.

Ministry for Foreign and
European Affairs

Head Office and Permanent Representation of Malta to the European Union

Personal Emoluments

An audit of overtime and allowances paid by two cost centres within the Ministry for Foreign and European Affairs, namely the **Head Office and Permanent Representation of Malta to the European Union**, revealed that certain reimbursements of education grants and medical expenses were not in line with the Conditions of Service. Furthermore, a clause in the said Conditions relating to the post adjustment allowance, may be considered as discriminatory and open to interpretation.

Background

The Ministry for Foreign and European Affairs[1] is the diplomatic hub of Malta; it coordinates the Maltese Missions overseas and offers help to Maltese nationals abroad, issues travel advice and visa information. The Ministry also plays a role in representing Malta in international meetings, as well as promoting Malta's relations with other countries. On the other hand, the Permanent Representation of Malta to the European Union (PREU), at Dar Malta in Brussels, is the main focal point during negotiations that take place in the Council of the European Union and in relations with other institutions, in particular the European Parliament and the European Commission.

The Ministry has a number of cost centres within its portfolio, comprising mainly Missions[2]. The audit focused on allowances and overtime paid by two of the cost centres, namely the Head Office and PREU, which were considered as the most material when compared to the others.

Financial Information

As per Financial Estimates 2021, the allowances for the Head Office and PREU under Recurrent Vote 13, were estimated as €2,390,000 and €4,200,000 respectively, whilst the allocation for overtime by the Head Office was €60,000. As per reports extracted from the Corporate Financial Management Solution (CFMS), actual allowances totalled to €1,799,356 and €3,794,147[3] respectively, while the budget for overtime was exceeded by €15,997. This was financed through virements.

Audit Scope and Methodology

The scope of this audit was to ensure that overtime was justified, approved beforehand from the relevant levels of authority, and supporting documentation was maintained. It was also ascertained that the payment of allowances, in particular to those officers based abroad, were in line with the relevant regulations, Conditions of Service (CoS) and standing policies.

[1] As referred to in the Financial Estimates for year 2021.
[2] This includes embassies, high commissions, consulates and permanent representations.
[3] Comprising €3,793,432 to permanent staff and €715 to temporary staff.

The National Audit Office (NAO) held a virtual introductory meeting with officials both from the Head Office and PREU. Minutes of the respective meeting were sent to the auditee and confirmed accordingly.

A sample was chosen, mainly on the basis of materiality and/or judgmental selection, comprising different types of allowances and reimbursements to officers working at PREU and those paid by Head Office on behalf of various other Missions[4]. For the duration of a tour of duty, besides the Malta salary, officers are paid a non-taxable Post Adjustment Allowance (PAA) and settling-in allowance. A representation allowance, outfit allowance, overseas child allowance and deputising allowance are also paid, as applicable. Moreover, officers posted abroad benefit from reimbursements for education and medical expenses in line with CoS.

In the case of the Head Office, the sample also included payments to cover overtime costs for security services at the Ministry and the payment of top-up allowance that was being paid to a protocol officer. In order to carry out detailed substantive testing, the respective documentation was reviewed and relevant queries were sent to the auditee.

Disclaimer

This Office was informed that work was in progress to replace the PAA mechanism with the model used by the European External Action Service. Thus, it was not feasible to check the accuracy of the related allowances.

Key Issues

Clause in the Conditions of Service may be as discriminatory and open to interpretation

PAA, which is not subject to income tax, is paid to officers to enable them to live up to a standard commensurate with their position in the country of posting. CoS states that in cases where two officers are married to each other and both serving in the same post, the rent element in PAA shall be reduced for each officer by 17.5%. This clause may be considered as discriminatory with married couples considering that it does not apply to those who cohabitate or co-share the accommodation.

Moreover, it is also subject to interpretation, particularly when both officers work in Brussels, since married officers may be living at the same residence while on different tours of duty on behalf of the Government of Malta, i.e., one at the Malta Embassy in Belgium and the other at PREU. Considering that both Missions were located within Dar Malta but fell under the remit of different Ministries at that time, this technicality was disputed; the outcome of which the Ambassador PREU expressed concerns about.

Recommendation

Since the intention of this allowance is to cover accommodation costs when living abroad and is not actually part of the salary, the related provisions in CoS are to be revised to clarify this anomaly, i.e., if living together, irrespective of any other criteria such as the type of relationship, post and respective Ministry, PAA is to be reduced accordingly for each officer concerned.

Management Comments

Recommendation is accepted and CoS will be updated. In this regard the Permanent Secretary formed a working group in which the Legal Unit within the Ministry is also involved. Thus, it is envisaged that the new version should be issued in the first quarter of 2023.

[4] Consisting of Berlin, Brussels, Cairo, Canberra, Doha, Dublin, New York, Rome, Toronto, Tripoli and Tunis.

Fragmented Source Documentation

The guidelines pertaining to tours of duty are found in CoS. However, this document was not comprehensive and certain source documents and circulars in addition to CoS, such as those relating to overseas child allowance and education grant, were not presented to NAO at the outset but only following audit queries.

Recommendations

In order to avoid fragmented source documentation, CoS is to be duly updated to cover all benefits that officers serving overseas are entitled to, as was also instructed by the Permanent Secretary in July 2022. Furthermore, revisions not yet included in CoS are expected to be presented to NAO upon request of the related documentation, prior to the commencement of audit testing.

Management Comments

Recommendation is accepted and CoS will be updated with all related circulars. As already explained, the Permanent Secretary formed a working group and it is envisaged that the new version should be issued in the first quarter of 2023.

Limited Checking by Head Office

Desk officers at the Head Office do not always question transactions made by the Missions. At times, detailed workings and/or supporting documentation were also not requested from the latter to support the monthly accounts. This concern was raised by NAO a number of times.

Recommendations

The Head Office is expected to exercise a level of monitoring and avoid high reliance on the respective Missions. Furthermore, documentation supporting all transactions is to be filed at the Head Office itself, so that it will be in a position to answer the pertinent queries.

Management Comments

Recommendation is accepted. Management will continue to ensure that training is provided continuously, and that the right capacity is built to cater for such monitoring and control.

Ceilings of Education Grant not revised

As per CoS, the education grant should not exceed the ceilings that are fixed periodically by the Ministry for Finance. However, it was noted that there were no official revisions to the approved thresholds since April 2017 despite that, as per communication[5] in the same year, these were to be revised every two years. Consequently, certain Missions made ad hoc requests in order to pay education grants in amounts over and above what was formally approved.

In addition, in such instances, the Head Office relied on the officer being reimbursed, who did the school research, claiming that it was satisfied that there were no more affordable options whereby the fees would fall within the applicable ceilings.

[5] In 2017, between the then Permanent Secretary, Ministry for Foreign and European Affairs, and the Ministry for Finance.

Recommendations

As also recommended by the Ministry for Finance, a working group is to be established and an exercise undertaken regularly to revise the ceilings of the education grant as necessary, reflecting tuition fees in all Missions, thus limiting the ad hoc requests to a bare minimum. Furthermore, for the sake of such exercise and in the event of ad hoc requests, it should be the Ministry itself which carries out the necessary research on suitable educational institutions and the respective fees.

Management Comments

Recommendation is accepted. Management would like to note that such exercise was done recently[6] *and is awaiting Ministry for Finance and Employment response.*

Control Issues

Allowances pertaining to the Missions expensed from Head Office

The text description of the transactions in the report of allowances extracted from CFMS for the Head Office revealed that most of the expenses therein pertained to staff at the Missions and not the Head Office itself. Consequently, the expense on allowances reported as actually incurred both by the Head Office and Missions did not show a true and fair view. This issue was already reported in the audit carried out by this Office on another Mission in year 2020. The Head Office confirmed that this modus operandi was not in line with the provisions spelled out in the Manual of Financial Procedures at Missions Abroad, published in 2020 following the said audit to address the respective observations.

Recommendations

All costs of the Missions are to be covered by the foregoing, following the necessary virement in line with the said Manual. Expenditure should thus be allocated to the respective cost centre. This will also ensure consistent treatment throughout all Missions and accurate figures for reporting purposes.

Management Comments

Recommendation is accepted. Management would like to note that a policy on virements was issued during 2022, in order to have a more fluid system for requesting and approving virements. Each desk officer is keeping a record of all the virements requested by the Missions and the approvals provided by Management. In this respect funds will still be allocated to the Head Office and vired accordingly during the year to the Missions.

Overtime not formally approved and not always substantiated

In line with the provisions of the Public Service Management Code, overtime has to be approved beforehand by the respective Permanent Secretary, unless this authority is formally delegated in writing. The Head Office claimed that the approvals from the Permanent Secretary for overtime were sought through emails. However, copies of such emails, which related to the sampled overtime performed by security officers employed with the Ministry, were not provided for verification purposes despite various reminders. Therefore, it was not possible for this Office to confirm that the overtime worked was duly approved in advance.

Furthermore, overtime pay was not always accompanied by certified attendance records to substantiate the claimed overtime.

[6] Management comments submitted on 17 October 2022.

Recommendations

Approvals to work outside normal hours are to be invariably obtained from the right level of authority prior to performing overtime, when such additional hours are being paid for. Furthermore, overtime is to be substantiated with the respective attendance sheets, in order to enhance controls on expenditure.

Management Comments

Recommendation is accepted. Human Resources officers will ensure that necessary approvals and checks are done. One should note that, from 2022, overtime requests started being submitted for Permanent Secretary's approval every quarter.

Shortcomings related to the recording of Transactions

Due to incomplete and/or inconsistent text description when recording transactions in CFMS, as well as because of the lack of sub-accounts therein, at times it was difficult to establish to what the transactions referred. Consequently, the exercise to select the audit sample of allowances both for the Head Office and PREU was time consuming. In addition, the reports extracted from CFMS included journal entries with the username 'Reports'. Some of the highlighted shortcomings were already reported following last year's revenue audit[7] but the observations prevailed.

Recommendations

For the sake of completeness, NAO reiterates that detailed text description is to be invariably included in CFMS for each transaction. Furthermore, the option of creating sub-accounts in CFMS is to be taken up with the contractor following consultation with Treasury, in order to address this shortcoming. In the meantime, it is important that text is standard throughout, to facilitate reporting thereof. The issue of the actual user not being indicated is also to be followed up with Treasury and resolved with CFMS contractor.

Management Comments

Recommendations partly accepted with reference to the complete and detailed text on transactions. This is something which is repeatedly and continuously being told to users and even indicated on the Manual. One must note that there are 42 Missions, with locally engaged personnel of different nationalities and cultures inputting in the system. Thus, the recommendation that text is standard throughout is quite difficult to uphold.

With reference to the option of sub-accounts and the issue of the actual user not being indicated in CFMS, these are to be followed up with Treasury and resolved with CFMS contractor. Since the Treasury is the owner of CFMS, the Ministry is of the opinion that such recommendations are to be addressed to the former. This situation is not unique to this Ministry; hence such instances will be found in other audits in other Ministries.

Compliance Issues

Reimbursements of Education Grant and Medical Expenses not in line with the Conditions of Service

The audit revealed the following divergences from CoS in the case of reimbursements of education grant and medical care, at times resulting in unwarranted expenses from public funds.

[7] Report by the Auditor General – Public Accounts 2020 - Ministry for Foreign Affairs and Trade Promotion – Revenue.

Education Grant

In line with CoS, the education grant is 90% of the admissible educational expenses actually incurred. As per respective claim form, expenses were to be already incurred and supported by proof of payments when the claim is raised. However, three of the five sampled claims for education grant, aggregating to $126,044, were reimbursed during the same month of submission, prior to incurring any expenses which were spread over almost one year[8]. Such deviation from the provisions of CoS was never approved.

In addition, following a review of the five mentioned claims, it transpired that one of the officers was over reimbursed an aggregate of circa €4,000. Requests for the respective refunds were prompted by NAO and evidence that the majority of the amount was refunded was submitted to this Office.

Medical Care

CoS stipulates that the cost for treatment arising from hospitalisation and which is delivered within the hospital grounds is eligible for 90% reimbursement. However, an amount of €77,636 for hospitalisation and respective fees was refunded in full by the Head Office to one of the officers; resulting in an overpayment of €7,764. Moreover, the respective claim was not processed through the pertinent form; thus, it was not formally approved by the Permanent Secretary[9]. The officer had 60 days from the date of the expense to submit the form in question.

In addition, as per CoS, the 90% reimbursement was applicable to the treatment for any of the conditions listed in Part II of the Fifth Schedule of the Social Security Act (Cap. 318) and respective medical care fees, as well as costs incurred for emergency and hospitalisation treatment. However, both the Missions and Head Office accepted claims for the reimbursement of expenses in the audit sample, to the tune of €13,086, which were neither listed in the pertinent Schedule nor considered as treatment.

Shortcomings related to Claims

As per CoS, both the requests for reimbursements of education grant and medical care are to be accompanied by a statement certifying that no other reimbursement, from any other source, has been received. However, during 2021, such statement was never requested by the Head Office and PREU. Prompted by NAO, the respective forms were updated to highlight this requirement and disseminated accordingly.

Furthermore, the respective claim forms were to be endorsed by the claimant, Head of Mission, the Director Corporate Services (DCS) and finally by the Permanent Secretary who was to approve the reimbursement. However, all the 16 forms reviewed, covering the education grant or medical care expenses, did not include all the required signatures. In nine cases, amounting to €6,574, DCS signed on behalf of the Permanent Secretary without delegation of authority, whilst the rest, to the tune of €141,403, were not endorsed by DCS.

Recommendations

If reimbursements of medical care other than those listed in the foregoing document are deemed justified, these are to be duly approved by the Minister for Finance, and CoS updated accordingly.

A circular was disseminated during the audit to all the Missions' accounts desk officers[10], emphasising that the education grant shall be paid once proof of payment is provided. However, officers are also to be well-versed with the standing regulations, ensuring that all conditions are adhered to before expenses are reimbursed.

[8] The non-refundable deposit was to be paid by 12 March 2021, 70% of tuition fees up to 2 August 2021 and the rest by 3 January 2022.
[9] The Permanent Secretary was informed by the officer in an email, that the procedure will be carried out in hospital.
[10] Instructed to forward to all Missions under their responsibility.

Claims submitted are to be thoroughly vetted for eligibility and accuracy prior to these being endorsed and processed for reimbursement. Any erroneous amounts are to be recouped, evidence of which is to be provided to this Office.

Forms are also to be endorsed by all the required officials, following assurance that the amounts claimed are correct and that CoS was complied with.

Management Comments

The Ministry will strive so that Missions' officers will apply more scrutiny and vetting for eligibility and accuracy when claims are submitted to Head Office and processed for reimbursement. One must not forget the human aspect, urgency, exigencies, and fiscal procedures in foreign countries when vetting such claims which are sometimes unique to the country of posting. However, amounts deemed ineligible by the Ministry will be recouped and receipt will be provided to NAO.

Ministry for the Senior Citizens and Active Ageing

Homes and Institutions for the Elderly

Revenue

An audit on revenue collected by **Homes and Institutions for the Elderly**, within the remit of the Active Ageing and Community Care, revealed weak controls over the collection of amounts due and various other limitations hindering the completeness of information about other income received by the respective residents.

Background

Active Ageing and Community Care (AACC) is an Agency which offers services of residential and community care to elderly individuals. Apart from Government homes and institutions, residential care is also offered in private homes under the Public Private Partnership (PPP) scheme. The Agency also supports the elderly to continue living in the community who can benefit from services, such as night shelters, handyman and home help, amongst others, in order to reach its aim.

Financial Information

In the Financial Estimates for 2021, budgeted revenue related to the foregoing services stood at €25,500,000[1]. The primary source of this revenue is derived from the related deductions from pensions and other personal income of the individuals residing in state-financed residential homes[2]. According to information provided by AACC, during the year 2021, approximately €28,397,591 was collected from residents in homes and institutions falling within the remit of the Agency.

The State Financed Residential Services Rates Regulations (S.L. 318.13) stipulates that any residents of homes for the care and welfare of older persons shall contribute to Government for their own care and upkeep. For residents receiving a basic level of care (level 1), a 60% deduction of any pension, social assistance and bonus receivable (net of income tax) shall be payable. This percentage increases to 80% for level 2 care. Residents under both levels of care are also subject to an additional 60% deduction of any other income received during the previous calendar year[3].

Audit Scope and Methodology

The scope of the audit was to assess the processes and controls in place with regard to the completeness of revenue collected from the contribution from residents of homes and institutions that fall within the remit of AACC.

[1] These relate to Account 0471 on the Departmental Accounting System, which was operational until 31 March 2021, and Account I4045 on the Corporate Financial Management Solution.

[2] These being the Government residential homes in Bormla, Floriana, Msida, Mtarfa and Mosta; Government institutions for the Elderly namely the Gozo General Hospital (including social cases), Boffa Nursing Home, Saint Luke's Hospital social cases, Geriatric Section and Mental Hospital in Gozo, Karen Grech Hospital, Mount Carmel Hospital (including social cases), Saint Bernardette Ward, Saint George Preca Ward, Jean Antide Ward, Mater Dei Hospital, Pope John Paul II Ward, Saint Anne Residence, Zammit Clapp Hospital, Villa San Lawrenz and St. Vincent de Paul; private residential homes under the PPP scheme. Revenue from the Home Help Service was also included therein.

[3] Deductions pertaining to other income of residents in institutions under the PPP scheme are also paid into Account I4045, replacing Account 0471, whilst the deductions from residents in other institutions, such as St. Vincent de Paul and Mount Carmel Hospital (geriatric wards) are paid to the Welfare Committee. However, contribution made by the resident shall not be such as to leave the resident with less than €1,397.62 per annum at the disposal of the individual.

A meeting to discuss the audit objectives was conducted with the respective Permanent Secretary and AACC's Chief Executive Officer. A series of walkthrough tests were then performed with officials from AACC, the Department of Social Security (DSS), as well as St. Vincent de Paul (SVP) Long Term Care Facility, in order to understand the procedures in place for the payment of the applicable contributions.

Detailed testing was carried out on a sample of individuals who were identified by SVP as having other income besides their pension, in order to ascertain whether any existing overpayments pertaining to these individuals were effectively being repaid.

Enquiries were made in order to determine whether the application form and the necessary declaration were requested from the new residents to establish their source of income.

A high-level understanding was obtained of those debtors arising as a result of contributions that should have been paid through standing orders, but which were not set up. The National Audit Office (NAO) assessed the procedures in place to recoup such amounts.

Key Issues

Weak Controls over Collection of Amounts Due

AACC provided a list of debtors as at 31 December 2021. The total amount of €195,334, partially outstanding since 2013, was due by 63 elderly people residing in state-financed homes and institutions. Table 1 refers.

Table 1: Debtors by Year

Year Amount became due	Amount €	Percentage of Total %
2013	12,362	6.33
2014	386	0.20
2015	1,792	0.92
2016	34,236	17.53
2017	11,190	5.73
2018	29,328	15.01
2019	24,578	12.58
2020	48,409	24.78
2021	33,053	16.92
Totals	**195,334**	**100.00**

Approximately one half of the individuals on this list were elderly people in receipt of a foreign pension, where contributions could not always be automatically deducted by DSS. In such cases, the respective amounts must be paid directly by the individual through standing order, cash or cheque payment, thus beyond the Department's direct control.

A detailed analysis of the debtors' list revealed that 52% of the total dues, amounting to €101,350, were owed from 27 residents who had passed away between 2015 and 2021. This rendered the task of collecting the outstanding amounts somewhat difficult since the heirs, if any, had to be chased for a refund. Out of these, the highest amount of €34,236 was due from an individual receiving a foreign pension, who resided in a home under the PPP agreement between 2016 and 2021, from whom no contributions were collected over this five-year period.

The only action taken by the Agency was sending out letters as reminders of amounts due.

Recommendations

Debtors are to be monitored and chased in a timely manner. This would not only ensure that the amounts due are collected on time, but also that an equitable system, which is fair on everyone, is maintained.

The Agency is also to look into ways on how to secure payment from those elderly persons who do not receive any local pensions, so as to ensure that the contributions are duly collected. This would avoid the creation of overpayments which might be difficult to recoup.

Management Comments

Management stated that monitoring is being done and enforcement has increased. A direct debit system will also be explored.

In the meantime, files pertaining to eight individuals were forwarded to the Agency's legal advisors and legal letters were sent out; since October 2020, five residents or next of kin paid the pending due and an aggregate amount of €7,921 was collected. In addition, 17 other cases have already been identified to be followed up.

Shortcomings in the Collection of Information pertaining to Other Income

Personal details of newly admitted residents are forwarded to DSS by both SVP and AACC. A DSS officer is then tasked to collate details pertaining to income other than social benefits owned by these individuals. This exercise captures information in relation to capital and interests from local banks, as well as data on foreign pension which is received from foreign Missions in Malta. Once these details are collected, they are uploaded on the Sistema għall-Amministrazzjoni tal-Benefiċċji Soċjali (SABS) and the Contributions Sections within DSS and SVP are given the go-ahead to calculate the respective deduction rate. SABS is then duly updated and the amount of contribution can start being deducted.

At the lapse of every calendar year, a declaration form[4] is given out to all[5] residents who are obliged to inform the Department of the income earned during the previous calendar year. SABS is updated accordingly with the necessary changes. The audit revealed the following shortcomings:

a. Declaration of Income not requested upon Admission

Procedures in relation to the collection of income declarations from residents were not uniform across all elderly homes and institutions falling under the remit of AACC. Whilst new residents at SVP filled in this declaration form upon admittance, those admitted into the other homes were only requested to fill in such form at the end of the year, irrespective of the date of their admission[6].

NAO was informed that these declarations were not requested upon admission into homes falling directly under AACC, because the Agency relied solely on information obtained by DSS; however, this was not always accurate and complete.

The possibility of creating overpayments is also exacerbated if the time lag between admission and filling in the declaration form is significant.

[4] Through this form, details of the income of the individual are requested, covering Maltese and Treasury pensions, foreign pensions, interests from banks, rental income (including ground rents), private pensions and properties owned (other than primary and holiday residences).

[5] The declaration form must be filled in by all residents, irrespective of whether they receive any contributory or non-contributory benefit or whether their pension, if any, is local or foreign.

[6] It is pertinent to note that whilst Government homes and those forming part of the PPP scheme are managed by AACC, admissions within SVP are managed by the latter itself.

b. Limitations to collect Complete Information

The information collected by DSS was incomplete. A number of shortcomings were in fact noted:

- Information collected by DSS mainly related to capital held with certain local banks and related interest, Treasury pension, as well as foreign pensions received from the United Kingdom and Australia. The fact that the remaining banks and the majority of foreign countries did not collaborate with the Department to pass on information, shed serious doubt on the completeness of information obtained by DSS for this purpose.

- Information about investments was only limited to that collected from the Malta Stock Exchange.

- DSS was unable to collect details about other sources of revenue, such as from the sale of property and rental income.

Hence, the collation of information pertaining to the residents' income relied heavily on details provided by the residents themselves. Consequently, there was the risk that declared income was at times incomplete, through negligence or wilful omission. This would have a negative effect on the actual income due to Government.

Recommendations

All homes and institutions are expected to follow the same procedures upon admittance of elderly residents, in order to minimise overpayments and risking these remaining long outstanding or not being collected at all, especially in the case of an elderly's demise.

Furthermore, whilst NAO commends DSS for its efforts in collecting information about residents' income, pitfalls still exist within this process. AACC, SVP, as well as DSS are to collect the necessary details at the earliest stage possible, as well as strive to find alternative sources from where information relating to an individual's income could be collected in its entirety and corroborated.

Management Comments

AACC will follow the recommended procedure for all admissions on a contributory pension and thus a form will be asked upon admission. On the other hand, as from January 2022, those who are on a non-contributory pension will not be given the declaration form to fill in because, from discussions held with DSS, it transpired that the Department would already know these clients' income.

Feedback from DSS also stated that after several consultations with the Malta Bankers Association, as well as a number of other local banks, the latter started to submit information to the Department relevant to any capital or interests which beneficiaries might be benefitting from. The Department intends to explore the possibility of obtaining investment information from other local corporate sources.

Delays between Admittance into a Residential Home and Benefit Deductions

Testing revealed that the time lag between the date when a person is admitted into a residence and the date when the benefit deduction starts to be made is at times significant.

Considering that residents already have a substantial part of their benefit deducted, the repayment rate of 5% of the remaining balance in hand to refund the amount paid extra will translate into an even smaller settlement by instalment, lengthening the period of time over which the overpayment can be repaid.

Recommendation

The processing time of new admissions is to be reduced as much as possible so as to minimise overpayments being created.

Management Comments

The procedure will be followed and a declaration form will be requested upon admission. The report was forwarded to DSS since certain delays were attributable to its procedure and the actual pension deductions were not made by AACC.

Potential of Overpayments remaining unpaid

In those instances where a resident had other income which was not derived from DSS benefits, 60% of such other income was to be deducted as additional contribution[7]. The premise in these cases was that, if the final deduction rate was higher than the pension payable to the person, the full pension was withheld, with the difference to be settled separately through a standing order with AACC.

In such instances, if an overpayment is created, there would be no benefits from where to recover this amount, making it unlikely to be recouped.

Recommendations

The respective Contributions Sections are to be alert to such cases when calculating the amount of deduction, to ensure that a payment plan is in place before the elderly person is actually admitted into the residential home, so that the necessary deductions are made.

Management Comments

In 2013, the initiative of SVP's Contribution Section, requesting that once a person is admitted to SVP, the basic 80% is deducted from social security pension, bonuses and cost-of-living allowance, helped to minimise the overpayment substantially.

[7] In fulfilment of obligations under S.L. 318.13, Articles 3(1), 3(2) and 3(3).

Social Care Standards Authority

Expenditure

The procedures and controls in relation to the expenditure at the **Social Care Standards Authority** within the Ministry for Senior Citizens and Active Ageing were found adequate and in sound operation.

Background

The Social Care Standards Authority (SCSA) is a regulatory body set up by Act No. XV of 2018, to take over the work previously carried out by the Department for Social Welfare Standards. The Authority aims in improving quality and standards in social welfare services and to protect and enhance the dignity, safety and welfare of all service users. This is achieved by licensing social welfare providers, establishing Social Regulation Standards in the social welfare sector, as well as inspecting services and taking action to protect people who use these services.

SCSA, with a staff of around 55 employees, is also the designate Central Authority for the Adoption Administration Act and the Foster Care Act.

Financial Information

The financial statements of the Authority are audited annually by a private audit firm. The latest audited financial statements available at time of audit were those relating to the year ended 31 December 2020. Quarterly Management Accounts for the period 30 September 2021 were also provided during the audit, while those for the year ended 31 December 2021 were made available during the final stages of the audit.

The Authority is fully funded by the Government of Malta. An extract from the Corporate Financial Management Solution showed an allocated budget of €2.3 million for the year 2021, while another €36,888 were received from grants and contributions, for a total income amounting to €2,336,888. On the other hand, total expenditure during 2021 was €2,106,893, leaving a net surplus of €229,995. Similar to the prior year, the largest expenditure related to salaries, including allowances, bonuses and overtime, which in aggregate amounted to around €1.6 million. Amongst other expenditure categories, there were contractual and professional services, as well as rent, which amounted to €68,752, €69,516, and €71,815, respectively.

Audit Scope and Methodology

The main scope of the audit was to determine the level of internal controls in relation to the Authority's expenditure and its procurement procedures.

The National Audit Office (NAO) held a virtual introductory meeting with the pertinent Permanent Secretary, the Chief Executive Officer and other officials at SCSA, in order to obtain an overview of the Authority's operations. Further meetings were also held with the responsible officials to understand the respective policies and procedures in place.

A detailed transaction listing of all the expenditure accounts was obtained from the auditee. This listing was scrutinised, with the largest expenses identified for further testing. These included conference expenses, publications, cleaning, insurance, information technology development, security services, as well as hospitality costs. The total transactions tested from all related accounts amounted to around €96,900, with the majority of the expenses verified with the respective invoices, approvals for payment, fiscal receipts and compliance with the Public Procurement Regulations. Hospitality costs were analysed in more detail. Furthermore, the rental agreement was obtained and the related expenditure for the year was reviewed.

A detailed breakdown of the payroll listing was obtained for all employees up till December 2021. A sample of employees was selected for testing, based on material amounts over €5,000 in pre-tax allowances and overtime. The remuneration of the Board of Directors, as well as the Board Secretary, was also checked to the Framework for the Categorisation, Classification and Remuneration Structure of Government-appointed Boards and Committees.

Sixteen contracts for service, mostly relating to additional work that the Authority had to carry out due to the pandemic, but also including legal services and project management, were tested.

General Comments

NAO was satisfied that the procedures and controls in relation to the areas tested were adequate and in sound operation. Staff was well versed on their respective areas of work and also provided the necessary documentation and replied to all audit queries raised by this Office in a timely manner. This Office considers this audit assignment as a fine example of good practice.

Ministry for Research, Innovation and the Co-ordination of Post COVID-19 Strategy

Esplora

Revenue and Expenditure

Audit testing at the **Esplora** revealed that whilst the collection of revenue was found to be in sound operation, various weaknesses were noted on the expenditure incurred on contractual services, including lack of verification of attendance records, lack of supporting documentation and in certain instances even of the necessary performance guarantees.

Background

Esplora is an informal educational and recreational facility suited to visitors of all age groups. It reports to the Malta Council for Science and Technology (MCST) and, in 2021, fell under the then Ministry for Research, Innovation and the Co-ordination of Post COVID-19 Strategy. This interactive science centre was officially opened on 28 October 2016 and is located at Villa Bighi in Kalkara. It consists of a number of buildings and outdoor spaces which are all interconnected.

For the financial year under review, the budget for recurrent expenditure for this entity was €2,700,000 under Programmes and Initiatives, Line Item 5877, Vote 15 and another €400,000 was allocated under Capital Vote VII, Line Item 7292.

A draft Income and Expenditure Account for the year ended 31 December 2021 showed a total of €4,355,693[1] recorded as revenue by Esplora, whilst aggregate expenditure amounted to €4,657,267; thus, a net deficit of €301,574. This was mainly caused by a decrease in ticket sales due to the direct effect of COVID-19 measures that had to be taken during the year under review.

Audit Scope and Methodology

The scope of the audit was to examine Esplora's main sources of revenue and to ensure completeness of such income. Expenditure incurred on contractual services in 2021 was also verified. Moreover, the National Audit Office (NAO) was to ascertain whether both revenue and expenditure were in line with the financial regulations, circulars and policies, as applicable, ensuring efficient use of public funds, and that the necessary internal controls were in place and effective.

Revenue

A system-based audit was carried out, whereby substantive testing was conducted on a sample of 13 revenue transactions.

[1] This amount comprised €3,951,541 derived from the annual Government subvention and grants received during the year, whilst the remaining €404,152 was generated from ticket sales and other related revenue.

NAO obtained the list of daily transactions pertaining to revenue generated from ticket sales and verified whether the respective tickets had a unique and consecutive reference number and date. Additionally, the respective end-of-day reports pertaining to the sampled transactions were obtained, together with the daily reconciliation and supporting documents, including bank statements and other related correspondence.

The lists of the other categories of revenue and pertinent documentation, including invoices and bank transfer schedules, were vouched against the respective transactions selected for sampling purposes. Testing also focused on the completeness of revenue and that it was recorded appropriately.

A sample of five balances of trade receivables, representing 96% of the total debtors' population as at end 2021, was checked to supporting documentation, including details on post-balance sheet movements.

A sample of five daily transaction reports, representing revenue generated from the souvenir shop, cafeteria and conference events was also selected for testing.

Expenditure on Contractual Services

Following scrutiny of the draft Income and Expenditure Account provided by Esplora, three types of contractual services were identified for testing on the basis of materiality. These comprised the cleaning, security and landscaping services.

A sample of 21[2] transactions was selected to ensure that the pertinent procurement regulations were followed and that the respective payments were supported by agreements, invoices and fiscal receipts. Furthermore, the rates and hours charged were corroborated with the respective agreements, as well as attendance sheets, where applicable.

Key Issue

Deficiencies in Service Planning of the Foreshore Area

In the past, the foreshore area of Esplora was inaccessible; this was extensively restored by MCST and inaugurated on 3 August 2021. Subsequently, MCST required additional cleaning and security for this area and separate requests for quotations for these services were issued.

The aggregate amounts of the additional services requested merited the issue of a call for tender; however, Management opted to go for repetitive calls for quotations, up to the applicable threshold allowed by the procurement regulations. The following details refer:

a. Cleaning Services

The procurement of additional cleaning services for the foreshore area was made in four separate orders. Following the first public call for quotations, a particular service provider was selected and on 26 August 2021 an agreement capped at €10,000 excluding Value Added Tax (VAT) was entered into. When this limit was about to be exhausted, Management requested quotations, capped at €2,500 (VAT excl.), from six different suppliers and the same service provider was selected. Following this, another public call for quotations capped at €10,000 (VAT excl.), as well as a direct request for quotations capped at €5,000 (VAT excl.), were issued on 8 November 2021 and 3 May 2022 respectively, and the same service provider was once again chosen. A total of nine payments, amounting to €23,470 (VAT excl.), were paid within a period of nine months, up to end of June 2022.

[2] This is made up of eight transactions in respect of cleaning services, ten transactions for security services and three transactions related to landscaping services.

Management stated that the tendering process for the cleaning of the Esplora foreshore area was still being evaluated at the end of June 2022.

b. Security Services

A total of 20 purchase orders, amounting to €99,146 (VAT excl.), covering just over a one-year period, from 21 Jun 2021 to 29 July 2022, were raised and issued in respect of security services for the foreshore area following three public calls for quotations. Since for every call issued, rates submitted by all bidders were always identical, the service was split between them, capped at €5,000 (VAT excl.) each.

Management confirmed that a tender to this effect was published in June 2022.

Recommendation

The procurement process has to start well in advance, so that the procurement regulations can be duly followed. This will promote transparency, while also having the opportunity of obtaining better service rates and value for money.

Management Comments

Even though a call for tender for cleaning services was issued, the duration for the process of public procurement has lately increased exponentially. Therefore, the situation was mitigated by issuing a series of interim calls for quotations in order to ensure that the public funds spent for the rehabilitation of the Esplora foreshore area does not go to waste, which would undoubtedly have happened, had the area been left to revert to its former dilapidated and dirty state. As at mid-August 2022, the call for tenders for the cleaning services, has reached its post evaluation stage and is nearing the contract awarding stage.

Management confirmed NAO's observations regarding the security services, also stating that by awarding the contracts to all the compliant economic operators submitting their bids, it acted in the most correct, impartial and transparent manner possible.

Moreover, Management has no control over the excessively long time that the processing of tenders is taking. It therefore took the necessary interim measures to make sure that the rehabilitated area is kept in pristine condition for the public to enjoy, using the most appropriate and transparent procurement processes available to it, without reverting to any direct orders.

Control Issues

Lack of Verification of Cleaners' Attendance Records

As per agreement entered into in February 2020, MCST subcontracted cleaning services at both MCST and Esplora buildings[3]. The cleaners were given access to clock in and out through the electronic attendance verification system used by MCST employees. However, Esplora confirmed that the attendance reports were only used to confirm the cleaners' physical presence on a specific date but not the duration. Moreover, the cleaners assigned at the foreshore area did not make use of the attendance system and no official attendance records were kept by MCST in this regard.

Testing also revealed that the attendance reports for cleaning, extracted from the electronic attendance verification system, were not being verified for correctness and completeness. It also transpired that the cleaning hours generated from this system did not tally with the totals within the same report, as well as with the total hours worked as per the monthly schedule issued by the service provider; thus, providing conflicting information. In the circumstances,

[3] This did not include the foreshore area as it was still a construction area.

NAO was not in a position to verify that the amounts paid were in line with the respective attendance. Given that no attendance records were being kept for the cleaning of the foreshore area, the related expenditure could also not be validated.

Recommendations

Given that cleaners in charge of MCST and Esplora buildings make use of an electronic attendance system, MCST is strongly recommended to use this to its advantage and adopt a systematic manner to perform regular checking of attendances, to ensure correctness and completeness. Documentation evidencing such verification is to be retained for audit trail purposes.

Moreover, invoices pertaining to the cleaning of the foreshore area are to be supported by the respective attendance sheets, also evidencing that the necessary vetting has been undertaken before payments are effected.

Management Comments

The electronic control mechanism was introduced over and above the physical control taking place; however, this proved to be less effective than the physical control. The latter consists of physically checking every single day that the correct number of cleaners are on site, which control is still in place in tandem with the supplementary electronic control. This was happening because the regular cleaners were taking the punch cards home with them, and in cases of sick leave, those cleaners replacing them did not have cards themselves, thus unable to record their clockings. This resulted in clocked hours not tallying with the physical controlled hours. In view of this, Management will be discontinuing the electronic control mechanism in favour of a manual log, where cleaners will have to manually sign paper-based attendance sheets.

Payments for Security Services lacking Supporting Documentation

Audit testing of the 10 transactions in relation to security services selected in the audit sample revealed the following weaknesses:

a. Eight transactions, amounting to €34,422 (VAT excl.) representing a total of 3,588 hours of security services at the foreshore area, were not supported by the respective attendance records. In view of this, no verification of these records was carried out by MCST, before effecting payment.

b. Two other sampled invoices issued by Heritage Malta, amounting to €1,066 (VAT excl.) in respect of 110 hours of guarding services provided to Esplora, were also not supported by the respective attendance records. The pertinent documentation was eventually provided by Heritage Malta; however, this implies that payment by Esplora was effected without the necessary verifications.

Recommendations

Payments are to be backed up by electronic attendance records, supporting the number of hours carried out and invoiced. This will also enhance audit trail, as well as facilitate external verifications. Moreover, hours and amounts invoiced are to be invariably corroborated and certified correct prior to processing payment.

Management Comments

With respect to observation (a), Management acknowledges such observation and welcomes the respective recommendations and will forthwith request the security guards to sign in and out on paper-based attendance sheets.

As regards observation (b), since the services of the security guard were given within the confines of Heritage Malta's property, it could not make the necessary verifications as indicated by NAO, and instead reimbursed Heritage Malta's related expenses.

Contracts not covered by a Valid Performance Guarantee

Out of the five contractual services in place, the three most material services were chosen for testing. The audit revealed that the entity was not always covered by the required performance guarantee. The following shortcomings relate:

a. A contract for the provision of landscaping services was entered into on 28 October 2019, for a period of 36 months. As per said contract, a performance guarantee was duly submitted to cover a one-year period from October 2019. However, the expiry of this guarantee went by unnoticed and a new one was only issued in March 2022. Therefore, the auditee was not covered by a valid performance guarantee from November 2020 to February 2022.

b. Similarly, a contract in respect of security services, effective from 1 July 2020 until 31 December 2021 was signed retrospectively nine months later, in April 2021. As a result, the performance guarantee was issued upon signing of this contract, i.e., April 2021. Therefore, the period from July 2020 until March 2021 was not covered.

Recommendations

Management is to ensure that the contract is signed before commencement of the respective service. A performance guarantee secures the fulfilment of the contractor's obligations under the contract. Thus, it is to be ensured that these are valid and in line with respective contracts.

Management Comments

Management always ensures that contracts are signed before each respective service and that performance guarantees are valid in line with respective contracts and will keep doing so. However, it is to be noted that the instances mentioned above coincided with the very unique circumstances of the COVID-19 pandemic, where certain disruptions were affecting the operations of MCST, the Department of Contracts, as well as commercial banks.

Compliance Issues

Non-compliance with VAT Fiscal Requirements

From audit testing it was observed that the supplier providing landscaping services was not submitting the required fiscal receipts. During the year under review, the foregoing was paid €22,807 (VAT excl.) for services. This formed part of a contract of €62,250 (VAT excl.), running over a period of 36 months[4]. Esplora confirmed that it did not chase the supplier accordingly.

Moreover, quarterly returns listing VAT defaulters were not being submitted to the VAT Department.

Recommendations

VAT receipts are to be invariably requested for every payment. Furthermore, in line with pertinent circulars, a list of fiscal defaulters, or a nil return as applicable, is to be submitted to the VAT Department on a quarterly basis. When possible, purchases from defaulting suppliers are to be discontinued until the matter is rectified.

[4] This agreement started with effect from 28 October 2019.

Management Comments

Management took note of NAO's recommendation in order to fulfil its duty and chase all suppliers for the VAT receipts. Furthermore, MCST's Finance Department will contact the supplier of the accounting system in place, to enquire whether it is possible to send automatic reminders to all the suppliers to provide VAT receipts.

With respect to the fiscal defaulters, the Management understands its obligations to submit the list to the VAT Department on a quarterly basis as per NAO's recommendations. In view of this, a new standard operating procedure is being drafted in this regard, which procedure will include the steps to be taken to inform defaulting suppliers that purchases will be discontinued until matter is rectified.

No Formal Approval for the Service Provider to subcontract Cleaning Services

The company, which was selected for the cleaning of MCST and Esplora buildings, entrusted another cleaning company to specifically clean the planetarium globe glass, since this task, which was rather dangerous, required specialised tools and equipment. This was done, following discussions with MCST's Health and Safety Officials. Given that this specialised cleaning company had already carried out similar jobs at MCST, it was verbally agreed to entrust the foregoing company for the cleaning of the planetarium globe glass.

However, formal authorisation from MCST, as required in terms of clause 4.2 of the general conditions for service contracts, was not obtained.

Recommendation

In cases of similar eventuality, a formal prior approval is to be sought in line with the conditions stipulated by the Department of Contracts.

Management Comments

Management fully agrees with this recommendation and will ensure that a formal preauthorisation is granted to the contractor should a similar occurrence is encountered in the future.

General Comments

This Office satisfactorily noted the procedures adopted by Esplora regarding the collection of revenue were found to be in sound operation. Moreover, Management and other officials fully cooperated, providing all documentation required for audit purposes in a timely and very efficient manner.

General Management Comments

Management acknowledged that this was a useful and beneficial audit exercise, which will contribute towards further improving the entity's operational process.

Ministry for the National Heritage, the Arts and Local Government

Revenue by Local Councils

Revenue

Revenue by Local Councils is regulated by multiple subsidiary legislations rather than consolidated under one legal act. Certain fees for activities requiring a permit are considered trivial; however, an inconsistent approach amongst Local Councils in treating the respective applications was noted. Furthermore, the Online Permit System was not yet implemented in all Local Councils.

Background

Malta is a unicameral parliamentary republic with two tiers of Government: national and local. Local Government is enshrined in Malta's constitution and is governed by the Local Government Act (Cap. 363). The Local Government Division (LGD) is responsible for monitoring the functions and operations of Local Government. Through its three[1] units, LGD provides guidance and support to Local Councils (LCs) by issuing directives and circulars for the effective and efficient functioning and operations, as well as to ensure uniformity of application and implementation of legislation and procedures. The Local Government system is two-tiered with 5[2] Regional Councils and 68 LCs, 54 in Malta and another 14 in Gozo.

Although Councils are practically fully dependant on the annual budget allocated by Parliament to finance their operations, they still have the possibility to raise some revenue through other sources. A number of subsidiary legislations[3] enable Councils to issue permits against a fee, as illustrated in Table 1. In addition, in line with Article 34 of the Local Government Act, a LC may make, amend or revoke bye-laws for the purpose of carrying out its functions and for the prevention and suppression of nuisances in its locality and to increase funds other than those allocated to it by Central Government.

[1] These comprise the Monitoring and Support Unit, the Strategy and Policy Implementation Unit and the Finance and Procurement Compliance Unit.

[2] As from January 2022, LCs in the Maltese islands were spread over six Regional Councils; five in Malta and one in Gozo.

[3] Activities Requiring Permit by Local Councils Regulations (S.L. 441.04), Trenching Works Requiring Permit by Local Councils Regulations (S.L. 441.05) and Skips (General Application) Regulations (S.L. 363.63).

Table 1: Activities requiring a Permit

Activities taking place in Public Spaces	Fees €	
Kiddie ride machine	46.59	per annum or part thereof
Automatic vending machine	23.29	per annum or part thereof
Stall and kiosk	23.29	for a period of three days or part thereof
Use of crane and other machinery exceeding 10 square metres	15.00	per day or part thereof
Use of crane and other machinery not exceeding 10 square metres	10.00	per day or part thereof
Public show, exhibition, small games, a fair, a tombola or any other public entertainment	6.99	per day or part thereof
Playing of musical instrument, use of loudspeakers or amplifiers	4.66	per day or part thereof
Holding of aquatic or other sports except a sporting activity that is organised across more than one locality or on a national basis	2.33	per day
Temporary deposit of building and other material (including the setting up of scaffolding)	2.33	per square metre or part thereof per day
Deposit of tables and chairs to provide food and beverages	1.16	per square metre or part thereof per day
Skips	1.16	per day or part thereof
Bins on wheels	0.93	per day or part thereof

Audit Scope and Methodology

The main scope of the audit was to ensure that applicable fees were being charged in line with pertinent legislation. Furthermore, the adequacy of the procedures in place for the collection and recording of such income in the books of accounts was also assessed.

To achieve the audit objectives and obtain an understanding of how the system operates, besides desktop research, the following encounters were also held:

- introductory meeting with the Permanent Secretary and Director General within LGD;
- questionnaire distributed electronically to all 20 LCs falling within the audit sample, listed in Table 2;
- virtual meetings with the Executive Secretary[4] (ES) and key staff of 10 of the sampled LCs[5]; and
- onsite visit at Valletta, Naxxar and Mdina LCs.

The audit was conducted in accordance with generally accepted auditing standards. Sample selected was qualitative and not designed to gather data on the frequency of error in the population as a whole, but to assess the system in place and to identify ways through which practices could be improved. Thus, any conclusions reached in this audit only relate to those areas that were examined.

[4] Though invitation was sent to both the respective Mayor and Executive Secretary, the only Mayor present for the meetings was that of the Birgu LC.
[5] Ten of the sampled LCs comprised Attard, Birgu, Bormla, Kirkop, Mdina, Naxxar, San Ġwann, San Paw il-Baħar, Valletta and Żabbar.

In line with Direttiva 01/2020[6], issued by LGD, LCs are obliged to upload Quarterly Financial Reports by end of January, April, July and September of each year. However, by mid-October 2021 only a couple of Councils had uploaded the third Quarterly Financial Report for the year, covering January to September 2021. Given the circumstances, the sample was based on the Quarterly Financial Reports for the period January to June 2021 from where the sample of 20 LCs was randomly chosen following data stratification. However, it resulted that 36 Councils still did not upload the report in question on their website by mid-October 2021. Ten of these Councils formed part of the audit sample.

Table 2: Sample Selection

Local Councils	Revenue generated from Permits[7] as disclosed in Quarterly Financial Report Second Quarter €
Valletta	88,139
San Pawl il-Baħar	61,886
Mosta	45,478
Naxxar	33,186
Żabbar	20,305
Attard	19,561
Bormla	17,169
Mdina	8,264
Safi	2,537
San Lawrenz	1,246
Birgu	-
Fontana	-
Iklin	-
Kirkop	-
Luqa	-
Nadur	-
Paola	-
San Ġwann[8]	-
Swieqi	-
Xewkija	-

Limitation on Scope of Audit

As evidenced in Figure 1, a number of LCs from the 20 falling within the audit sample, did not provide the requested documentation, thus hindering audit procedures.

[6] Applowdjar tad-dokumenti statutorji fuq il-Websajt.
[7] The last 10 LCs listed in the table are Councils in the audit sample not filing the Quarterly Financial Report for the second quarter; thus, revenue was not disclosed.
[8] Although the Quarterly Financial Report for the second quarter was uploaded on the Council's website, the necessary breakdowns were not provided by San Ġwann LC.

Figure 1: Documentation for Audit Testing not acceded to

This lack of collaboration from these LCs is considered unacceptable especially since it goes against the values of accountability and transparency, two main pillars of good governance.

Management Comments

The Monitoring Unit took note of such non-compliance. Furthermore, the new collective agreement, signed on 18 February 2022, indicates a new provision giving LGD the remit to decide on 5% out of 15% of ES's performance bonus. A report on defaulting ESs will be issued by the Monitoring Unit at the end of each year prior to performance appraisals.

Key Issues

Fragmented Legislation regulating Activities requiring a Permit

Activities requiring a permit are regulated by multiple subsidiary legislations, falling under the remit of two distinct Acts, rather than consolidated under one law. Table 3 refers. This is likely to create confusion amongst the local citizen who is not aware that certain events are governed by separate legislation and thus could be easily overlooked.

Table 3: Activities governed by multiple Subsidiary Legislations

Subsidiary Legislation	Act
Skips (General Application) Regulations (S.L. 363.63)	Local Government Act (Cap. 363)
Activities Requiring Permit by Local Councils Regulations (S.L. 441.04)	Trading Licences Act (Cap. 441)
Trenching Works Requiring Permit by Local Councils Regulations (S.L. 441.05)	Trading Licences Act (Cap. 441)

Recommendation

For the sake of clarity, LGD is advised to escalate this issue with higher authority so that legislation governing permits issued by LCs is collated under the Local Government Act.

Management Comments

LGD shall initiate discussions with the Commerce Division to collate the relevant legislations under the Local Government Act. Following discussions with stakeholders, legislation governing permits issued by LCs will be updated and amended to clearly define one operating process thus avoiding the possibility of different interpretation with regard to fees. This recommendation is envisaged to be implemented by December 2022.

Online Permit System not yet implemented in all Local Councils

During 2020, on their own initiative, 16 LCs[9] implemented an Online Permit System, where citizens requiring a permit to carry out an activity in any of the foregoing localities could submit an online application and pay accordingly. The respective approval was also issued electronically.

This has yet to be implemented by the rest of LCs in Malta and Gozo by end of 2022, as also indicated through a press release dated 10 January 2022, issued by the Ministry for National Heritage, the Arts and Local Government.

Recommendation

LGD is encouraged to hasten this process as this approach will not only bring about harmonisation amongst LCs, but will also eliminate repetitive manual paperwork which may lead to undetected errors by those Councils still working with a manual system.

Management Comments

LGD would be implementing the Online Permit System in all LCs by end of May 2022.

[9] The respective Councils are Attard, Bormla, Għargħur, Iklin, Isla, Kirkop, Marsa, Marsaskala, Mellieħa, Mġarr, Naxxar, Qormi, Qrendi, San Ġiljan, Swieqi and Valletta.

Subsidiary Legislation not reflecting the Operating Scenario in place

Developments registered in the last years in certain areas, such as construction, coupled with the fact that the applicable subsidiary legislations were never revised since their release[10], render them outdated. LCs within the audit sample identified a number of situations, whereby the operating scenario in place, either was not covered by any of the cited legislations or was posing unnecessary limitations on the respective Councils as indicated hereafter.

Trivial Permit Fees

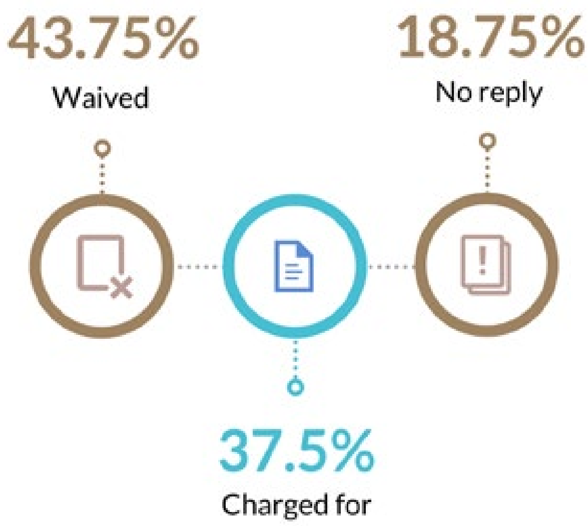
Certain fees were considered nominal and trivial. For instance, for a skip permit, one was charged €1.16, which does not even cover the administrative cost to issue the relative permit.

Inconsistent Approach

The fact that the cited legislations lacked to provide a clear definition of certain activities, was resulting in an inconsistent approach amongst LCs in treating the respective applications. LGD tried to address this matter through the issue of Ċirkulari Numru 8/2017[11]; however, certain divergences still prevailed.

A case in point is the chargeable fee with respect to scaffolding. Certain LCs opted to waive such fees on the premise that safe access was allowed to pedestrians, while others argued that the fees were still applicable. Figure 2 refers.

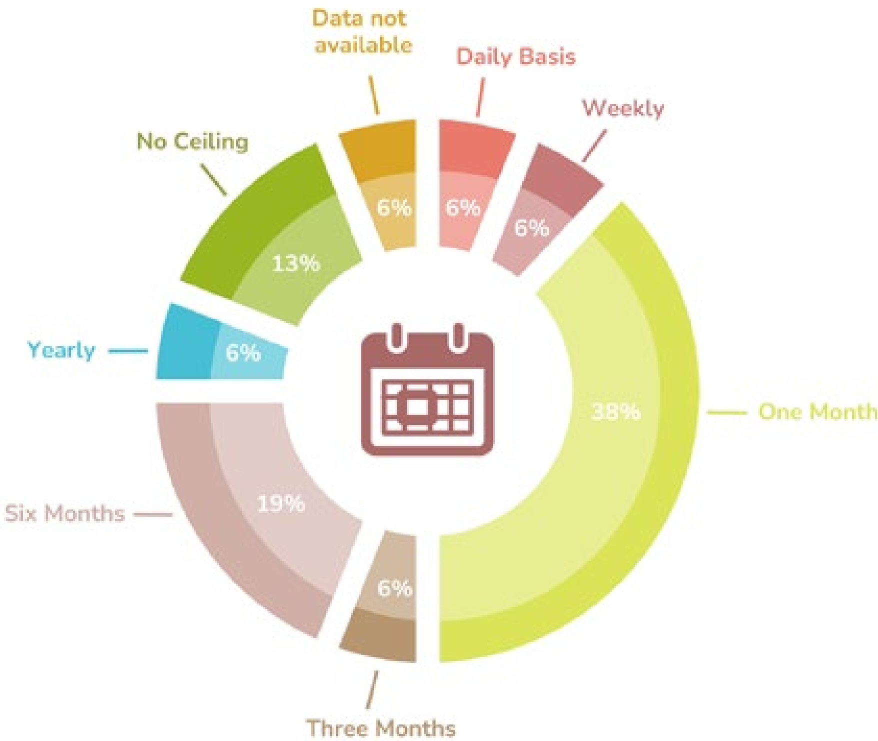
Figure 2: Application of Fee Waiver by Local Councils



Divergences were also noted in the period of validity of permits issued in cases of long-term projects. The legislation, S.L. 441.04 does not specify the maximum number of days a permit should cover. To this effect, a number of Councils set the term of a month as a ceiling, after which the permit needs to be renewed, while timeframe covering the permit for others varied from one day to one year, or even indefinitely as illustrated in Figure 3.

[10] S.L. 363.63 was issued in 2000, whilst 441.04 and 441.05 were released in 2002.
[11] Attivitajiet li jeħtiegu permess mill-Kunsilli Lokali.

Figure 3: Inconsistent Validity Period



A similar issue was that relating to skips permit, whereby no distinction was made between a small skip and a hook loader used for construction activities, where the same fee was being applied, despite that a much larger space is occupied in case of the latter.

Recommendation

Discussions with the competent authorities and decisive action is encouraged, to revise the respective legal framework so that it will clearly define the operating scenario in place and avoid the possibility of different interpretation.

Management Comments

The implementation of an exclusive permit system for all LCs will address the underlying issue. By way of example, in the case of scaffolding, the system was updated to reflect the charge-base as per relevant legislation. Moreover, the ongoing monitoring carried out by the contractor is expected to flag any resultant inconsistencies. These will be discussed and tackled accordingly by December 2022.

Control Issues

Bypassing of Online System's Controls

The online system actually prohibits the issue of permits before a valid payment is honoured. However, during a site visit held at Valletta LC, which during 2020 was already operating the Online Permit System, an instance was noted whereby:

a. the permit issued on 22 November 2021 was backdated to cover from 1 November to 31 December 2021; and

b. it was issued to the applicant despite that the respective payment was effected the following day.

Furthermore, the same LC was not aware that the respective receipt can be issued from the same online system.

Recommendations

LGD is to ensure that once implemented across all LCs, adequate training is provided to ensure that this system is properly operated and that controls embedded in the system are not bypassed in any way. In case of any loopholes, these are to be addressed without delay.

Management Comments

Prior to implementing such system and going live, every LC's employee undergoes training, thus ensuring that the system is correctly operated. The Division intends to provide a refresher training course once the implementation process is concluded in all LCs.

Moreover, it is ensured that any loopholes identified are discussed with the contractor and addressed accordingly. In fact, several issues have already been rectified, such as the case of backdated permits which are no longer allowed to be issued via the system.

Limitations of the Online Permit System

Following a walkthrough of the system, it transpired that certain important features were lacking. The following relate:

a. Alteration of Fees without Formal Approval

The system allows the back-end user to alter or waive the applicable fee for the issuance of a permit. This mainly materialises when specific machinery is used by LCs to carry out maintenance works in the area. However, it was noted that a systematic procedure requesting approval from ES to execute such changes was not in place, thus fees could be waived arbitrarily.

b. No Alert for Permits Expiry Date

Certain permits extend over a number of days or even months, such as in the case of hoarding, scaffolding and tower cranes which are installed outside the construction site. A notification, alerting the Council that a permit is about to expire, is not configured in the system. This increases the risk that the necessary permit is not renewed.

Recommendations

Discussions are to ensue with the service provider to analyse the possibility of upgrading the system's features to include a superior's authorisation as part of the automated system workflow functionality, when changes to the applicable fees are necessary.

In addition, Councils are encouraged to patrol the locality, at least say once weekly, to identify any ongoing activities that are not covered by a valid permit.

Management Comments

With regard to the alteration of fees without formal approval, whilst authorisation by ES can be implemented within the system, this will create a bottleneck in cases where ES is not physically present at the office.

It was also claimed that though the system could be enhanced to provide alert for permits expiry date, it cannot be assumed that a permit will always be renewed. Renewal falls solely within the responsibility of the citizen, in failure of which the foregoing risks being fined. The related enforcement falls outside the remit of LCs. Notwithstanding this, following the implementation of the system within all LCs, discussions will be held with relevant stakeholders to harmonise the way LCs will liaise with enforcement authorities.

Insufficient Controls in the Application Process

Total Reliance on Data provided by Applicants

The pertinent subsidiary legislation does not require the permit application for scaffoldings and cranes to be endorsed by an independent competent professional. LCs are fully reliant on the information submitted by the applicant, with no independent verifications carried out to ensure the correctness of measurements and the respective permit fees based on the occupied area.

Onsite Inspections lacking

Two sampled Councils claimed that random checks were carried out to ensure that onsite machinery was in line with the permit issued, while another two stated that a list of active permits was forwarded to the Local Enforcement System Agency, for the latter to carry out the relative inspections. The remaining 16 sampled LCs confirmed that spot checks were not performed.

Recommendations

Divergencies in the approach adopted by LCs vis-à-vis permit applications might be perceived as indirect discrimination by the local citizen. Hence LGD is expected to initiate discussions with LCs to find a concrete solution to such issues. The concepts of accountability and fairness are to be highlighted at all times. It is important that checking is performed to ensure that declarations made by the applicant are complete and accurate in every aspect to ascertain that the fees charged are correct.

Management Comments

Besides that enforcement is not within LCs' responsibility, the foregoing are always dependant on the data provided by the applicant.

LCs may give public access of the system to the Community Police and the Local Enforcement System Agency so that they are informed about permits issued and enforce compliance with the law.

Discussions will initiate with the relevant stakeholders after the implementation of the system within all LCs to harmonise the way they inform the competent authorities.

Inconsistent Data submitted by Local Councils

A review of the accounting data gathered throughout the audit revealed the following inconsistencies:

a. Not all Councils were using the chart of accounts devised by LGD as divergencies were noted in the account numbers used for the recording of such income.

b. Instances were encountered whereby income from permits was recorded as one whole amount at the end of the month, without being categorised under the different permit streams.

c. Out of the 20 sampled Councils, only 6 LCs[12] submitted a detailed and properly classified nominal ledger.

d. Discrepancies were noted in the revenue generated from permits as recorded by the respective LC in different channels, namely the nominal ledger and the Quarterly Financial Reports.

Recommendations

LGD is to ensure that the chart of accounts used by LCs is in accordance with the guidance provided. Using the standard accounts and proper categorisation will enhance comparability and will enable comparison between Councils.

In addition, discrepancies in the data maintained in different records are to be analysed and reconciled accordingly.

Management Comments

The accounting package used needs to be harmonised across all LCs. To this effect, LGD is working on a project to implement, by December 2023, the same accounting package and functions in all Councils in order to facilitate and standardise all inputting and reporting.

LGD will then move on to devise an updated chart of accounts and centrally implementing it in all LCs to harmonise the recording of accounting data.

Compliance Issue

Statutory Documents not uploaded on the Council's Website

Despite LGD's continuous reminders of the importance that statutory documentation is uploaded on the Council's website in a timely manner, non-abidance was still the norm. This issue was also reported year on year by the Auditor General in the report titled Workings of Local Government.

By the conclusion of this write-up, i.e., mid-January 2022, five[13] of the sampled LCs did not upload any Quarterly Financial Reports covering 2021, whilst another eight[14] uploaded only those for the first and second quarter.

Recommendation

LGD is to take a strict and decisive stance against those LCs that continuously fail to abide by pertinent regulations and guidelines.

Management Comments

As from February 2022, following the signing of a new collective agreement, LGD has the remit to decide on 5% out of 15% of ES's performance bonus. Such lack of cooperation will be reflected in the respective performance appraisals.

[12] Attard, Bormla, Naxxar, Paola, Safi, and Żabbar LCs.
[13] Birgu, Fontana, Luqa, Swieqi and Xewkija LCs.
[14] Attard, Bormla, Iklin, Nadur, Naxxar, Paola, San Ġwann and San Lawrenz LCs.

Superintendence of Cultural Heritage

Personal Emoluments

Additional vacation leave granted to officers at the **Superintendence of Cultural Heritage** was not according to standing regulations, while requests for overtime work were at times raised and approved after the work was actually performed.

Background

The Superintendence of Cultural Heritage (SCH) was established in 2002 by virtue of Article 7 of the Cultural Heritage Act (Cap. 445). Its mission is to fulfil the State's duties to ensure the protection and accessibility of cultural heritage. The functions of the Superintendence include the compilation of a national inventory of cultural property, the surveillance of such property, authorising excavations, as well as advising and coordinating with the Planning Authority to safeguard cultural heritage when considering planning applications.

The initial Budget Estimate for 2021 for this entity, under Line Item 6780 – Recurrent Vote 16, Ministry for the National Heritage, the Arts and Local Government, amounted to €1,100,000 (2020: €700,000). On 16 August 2021, the Budget Affairs Division within the Ministry for Finance and Employment granted approval for additional funds of €420,000, in view of SCH's negative working capital position, to make up for annual losses, as well as salary reimbursements owed to the Planning Authority for seconded employees.

According to the unaudited financial statements for 2021, SCH reported a surplus of €178,918, in contrast to the deficit of €325,084 registered in the previous year. The accumulated deficit as at end of the year was €426,617 (2020: €605,535).

As at December 2021, the entity had 36 employees, with another 7[1] officers on loan from the Authority.

Audit Scope and Methodology

The National Audit Office (NAO) sought to assess the extent and adequacy of internal controls over salary payments effected by SCH during the year under review, and to ascertain compliance with standing regulations and policies.

An introductory meeting was held with the Superintendent of Cultural Heritage, the entity's Director Support Services and other officials from the respective Ministry to discuss the audit objectives, as well as to obtain a general understanding of the entity's operations. This was followed by a visit at SCH's offices in Valletta.

NAO reviewed the entity's latest audited financial statements, i.e., those for financial year 2020, as well as the unaudited financial statements, trial balance and nominal ledger for the year ended 31 December 2021, for better insight on SCH's financial position. Salaries, amounting to €1,241,170[2] in the year under review, were identified as

[1] Including the Superintendent of Cultural Heritage.
[2] Including allowances of €73,329 and overtime of €33,269.

the most material expense, representing 86% of the entity's disbursements. Thus, the audit focused on the related amounts.

A stratified sample of eight officers was selected randomly from SCH's list of employees, taking into consideration the officers' grades, reduced hours work schedules, terminations, as well as allowances paid during the year under review. The audit sample also included salaries paid to an officer who was on loan from the Planning Authority, and the Superintendent of Cultural Heritage.

Control Issues

Additional Vacation Leave not in line with Standing Regulations

Testing on overtime payments to the officers falling in the audit sample revealed that an extra day of vacation leave was added to the respective employees' entitlement when these performed overtime work on a public holiday, even if this fell on a weekday. This practice is not in line with the conditions set out by the Department for Industrial and Employment Relations, which state that such addition is only applicable when the public holiday falls on the day of rest[3] of the employee.

The financial implications of this erroneous procedure could be fairly significant since it was not limited to the year under review.

Recommendation

Whilst rectifying the situation for previous years might not be viable, especially since officers who had benefitted from the additional vacation leave might no longer be employed with SCH, the entity is to regularise its position with immediate effect.

Management Comments

The entity's reasoning for this decision was that the respective employees' entitlement on public holidays was considered an off day.

SCH Management communicated and contacted the Department for Industrial and Employment Relations for further clarification as per NAO's request. However, the Department failed and hesitated to forward a direct answer to the query, which remained unanswered.

No Agreement supporting Salary paid

A public service officer was detailed with SCH with effect from July 2011, and since then was paid the maximum of salary scale 6. Except for an email dated November of the same year, sent to SCH from the then Public Administration Human Resources Office, no other documentation confirming the officer's entitlement to this basic salary was available. SCH confirmed that no employment contract was entered into between the officer and the entity; thus, the terms of engagement were not formalised.

Recommendation

An agreement is to be signed by both parties, clearly spelling out the applicable salary and the terms and conditions regulating the detailing of the officer with SCH.

[3] Saturday and Sunday in the case of SCH employees.

Management Comments

SCH is paying the officer the maximum of scale 6 based on the detailing with SCH as instructed by the aforementioned email. No agreement was signed by the officer and the Superintendent who was in office in 2011.

Incorrect Allowances paid

Testing on the audit sample revealed inaccuracies, indicating insufficient verification before the actual payment of salaries:

a. The salary package of the Superintendent of Cultural Heritage included an annual expense allowance of €2,000. However, since the appointment on 2 November 2020[4], the expense allowance paid was €1,600 per annum. SCH confirmed that this was an oversight and that the error will be rectified retrospectively.

b. An officer entitled to a refund of subsistence allowances in respect of excavations carried out in Gozo was reimbursed for a lesser amount. The difference was brought to SCH's attention during the audit and was to be settled accordingly.

Recommendation

The rates and amounts payable to officers are to be thoroughly checked to ensure correctness in line with the applicable terms and conditions and minimise adjustments in subsequent pay periods.

Management Comments

These shortfalls were revised and remitted accordingly.

Requests for Overtime raised after Work was performed

Testing on a sample of overtime payments revealed instances where requests to perform additional work were raised after the overtime was actually carried out, and therefore were not timely approved.

Recommendation

SCH is to refrain from paying for overtime unless it is duly authorised in advance.

Management Comments

This occurred as SCH was implementing a new Pilot Project, from February until September 2021, by setting up a new digitising system to upload manual files on a cloud system. All other overtime relating to this project was approved priorly but in the instances identified by NAO, overtime requests were approved afterward, as backup files and other related works were carried out as per urgent work exigencies and deadlines which could not be calculated beforehand[5].

General Comments

SCH extended its full cooperation throughout the audit. Moreover, except for the issues highlighted in the write-up, controls in place were found to be adequate.

[4] The agreement regulating this appointment was signed retroactively on 9 November 2020.
[5] Although SCH referred to overtime work on the cloud project, the instances identified during the audit included also additional work relating to the annual report, inventory and setting up of the Information Technology Lab.

Ministry for Transport, Infrastructure and Capital Projects

Public Works Department

Personal Emoluments

An audit on the payment of allowances and overtime by the **Public Works Department** acknowledged the continuous effort to maintain up to date records. Nevertheless, some shortcomings, pertaining to certification of attendance sheets and overtime worked in excess of that approved, were noted.

Background

Prior to 2022, the portfolio of the then Ministry for Transport, Infrastructure and Capital Projects also included the Public Works Department. The aim of the Ministry was to improve the quality of life of the people, by striving to enable the country to benefit from sustainable development, a revolution in infrastructure, innovative projects, efficient transport, and continuous evolution.

Following the general election of 2022, a new Ministry was formed specifically to take responsibility of public works, construction and planning. To this effect, the Public Works Department fell under the new Ministry for Public Works and Planning (MPWP). As at end December 2021, staff within this Department comprised 552 employees, out of which 126 started their engagement in that same year. A total of 473 of these employees were entitled to perform overtime, whilst approximately 210 employees received some form of allowance.

For the year ended 2021, the budget for allowances and overtime (line items 16 and 17) for the two cost centres in question were as depicted in Table 1.

Table 1: Budget and Actual for Year 2021

	Budget	Actual	Variance
	€	€	€
Allowances	1,325,800	1,309,245	16,555
Overtime	164,600	363,863	(199,263)

The estimated expenditure on allowances and overtime for 2021 in aggregate represented 10% of total personal emoluments (€15,158,800) under the cost centres under review, and 7% of the total budget on such expenditure for the whole Ministry (€21,226,000).

A considerable part of the negative variance shown in Table 1 in relation to overtime paid during 2021 was actually compensated by amounts recovered for overtime worked by the Department’s employees on behalf of other ministries and/or agencies (such as Infrastructure Malta). MPWP confirmed that during 2021, the amount of €169,008 was actually recovered in this regard. This overtime was being adequately approved by Director General MPWP prior to works carried out.

Audit Scope and Methodology

The scope of this audit was to ascertain the adequacy of the internal control system in place with respect to the payment of allowances and overtime of the Public Works Department. Verifications, as to whether payments effected were in line with applicable regulations and respective contracts, also formed part of the audit scope. In addition, the audit sought to ascertain that overtime payments were supported by the required documentation, including evidence of the necessary approvals and timesheets.

An introductory meeting was held with MPWP officials, after which the National Audit Office (NAO) carried out a systems overview of the Department's systems and controls in place with respect to the payment of overtime and allowances. The list of all employees falling under the Public Works Department during the year under review was requested, from which a total of fifteen officers who were in receipt of either allowances or overtime, or both, from the two highlighted cost centres were selected. The audit sample was based on materiality of amounts received by the respective officers.

Allowances

From the sample selected, one employee in scale 4 of the Government of Malta's schedule of grades, was paid various allowances, including, amongst others, allowances relating to transport, communication and responsibility, as well as a performance bonus and a project-based allowance. It was confirmed that the respective amounts were in agreement with the guidelines provided for the delineation in the appointment for directors and directors general.

Another six employees, ranging from scale 5 to scale 16, received allowances related to their duty work, comprising shift allowance, Sunday and public holiday duty allowance, disturbance allowance, a class allowance as part of the Architects and Civil Engineers Sectoral Agreement, as well as one employee who was paid an obnoxious allowance. NAO verified whether the amounts paid were in line with the applicable rates as per collective agreement, together with the correctness of payments effected.

Overtime

In accordance with the Public Service Management Code, section 2.2.7, the responsibility for regulating all overtime work is vested with the respective Permanent Secretary. Overtime was worked by a sample of eight officers having different positions, including that of tradesman, foreman, senior officers, supervisors and assistant principals. Testing was carried out to confirm that overtime was duly approved and justified. Accuracy of the applicable rate for overtime, in line with standing regulations, was also verified.

Control Issues

Attendance Sheets lacking Certification

The sample tested revealed that the attendance sheets supporting overtime performed by an employee, during the period June to December 2021, which overtime amounted to €5,247, were neither signed, nor certified by a superior officer.

Recommendation

Attendance sheets are to be signed and certified by the respective superior officer, evidencing that the necessary vetting has been undertaken.

Management Comments

The Ministry acknowledges the importance of having all attendance documents certified correct by the supervisors and/or directors and agrees with NAO's recommendation that all such documents should be signed as evidence that vetting has been carried out.

To this effect, a memo, which includes standard operating procedures, will be drafted and discussed internally. Upon approval, this document will be circulated to the pertinent heads and supervisors to ensure compliance on all parts without fail.

Overtime worked exceeding Preauthorised Request

Two employees were working overtime as part of a service level agreement entered in 2019 between Infrastructure Malta and the then Ministry for Transport, Infrastructure and Capital Projects. The approved request, dated June 2021, was for 6 employees to work an aggregate of 780 hours, between July and September, with the amount per employee not to exceed 130 hours every 3 months. However, this capping was exceeded because both employees worked a total of 160 hours each over the period of 3 months.

Recommendations

Once overtime is preauthorised, the number of hours claimed, and the amounts paid should not be exceeded. MPWP is to strive to take control over the actual overtime hours worked so as not to surpass the budget, unless justified and duly approved.

Management Comments

Management feels this matter to be of vital importance, in order to maintain sound financial control. In fact, the Financial Management Directorate within MPWP has strict controls in place to ensure that the allocated overtime funds per department and/or directorate are not exceeded. MPWP takes this opportunity to extend its reconciliation of overtime request forms also to the recoverable overtime performed with entities. Hence, better control on recoverable working hours is exercised and any adverse issues and/or remarks could be communicated to the entity accordingly.

General Comment

Except for the shortcomings mentioned in this write-up, NAO acknowledges the continuous effort made by MPWP to keep its records up to date, in particular regarding allowances and overtime approved and paid to the respective officers.

Transport Malta

Expenditure

Amongst other shortcomings, procurement regulations were often bypassed by **Transport Malta** and approvals were mainly sought internally from within the Authority itself notwithstanding the material amounts involved.

Background

Transport Malta (TM) is the Authority for transport in Malta, regulated by the Authority for Transport in Malta Act (Cap. 499). Through the Authority, Government seeks to promote and develop the transport sector in Malta by means of proper regulation and by the promotion and development of related services, businesses and other interests, both locally and internationally.

Financial Information

As per Financial Estimates 2021, Line Item 5531 Transport Malta – Administrative Fee, it was estimated that a tranche of €13,500,000 would be paid to the Authority[1] during the year. The latest set of management accounts provided by the foregoing, prepared up to December 2021, showed a net loss of €78,720 for the year under review.

Audit Scope and Methodology

The scope of this audit was to assess the controls in place at TM in what relates to procurement and expenditure in general.

As part of the National Audit Office's (NAO) understanding of the setup of the Authority, as well as the main items of revenue and expenditure in each Directorate, walkthrough meetings were held with the Chief Officers of each Directorate. Throughout these meetings, NAO gained an understanding of the procedures in place in relation to procurement within TM, which was mostly centralised through the Corporate Services Directorate. When tenders were required, they were eventually sent for publication either to the Sectoral Procurement Directorate or the Department of Contracts, depending on their value.

Additionally, all purchase requests above €2,500 excluding Value Added Tax (VAT) were presented to the Procurement Committee within TM for approval.

Data provided by the Authority showed that TM used various types of procurement during the year under review, as shown in Table 1.

[1] There are eight Directorates within the Authority, namely the Merchant Shipping, Ports and Yachting, Land Transport, Civil Aviation, Corporate Services, Information and Communication Technology, Integrated Transport Strategy and Enforcement.

Table 1: Transport Malta Procurement 2021

Type of Procurement	Value (VAT excl.) €
Direct Contracts awarded by TM exceeding €10,000 (VAT excl.)	17,082,743
Direct Contracts awarded by TM exceeding €5,000 but less than €10,000 (both VAT excl.)	3,861,284
Direct Orders[2]	2,216,607
Departmental Tenders issued by TM	1,366,009
Tenders issued by the Department of Contracts	1,325,557
Negotiated Procedures	898,120
Quotations	29,213
Total	**26,779,533**

This shows that most of the procurement was made through direct contracts which exceeded €10,000 (VAT excl.), which were being approved by TM's Procurement Committee. NAO's analysis has shown that such direct contracts often ran into thousands of Euro, and in a few cases even exceeded the €1 million (VAT excl.) mark.

Because of their materiality, testing focused mainly on these direct contracts. Ten suppliers, for which direct contracts for a total of €12,034,187 (VAT excl.) were approved, were selected for audit testing. One departmental tender for €114,535 (VAT excl.) and one direct order for €111,760 (VAT excl.) were also tested.

Key Issues

Weak Controls in the Procurement of Goods and Services

This audit revealed that the way in which TM handles its procurement often goes against the requirements of the underlying procurement regulations. Several shortcomings were noted.

a. The Public Procurement Regulations (PPR) allow for direct contracts to be awarded by a contracting authority only up to €10,000 (VAT excl.).

   During 2021, the direct contracts by TM often exceeded the stipulated threshold, which in total amounted almost to €17.1 million and were solely approved by the Procurement Committee within the Authority. Queries raised by NAO, about the specific provisions under which such direct procurement was allowed, remained unanswered.

b. In 13 cases of direct contracts approved by the Procurement Committee, involving two different suppliers with an aggregate value of €74,380 and €48,404 (both VAT excl.) respectively, quotations were traced. However, these were obtained directly from selected suppliers rather than issuing a public call for quotations.

c. According to Senior Management from TM, most procurement was often urgent. Whilst acknowledging the fact that due to the nature of the Authority's work, some projects might have fallen onto the Authority's lap without prior notice, this was certainly not the case for all projects which were approved using such approach. In fact, the list of direct contracts provided included expenditure, such as for consultancy work and survey costs, for which NAO could not understand the nature of urgency.

d. Procurement had also sometimes taken an unconventional route, namely when the Chairman of the Authority handled substantial self-procurement.

[2] Approved by the Ministry for Finance and Employment.

Recommendations

TM is expected to put in place procedures in relation to procurement which are in line with PPR and other underlying regulations. This would ensure that it reduces, as much as possible, its reliance on direct contracts, and instead seeks to obtain quotations from the open market or issue tenders through the normal accepted channels.

Issues of urgency also need to be addressed in line with the regulations. In such exceptional circumstances, approvals for direct order are to be sought from the Ministry for Finance and Employment (MFE) before any procurement is actually carried out. For larger projects, negotiated procedures may be considered in consultation with the Department of Contracts.

Irregularities with Contracts for Service

Procurement by Direct Order

Since the last quarter of 2019, clerical duties were subcontracted to two service providers. Notwithstanding the amounts involved, procurement was made by direct contract without Finance approval. Payments totalling €1,459,339 were made during the year, with the majority (€1,082,098) paid to one of the service providers.

Payments made to these two service providers since the last quarter of 2019 amounted to €2,972,015[3]. Approximately, 51 temporary workers were providing services to TM through such contracts.

No Replacements during Absenteeism

Rather than entering into one contract with the service providers in question, TM signed a contract for each subcontracted clerk, highlighting the respective duties and working conditions, as well as the rates to be paid by the Authority.

Moreover, the audit revealed that the subcontracted clerks were not being replaced by the service provider whenever they were absent from work due to vacation or sick leave. In addition, one of the service providers was also charging for those hours when its employees were away on vacation or sick leave.

Recommendations

For fairness and transparency, a sound procurement process should be in place. This would also enable better visibility of the options available in the market, to get the best value for money.

To this effect, TM is expected to issue a public call for tenders in line with PPR when procurement exceeds the applicable threshold. An agreement is subsequently to be entered into with the winning bidder who is also expected to provide a replacement for any absenteeism of the subcontracted employees.

Procurement Concerns for Cleaning Works

In May 2021, the Government launched a nation-wide initiative for a major clean-up of Malta's most popular road routes and beaches. TM was tasked with the cleaning of signs and illegal markings and was also urged to give it top priority.

TM's plan was communicated internally, explaining that the Authority's main suppliers were going to be contacted and a direct order of €10,000 (VAT excl.) was to be issued to each. Clearance from MFE was also to be sought for the whole project. However, the following shortcomings were encountered.

[3] Information received from TM on 27 June 2022.

Negotiated Procedure not approved

TM requested permission from the Department of Contracts to enter into a negotiated procedure for cleaning work with eight suppliers; however, instead of €10,000 (VAT excl.), the request was for €150,000 each (VAT excl.), for a grand total of €1.2 million (VAT excl.). This project was to be finalised by end of May 2021.

However, the Department of Contracts did not approve that this procurement is undertaken by a negotiated procedure, claiming that this was a case of bad planning.

In spite of this rejection, planned works still went ahead, with a total cost of €57,820, involving four suppliers. No clarification was forthcoming regarding the variation from the original €1.2 million (VAT excl.) request for a negotiated procedure.

Bypassing of Procurement Regulations

Individual purchase requests, each for €8,260 were issued by TM for the cleaning work in question. This might be construed as an act to bypass PPR which require tenders to be issued once the €10,000 (VAT excl.) mark is exceeded. Indeed, if the purchase requests were to be viewed in total, in the case of three out of the four sampled suppliers, the threshold was surpassed.

This Office acknowledges the fact that TM tried to obtain an approval for a negotiated procedure in relation to these jobs; however, since this was rejected, in NAO's view, a tender for such work should have been issued, as is required by the underlying regulations. Splitting the costs into smaller tranches and going ahead with the expenditure anyway, surely goes against the spirit of such regulations.

Recommendations

Sound planning has to be in place to ensure that the provisions of PPR are followed and a call for tenders or quotations is to be published as appropriate. This would ensure transparency and fair competition. Attempts to bypass the underlying regulations should in no way be allowed.

Irregularities in the Procurement of Various Works provided by a Contractor

A contractor was engaged in various specialised work for TM during 2021. This included tasks on dangerous structures, trenching of ducts, and refurbishment and upgrading works in various parts of Malta. Payments to this contractor during the year under review amounted to €898,562. The following shortcomings were noted.

Works on Dangerous Structures

a. Quotation issued instead of a Tender

A public call for quotations was issued by TM for the refurbishment and upgrading works on slipway and quay off Triq San Franġisk, San Pawl il-Baħar. The contractor selected for this job submitted the cheapest bid at the amount of €589,321 (VAT excl.). However, as stipulated in PPR, a tender issued through the Department of Contracts is required for such large projects.

b. Price awarded higher than that quoted

As stated in the contract entered into for the required work, fees to be paid were not to exceed €800,000 (VAT excl.). This was €210,679 (VAT excl.) higher than the bid of €589,321 (VAT excl.) quoted by the foregoing contractor.

According to TM, in the case of marine work, it is common for the award to be at a higher amount than that quoted, since such works tend to uncover more damage as they progress. However, NAO opines that in such cases, this should eventually be considered as an actual variation supported with adequate justification, since otherwise it defeats the scope of the tender.

c. Undated Bills of Quantities

Bills of quantities serving as certification of the work conducted were not being dated by the architect; thus, it could not be established whether these preceded the respective payments.

d. Performance Guarantee substantially understated

Even though a performance guarantee amounting to €80,000 was required, the contractor only provided a guarantee for €24,000. According to TM, this miscalculation could have been an oversight.

Trenching of Ducts for GoTo Charging Modules

Six payments totalling €69,384 were traced in relation to work performed by this contractor during 2021 on the trenching of ducts for the laying of electric cables at the northern area for GoTo charging modules. This service, which was approved by Procurement Committee, was procured direct from the open market without Finance approval. Moreover, a contract to cover this service was not in place.

Recommendations

NAO reiterates that TM is expected to adhere to the procurement regulations whenever large projects above the established thresholds are required. In case of urgent works, Finance approval is to be obtained beforehand in line with the regulations.

Furthermore, if it is so common that, in such cases, the actual amounts are higher than the amounts bid, a contingency is to be included at the procurement stage. This would ensure that, as far as possible, TM has full visibility of its costs before the contract is entered into. However, any variations to the original bid still have to be duly justified and approved accordingly.

TM is also to ensure that it has an adequate performance guarantee in place to safeguard its interests and that the bills of quantities are signed and dated before the respective invoices are processed for payment.

Control Issues

Shortcomings in the Procurement relating to the Malta Metro Exhibition

During October 2021, TM launched the Malta Metro Network Exhibition, which ran over a period of 14 days. Correspondence reviewed confirmed that the Authority was not in a position to prepare detailed technical specifications of what was required in terms of audio, visual and digital presentations, of the level required to launch such a proposed network. Furthermore, in view of the very short period before the launch, TM did not have the skills and the time to issue calls for quotations or tenders. Thus, a quote was requested from an experienced supplier which had the necessary manpower for this exhibition. The following shortcomings were noted.

Only One Quotation requested for a Main Contractor

A quotation was only requested from one experienced supplier, which described a list of services to be provided over the duration of the exhibition for which a total cost of €474,077[4] was quoted. The option of obtaining quotations from other suppliers was not considered by the Authority, due to confidentiality purposes.

[4] This amount is made up of a first quote for €420,977 and additional costs of €53,100.

Planned Budget and Amounts committed exceeded

Correspondence by the then Minister for Transport, Infrastructure and Capital Projects endorsed proposal made by the then TM Executive Chairman, to revise the exhibition costs downwards up to a maximum of €400,000[5].

Notwithstanding this, TM Procurement Committee approved 20 payments to the main supplier amounting to €503,851, which, together with the payments to the other suppliers totalling €44,331, exceeded the planned budget.

The supplies and services in question, also exceeded the aggregate amount agreed upon prior to the event through commitment letters by €37,342.

Purchase Orders dated after Invoices

It was noted that for five out of all six suppliers engaged, the purchase orders were raised after the date of the relative invoices, signifying weak controls over the necessary approval.

Non-adherence to Procurement Regulations

Non-adherence to procurement regulations was noted in the following instances.

a. Procurement from two other suppliers in total amounting to €28,790 (VAT excl.) was acquired direct from the open market without the necessary Finance approval. Moreover, NAO was informed that this procurement was handled directly by the Chairman.

b. Approval for engaging the main service provider by direct order was not officially sought through the Department of Contracts or MFE. Negotiations were also handled by the Chairman and payments were subsequently approved by the Procurement Committee.

Recommendations

PPR are to be invariably adhered to. In cases of urgency, once deciding to engage particular experienced contractors, procurement is expected to be made following a negotiated procedure.

Procurement of Number Plates, Licence Discs and Seafarer Cards by Direct Order

During the year under review, in five instances, TM requested MFE's approval for direct orders totalling €301,240 (VAT excl.), for the procurement of number plates, licence discs and seafarer cards from a local company[6]. Further to these, six instances of direct contracts amounting to €55,222 (VAT excl.) were also made with the same supplier without the necessary approval.

Subsequently in August 2021, a tender for the supply and delivery of vehicle registration plates, was awarded to the same supplier at an estimated value of €114,535 (VAT excl.).

Separate tenders for the supply of licence discs and seafarer cards were also in progress during 2021.

Recommendation

As also remarked by the Direct Orders Office in several correspondence, tendering procedures are to commence well in advance, in order to allow enough time for the normal process, as well as any potential delays, before stock is depleted. This will limit the purchases directly from the open market.

[5] The correspondence did not indicate whether the cost was VAT inclusive or exclusive.
[6] Since 2019, procurement by direct order from the supplier in question totalled €405,520. These were covered by Finance approval.

Lack of Controls over Payments made to Infrastructure Malta

A contract was entered into between TM and Infrastructure Malta on 15 November 2018. Through this agreement, the former engaged the latter to assist it with the implementation of applicable strategies or master plans relating to infrastructure, as well as for occupying, planning, designing and constructing (amongst others) of any necessary infrastructural projects.

As compensation, Infrastructure Malta was receiving a management fee of 5% on the value of works incurred during each project ordered by TM. The following shortcomings were noted.

Expired Agreement

The agreement between TM and Infrastructure Malta was valid for three years until November 2021 and it could be further renewed by another three years upon request. TM confirmed that, as at May 2022, although the service was still ongoing, this contract was not yet renewed. Discussions between the foregoing two entities in this regard were still underway.

Lack of visibility on Payments

To fulfil the terms of the agreement from its end, Infrastructure Malta had entered into a number of contracts with various suppliers and then recharged their fees to TM. A copy of such contracts with the suppliers were not requested by TM. Thus, payments were settled solely on the basis of the invoices received, without checking whether amounts charged were in line with the underlying provisions of the agreements. Having such contracts was also important to ensure that the fee of 5% payable to Infrastructure Malta was being correctly calculated.

Recommendations

The contract with Infrastructure Malta is expected to be formally renewed to ensure that all the payments which are being made between the parties concerned are properly substantiated.

Copies of the underlying contracts that Infrastructure Malta enters into with the suppliers covering work requested by TM, are also to be filed by TM so that it is in a position to ascertain that the amounts claimed by Infrastructure Malta are in line with what was agreed upon.

General Management Comments

Following NAO's comments on the Key and Control Issues, the Ministry will take note and commit to undertake and lead the implementation of measures conducive to good governance in public procurement.

The Ministry was informed that the following measures were adopted by TM over recent[7] months.

a. Stopped all direct orders unless for urgent procurement in order not to stall operations.

b. Prioritised the strengthening of the internal audit function through the support of outsourced internal auditors.

Furthermore, reflections are underway on measures conducive to better governance within TM through strengthening the internal audit and procurement functions, as well as through changes to the structure of the organisation.

The Ministry is also committed to strengthen its control and review, of any procurement effected at TM through its internal processes.

[7] Management comments submitted on 6 October 2022.

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

Widows' Pensions

Expenditure

Notwithstanding the complexities involved, the National Audit Office noted that there were no standard operating procedures for the calculation of the **Widows' Pensions**. Concerns of overpayments arising following the pensioners' admission to state-financed residential care were also noted.

Background

The Department of Social Security (DSS)[1] is responsible for the administration of the Widows' Pensions (WP)[2] which is paid every four weeks in advance following the spouse or partner's date of demise.

The following are the categories of WP:

- Early Survivors Retirement Pension – Awarded to a widow whose husband would have been entitled to a Two-thirds Pension under the Social Security Act (Cap. 318) at the time of death.
- Survivors Retirement Pension – Granted to a widow whose husband was already in receipt of the aforementioned Two-thirds Pension at the time of death.
- National Minimum Widows' Pension – Widows whose spouse was already in receipt of a Retirement Pension, other than a Two-thirds Pension at the time of death.
- Widows' Pension – Despite bearing the same name, this category is paid to widows who are also entitled to a Service Pension in their own right.

The process for the payment of a contributory WP is automatically initiated by DSS upon the registration of the death of a spouse or partner. The Department sends a notification letter to the prospective pensioner, also requesting any missing details necessary for the award of this pension.

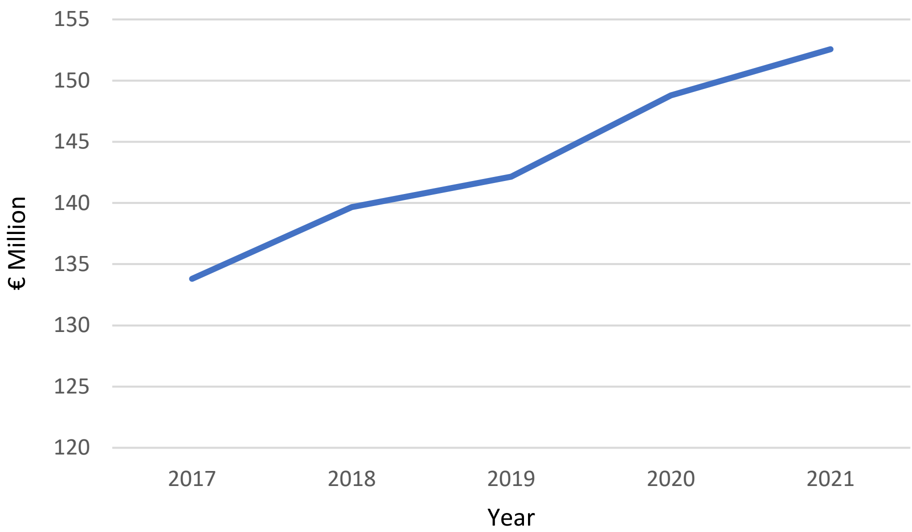
According to a breakdown made available by DSS, €155.4 million[3] was allocated for WP in the Financial Estimates for 2021 (Recurrent Vote 21 – Line Item 5145). The number of beneficiaries over the last five years, together with the respective actual disbursements, are outlined in Table 1 and Chart 1.

Table 1: Widows' Pensions between 2017 and 2021

Year	2017	2018	2019	2020	2021
Number of beneficiaries	18,247	18,996	18,472	18,851	19,438
Actual expenditure[4] (€)	133,805,744	139,677,520	142,137,891	148,783,223	152,566,005

[1] Within the Ministry for Social Policy and Children's Rights, previously the Ministry for the Social Justice and Solidarity, the Family and Children's Rights.
[2] According to the Social Security Act (Cap. 318), a widow means the surviving spouse or former spouse, whether widow or widower, of a married or divorced couple. Wherever it appears in such legislation, husband shall also refer to wife, as applicable.
[3] Amount excludes budgeted amount for Orphans Allowance.
[4] Figures exclude the Orphans Allowance, which was also financed from Line Item 5145. However, this allowance was outside the scope of the audit.

Chart 1: Actual Expenditure incurred for Widows' Pensions between 2017 and 2021



(Source: Information obtained from the Financial Estimates and the Departmental Accounting System)

Audit Scope and Methodology

The scope of this audit was to determine whether adequate internal control procedures were embedded in the WP administration system, from the assessment of eligibility, up to the respective payment. The National Audit Office (NAO) assessed whether these benefits were processed in accordance with the provisions laid out in the Act.

An introductory meeting was held to discuss the audit objectives and obtain a general understanding of the relevant procedures adopted in the administration of this pension. From the dataset provided by DSS, NAO selected a sample of 20 individuals based on the proportion of pensioners in each category to the total population, as indicated in Table 2.

Table 2: Breakdown of Sample Selected

Widows' Pensions Category[5]	Sample Selected
Survivors Retirement Pension	12
National Minimum Widows' Pension	6
Early Survivors Retirement Pension	2

The sample selection was mainly based on a systematic random selection. However, the choice also included risk factors identified during the review of overpayments created in 2021. The relevant information from the respective departmental files and Sistema għall-Amministrazzjoni tal-Benefiċċji Soċjali (SABS) were used for detailed substantive testing.

Key Issues

Inconclusive Evidence regarding Annual Reassessments

During 2019, DSS introduced a reassessment policy to tackle the backlog in this area and update the rates of pension. From the audit testing, the following concerns were noted:

[5] Since the fourth category of beneficiaries (i.e., Widows' Pension) was deemed as immaterial, no testing was carried out in this respect.

- Although the Department claimed that all widow pensioners were being reassessed annually, except for those on maximum and minimum rates, no such evidence was provided. Upon further enquiry, Management confirmed that there were no documented procedures to ascertain that this plan was actually implemented. Moreover, a DSS file covering reassessments made in the last three years contained contradicting evidence as information indicated that some pensions were only reassessed once during this three-year period. It was also confirmed that the foregoing file did not contain all widow pensioners.

- Many categories of pensioners were reassessed in batches since they were covered by a collective agreement. However, enquires revealed that there were instances when pensioners had to be reassessed individually through a cumbersome process. This entailed corresponding with the previous employer[6] to ascertain the current salary of an employee holding the same position as that of the late spouse. These reassessments sometimes remained inconclusive as a reply was not received. DSS was not in a position to quantify the extent of such instances.

Recommendations

Whilst NAO acknowledges that, in view of the circumstances, the Department may not be in a position to reassess all widow pensioners on an annual basis, Management is to maintain its recent efforts in the performance of this exercise. In this regard, a formal plan, which ascertains that all pensioners are reassessed periodically, is to be devised and implemented. This will ensure that pensioners are awarded the correct rate, as applicable, whilst avoiding the creation of substantial adjustments at a later stage.

Management Comments

Reassessments are an ongoing process according to the respective policy issued in 2019. DSS will make its utmost to avoid any possible instances where adjustments are effected at a later stage, considering, as indicated in the write-up, that this exercise is carried out on an annual basis.

Absence of Standard Operating Procedures

DSS does not have formal standard operating procedures with respect to this pension. In view of the complexities involved, this increases the risk of inconsistent approaches in the work carried out by the respective officers. During the course of the audit, NAO was made aware of unofficial internal guidelines in use by the International Relations Unit[7]. Whilst NAO acknowledged that this is a step in the right direction, such procedures were not comprehensive.

Recommendations

Management is encouraged to set comprehensive standard operating procedures, which serve as a step-by-step guide in the administration and management of the different categories of WP. This will ensure the adoption of a fair and uniform approach, as well as compliance with pertinent regulations, whilst preventing the risk of losing knowledge gained by experienced DSS employees along the years, upon their retirement or termination.

Management Comments

DSS, together with the Research, Policy and Operations Directorate, is currently[8] drafting comprehensive standard operating procedures.

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[6] Subject to continued operation.
[7] Responsible for all European Union and International Relations matters at DSS.
[8] As at May 2022.

Control Issues

Concerns arising upon Admission to State-financed Residential Care

Upon being admitted to a home or hospital offering state-financed residential services, the respective individuals are obliged to pay a contribution to Government in accordance with the applicable legislation[9], following notification from the Active Ageing and Community Care (AACC).

A review of the sampled files revealed the following concerns:

- Following the pensioners' admission to state-financed residential care, there were delays ranging between three to nine months until the respective deduction rates were being registered. This led to significant overpayments.

- On NAO's recommendation given in previous years, DSS had introduced a measure where pensions were to be deducted by a provisional amount, until the determination of the final rate. However, in the majority of files reviewed, this provisional deduction was not applied.

Recommendations

DSS is to liaise with AACC in order to enhance the respective communication channels and find alternative ways to minimise the delays in the issue of the correct pension deduction. In the meantime, provisional deduction rates are to be invariably applied to reduce the extent of overpayments.

Management is encouraged to find ways how to minimise errors and inconsistencies.

Management Comments

Liaison between DSS and AACC was enhanced several years ago whereby the latter informs the Department with regard to admissions, discharges or any transfers. Furthermore, it is confirmed that a provisional deduction rate is applied upon information received by DSS.

At the beginning of each year, financial institutions are requested to submit information about interests earned in the preceding year for each pensioner benefiting from these residential services. Such information is generally received and uploaded on SABS by the third week of January and AACC is informed accordingly. It can be confirmed that the residents to which NAO made reference were enquired upon accordingly with financial institutions, and their deduction rate assessed in line with the foregoing procedure. Action by DSS is concluded within approximately four weeks of the receipt of information.

Undocumented Pension Computations

In certain instances, the computation of the pension rate was complex due to a number of variables. Unfortunately, the respective workings were not always documented and readily available, compromising the audit trail.

Recommendation

Detailed workings of pension rates awarded are to be maintained in the respective pensioner's files for ease of reference and audit trail purposes.

[9] State Financed Residential Services Rates Regulations (S.L. 318.13).

Management Comments

All assessments and workings effected with respect to all types of pensions are carried out through SABS. Thus, all workings can be retrieved when necessary[10]. A printout of these computations is not kept in respective files since all the necessary information is available on system. This is also in line with DSS policy of having paperless applications and asssessments as much as possible.

Compliance Issue

Substantial Underpayment

From the sample reviewed, this audit revealed an underpayment to a widow, amounting to €12,040 over a span of six years[11]. This error, which was confirmed by DSS, occurred because the pension assessment was based on a significantly lower maximum pensionable income than that to which the late spouse would have been entitled. This implies that, although each case has to be assessed and reviewed by two separate officers, the independent verification was not adequately performed.

Recommendation

Every effort is to be made to ensure that the necessary internal controls are in place to prevent similar occurrences.

Management Comments

In this case, the late husband, who passed away in May 2016, was born after 1 January 1962 and so was the wife. In 2016, when this pension was assessed, SABS was not yet enhanced to cater for cases where both spouses were born after 1 January 1962. As a result, this case was assessed as if both spouses were born before this date using an incorrect pensionable income. This case should have been brought up when the system was enhanced.

[10] Notwithstanding this statement, NAO encountered instances where the auditee could not explain the rationale for the computation of pensions instantly.
[11] As at end June 2022, when this write-up was concluded, the adjustment was authorised but not yet paid.

Short-term Benefits

Expenditure

An audit on **Short-term Benefits** revealed internal control weaknesses over sickness benefit payments which led to a number of overpayments.

Background

The Department of Social Security (DSS) is responsible for the administration of short-term benefits which comprise the following categories:

- Sickness benefit
- Injury benefit
- Unemployment benefit
- Special unemployment benefit
- Marriage grant
- Maternity benefit
- Disablement gratuity
- Parent benefit (COVID-19)

The National Audit Office (NAO) selected two of the most material categories for verification, namely sickness and injury benefits, which together accounted for more than 50% of the total expenditure on short-term benefits during 2021.

Sickness Benefit

A person, who has not reached retirement age and satisfies the social security contributions conditions, is entitled to a sickness benefit from the fourth working day of incapacity from work, up to a maximum of 156 days in any calendar year. Payment may be extended for a further 156 days but is not to exceed 468 days in any two calendar years. A medical certificate has to be completed by a medical practitioner and subsequently forwarded to DSS.

The claimant must have paid a minimum of 50 social security contributions since being registered under the Social Security Act (Cap. 318) until the date of benefit claim. In addition, the beneficiary must also have twenty paid or credited contributions during the last two consecutive calendar years prior to the receipt of the benefit.

Injury Benefit

A person registered under the Social Security Act (Cap. 318), who has not yet reached retirement age, may be awarded the injury benefit upon suffering from personal injury, caused by an accident arising out of, or in the course of, employment or self-occupation. This also applies if an individual developed an occupational disease as specified in the Act. The date of injury and the following three working days are paid in full by the employer. Subsequently, such benefit is awarded for every working day, for a maximum period of one year from the date of the accident or the onset of the disease.

Financial Information

According to the Financial Estimates (Recurrent Vote 21 – Line Item 5146), €15.5 million was allocated for short-term benefits in 2021. Of these, €6 million and €1.2 million were allocated for sickness and injury benefit respectively. Table 1 shows the information provided by the Department with respect to the number of beneficiaries and expenditure incurred over the last five years in this regard.

Table 1: Number of Beneficiaries and Total Expenditure

Year	2017	2018	2019	2020	2021
Sickness Benefit					
Number of beneficiaries	132,716	88,614	77,843	64,645	71,147
Actual Expenditure (€)	6,094,732	5,584,803	5,541,740	5,760,275	5,801,404
Injury Benefit					
Number of beneficiaries	3,135	3,220	3,144	2,273	2,259
Actual Expenditure (€)	1,718,430	1,724,460	1,814,894	1,494,639	1,390,512

(Source: Information provided by DSS)

Audit Scope and Methodology

The scope of this audit was to determine whether adequate internal control procedures were embedded in the administration system from the assessment of eligibility to sickness and injury benefits, up to the respective payment. Furthermore, the audit assessed whether these benefits were processed in accordance with the provisions laid out in the Act. NAO also reviewed the most material overpayments created in 2021 under these two categories to identify any areas of concern.

An introductory meeting was held with the Director General (DSS), the Director (Contributory Benefits), and Assistant Director (Contributory and Family Benefits) to discuss the audit objectives and obtain a general understanding of the relevant procedures adopted in the administration of these benefits. Following a risk-assessment exercise, NAO selected a sample of 20 individuals who benefitted from sickness benefit and a further 10 from injury benefit, from a total population of 71,147 and 2,259 respectively, on the basis of materiality.

Information on Sistema għall-Amministrazzjoni tal-Benefiċċji Soċjali (SABS), as well as the medical certificates and Medical Board reports, was used for detailed substantive testing. Several other meetings were also held with Management as deemed necessary.

Key Issue

Weak Internal Controls resulting in Sickness Benefit Overpayments

Audit testing revealed insufficient control over the payment of sickness benefit. Although each payment should be assessed and reviewed by two separate officers prior to processing, it is evident that the verifications were not always adequately performed.

From the audit sample of 20 beneficiaries receiving sickness benefit, a number of shortcomings were noted. These resulted in overpayments, most of which were being recouped at the rate of 10% based on future DSS payments. The following cases relate:

Sickness Benefit Threshold exceeded

Payments issued to four sampled individuals exceeded the 468-day limit stipulated in Article 18(5) of the Act. The aggregate overpayment to these individuals amounted to €3,635 and covered different periods during 2021 and 2022. The necessary adjustments to recover these overpayments were created by DSS as soon as this concern was flagged by NAO. Management also requested Malta Information Technology Agency to investigate the cause of this error, which should have been prevented by inbuilt system controls. According to DSS, a systems audit is carried out prior to the launch of each benefit. However, this is not repeated when updates are implemented.

Unrevised Rate following Spouse's Employment

A sampled beneficiary was initially entitled to sickness benefit at married rate in November 2019. The spouse was employed on a full-time basis a year later, as from October 2020; thus, the rate should have been revised accordingly. However, the rate remained unchanged, resulting in an overpayment amounting to €2,952 spanning over a period of around 65 weeks.

Concurrent Payment of Sickness Benefit and Two-thirds Pension

Although an individual started to receive a two-thirds pension as from 11 May 2022, the sickness benefit payment continued until 15 May 2022, resulting in an overpayment of €109.

Recommendations

DSS is expected to review its processes in order to identify the risks and establish possible mitigation measures. The possibility of automating internal controls through inbuilt processes needs to be discussed with the system administrators, to prevent similar occurrences.

Management Comments

Weekly and monthly checks are carried out as part of the verification process on these benefits and other short-term benefits, as follows:

a. *Cases having unverified cumulative contributions are checked prior to proceed with the benefit payment.*

b. *Cases with duplicate certificates, which halt the payment process, are amended accordingly to proceed seamlessly with the payment process.*

c. *Cases having simultaneous non-contributory social assistance payments are issued with a difference in rate from sickness benefit and thus avoiding cross benefit overpayments.*

d. *Jobsplus is contacted to amend records accordingly when an unemployment benefit claim indicates that the person is still registering for work following a previously closed unemployment benefit claim.*

e. *When new unemployment benefit claimants were already receiving non-contributory unemployment assistance or social assistance, the respective section is informed to take action and avoid overpayments.*

f. *The children's allowance, pensions and non-contributory benefits sections are informed of marital status change to effect revisions accordingly, following the generation of the marriage grant report.*

A risk assessment is carried out by the Overpayments Section to increase the repayment rate, thus ensuring that overpayments are settled within claimants' lifetime.

Control Issues

Concerns arising from Overpayments created by the Department

The review of overpayments created by the Department during 2021 revealed the following concerns:

Payment of Sickness Benefit to Unemployed

An individual receiving unemployment benefit was also paid sickness benefit concurrently for approximately 10 months[1]. This resulted in an aggregate payment of €2,689 which was not due.

Lack of Verification prior to Payment

A beneficiary received a total of €925 in sickness benefit over a period of nearly three months, in spite of the fact that the reimbursement was already issued to the employer through bulk payment. Besides receiving this payment which was not due, the total amount paid to the beneficiary was also incorrect as it was based on a six-day working week, rather than a five-day week[2]. This implies that although sickness benefit was paid through two different procedures, no verification was being performed to ensure that there were no instances of double payments.

Recommendations

The Department is to investigate the primary cause of these errors to enable corrective action. Moreover, besides ensuring that the necessary internal controls are in place, adequate training is to be provided to personnel to ensure that officers are made aware of the implications triggered by incorrect payments.

Management Comments

Management investigated the cause of these errors and took immediate steps to improve internal control systems and prevent similar errors as soon as the overpayments were detected by DSS. Staff was also made aware of the repercussions of incorrect payments.

Medical Certificates not provided for verification

A number of medical certificates, pertaining to seven out of twenty sampled individuals who received sickness benefits during 2021, were not made available for verification purposes. Thus, the Auditors could not validate the respective payments.

Recommendation

Management is to ensure that every sickness benefit is supported by a medical certificate.

[1] The period of overpayment covered between April and August 2020, as well as May to November 2021.
[2] This was paid to the employer through the bulk payment, thus, DSS created the necessary adjustment prior to this review.

Management Comments

It is to be stated that every sickness benefit is supported by a medical certificate except in cases where a medical panel decides to continue payment for a specific period.

The highlighted instances occurred during the COVID-19 pandemic, when most certificates were submitted by email. During that period, there was an increased urgency to authorise payments while the risk of misplacement increased.

With the introduction of the document depository, medical certificates will be electronically stored and thus, the risk of misplacement would decrease considerably. Besides, DSS is in the process of having medical certificates electronically submitted to enhance the audit trail and storage security.

Service Pensions Section

Debtors and Creditors

Entities were not always being informed by the **Service Pensions Section** of their outstanding amounts as part of debtors' management and control procedures. At times, incorrect balances were forwarded. There were instances whereby actual balances shown by the Section and those claimed by third parties did not tally, and long outstanding debtors for which no provision was taken.

Background

The accrual basis of accounting records accounts receivables and payables provides a more accurate view of the ministries' and departments' financial situation. Therefore, it is important for the foregoing to maintain on an ongoing basis, accurate and timely information on their debtors and creditors.

MF Circular No. 10/2001 – 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors', covered the procedures necessary for the proper management of debtors and creditors within every ministry and their respective departments.

From a review of the arrears of revenue returns, it was noted that substantial amounts were owed to the Service Pensions Section from various Government-owned entities.

The main responsibility of the Service Pensions Section includes the computation and issuing of the Treasury pensions and gratuities payable to those eligible Government's employees who have been in continuous service since 15 January 1979. Another function within the remit of this Section is the collection of the cost sharing proportions of Treasury pensions from State entities and others which have been partially or fully sold to private enterprise.

As at 31 December 2021, Service Pensions Section reported an aggregate of €46,306,076 as cost sharing amounts due from public entities, to cover part of the Treasury pensions of their retired employees. The remaining amount of debtors, which was insignificant, pertained to individuals and private companies.

Audit Scope and Methodology

The scope of this analysis was to ensure that the amounts reported by Service Pensions Section as due from Government-owned entities were recorded accordingly as payables by the latter.

The identification of shortcomings and recommendations thereto are also meant to assist in making the necessary rectifications and get in line with accrual accounting.

Existence and completeness of the debtors' balances were verified by requesting a sample[1] of 10 debtors to provide the balances they owed to the Service Pensions Section. However, the latter sent the circularisation letters to all the debtors and notwithstanding this Office's instructions, the balance was reported by the Section itself. This notwithstanding, out of the 21 entities, only 15 replied. The National Audit Office had to follow up on four of these debtors since no reply was forthcoming following the circularisation letters sent by the Section.

Key Issue

Insufficient Monitoring to collect Dues

Following a review of the account of the different entities with a receivable balance, on a yearly basis, the Service Pensions Section sends a letter to the former informing them of their dues. However, no further action is taken to ensure that outstanding balance of over €46 million is collected.

This lack of adequate management of debtors resulted in these shortcomings:

a. In 2021, out of the 21 entities reported in the arrears of revenue return under the category of Government-owned who had dues to the Service Pensions Section, 5 entities were not informed of the outstanding amounts.

b. Another four entities were informed but were given an incorrect balance, either because records were not duly updated or unrelated payments were erroneously posted to the debtors' balances.

Of a more serious concern are the long outstanding debtors. As at 31 December 2021, €16.3 million remained unsettled for over ten years while €25.3 million had been outstanding for over two but less than ten years. However, no provision for bad debts was taken.

Recommendations

Balances are to be followed up on a periodical basis, until the amounts due are collected. To this effect, Management is also to review its records for any long outstanding amounts to establish the likelihood of collectability and take an adequate provision for amounts estimated as not collectable. If deemed necessary, this issue is to be discussed with the Ministry for Finance and Employment to ensure that the service pensions payable are covered by the budget allocated to the respective Government departments and entities and paid accordingly.

Management Comments

Recommendations have been noted and as advised, immediate contact was made with the Ministry for Finance and Employment. A meeting has been purposely set up with the Budget Office to discuss best way forward to recoup outstanding balances.

[1] The list of 21 debtors falling under the category of Parastatal and Government-owned Entities recorded by the Service Pensions Section was sorted in ascending order and then categorised in accordance with a set of thresholds.

Control Issue

Debtors' Year-end Balances not in Agreement with Third Party Confirmation

From the 15 responses of the circularisation letters, 3 entities disagreed with the amounts as reported by Service Pensions Section as at year-end.

Recommendation

A regular reconciliation is to be carried out to ensure completeness and accuracy of the related figures.

Management Comments

Recommendation has been noted and steps will be taken to undertake reconciliation exercises with debtors to regularly monitor and verify outstanding amounts.

Ministry for Justice, Equality and Governance

Court Services Agency

Court Fees

The **Court Services Agency** encountered difficulties in recouping outstanding court fees, resulting in limited debt collection of amounts falling in arrears. Moreover, collection efforts were lacking at the Gozo Law Courts, with only one from the outstanding debtors settling an immaterial amount in the year under review.

Background

The administrative responsibility of the Court Services Agency (CSA), established in August 2019, was placed on the Chief Executive Officer (CEO). Besides the Administration Section, the Agency comprises three Registrars, namely the Civil Courts and Tribunals, the Criminal Courts and Tribunals, and the Gozo Courts and Tribunals. It caters for all civil and criminal proceedings. The Registrars of the Courts are responsible for the registries and the officers attached to them, the filing and service of judicial acts, registration of sitting minutes, execution of executive titles, warrants through Court appointed marshals, judicial sales by auction, trials by jury and other criminal court procedures.

The revenue of the Law Courts is mainly generated from the collection of fines and fees; the latter area was the subject of this audit. According to the financial estimates 2021, revenue from the respective Line Item 0318 – Court fees, was estimated at €5.2 million. This amount covered both Malta and the Gozo Law Courts, since the latter formed part of CSA as from year 2020[1].

Audit Scope and Methodology

The main scope of the audit was to verify that there were the necessary internal controls over chargeable amounts and that the collection of revenue from fees was being maximised. An introductory meeting was held with the Permanent Secretary, Ministry for Justice and Governance and CSA officials[2]. Minutes of the respective meeting were sent and confirmed by the auditee. Audit testing was carried out, mainly to determine whether adequate internal controls and effective collection measures were in place in this area.

Key Issues

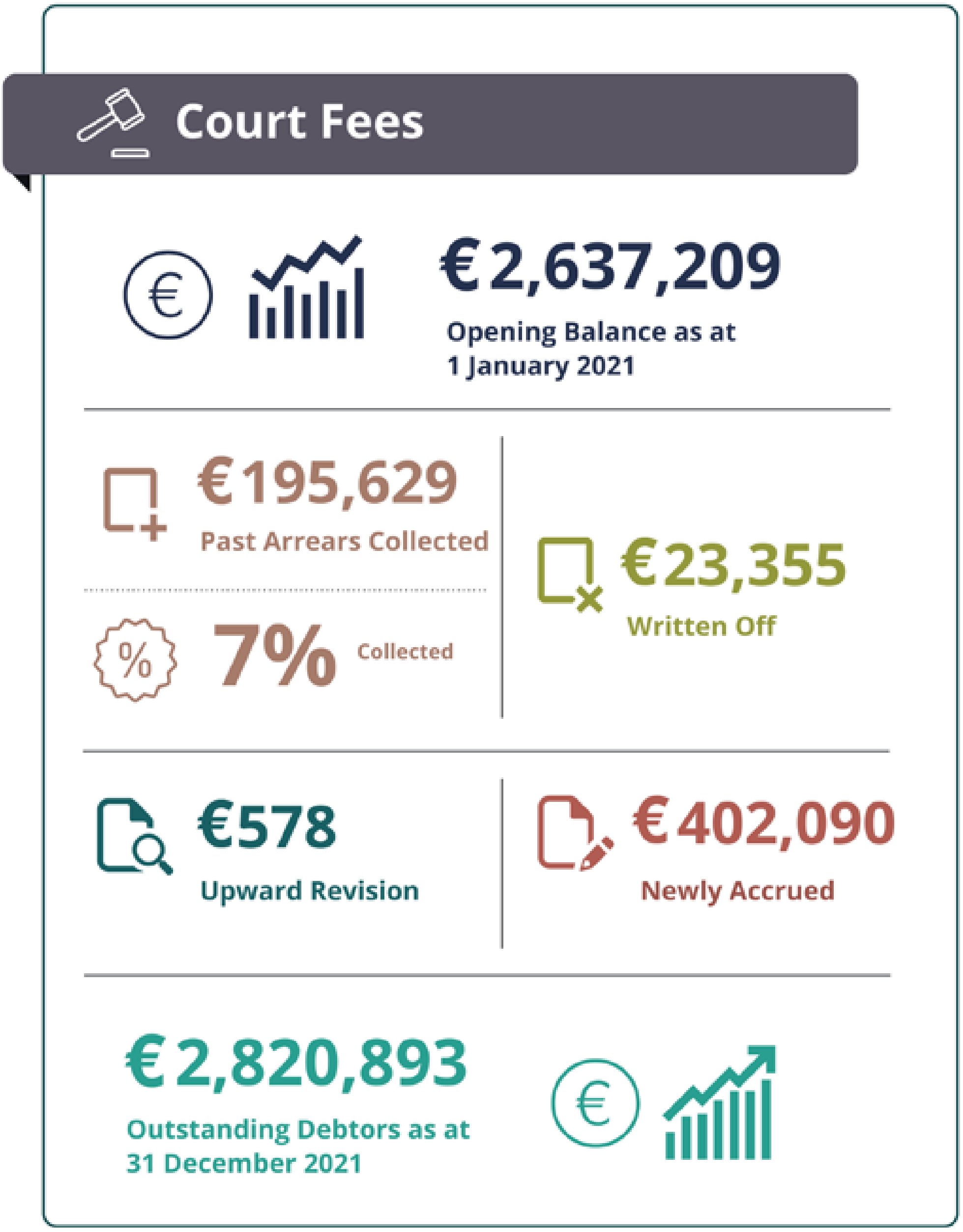
Limited Collection of Outstanding Fees

Revenue from fees can only originate from the Civil Courts, in line with the Code of Organisation and Civil Procedure (Cap. 12). The amount of fees varies depending on the type of case that is filed. The revenue handled by CSA consists of the initial fees, which are paid instantly when opening a case, and other fees charged after a court case is concluded. All types of fees are posted by the Deputy Registrars in the e-fees system, which was introduced in

[1] Previously falling under the Ministry for Gozo.
[2] Namely CEO, Deputy Chief Executive, Financial Controller, as well as the Director Corporate Services.

mid-January 2016. The fees charged at the end of a court case was, in many instances, not being duly recouped. The following figure shows that only 7% of the opening balance of revenue falling in arrears was collected during the year under review, while the closing amount was also on the increase:

Figure 1: Data Analysis of Debtors for the Year 2021



Through meetings and correspondence with senior officials at the Agency, as well as during the audit, the following concerns were noted:

- Difficulties in tracing the heirs of deceased defaulters, as well as the foreign nationals who leave the island, with the risk that the amount due will eventually become prescribed by law.
- Charges in respect of judicial letters are initially borne by CSA. However, when a garnishee order is filed, the debtor is recharged with all the related expenses. If the amount remains outstanding, the costs are ultimately borne by CSA.
- According to the Agency, garnishee orders served on all the major banks are overall effective. However, unfortunately this can only be effective when the debtor holds a bank account with sufficient balance in one of the respective commercial banks.

- The Agency cannot stop anyone from filing an application in Court, to open a new case when they still have outstanding dues, since according to CSA, this goes against fundamental human rights.

Recommendation

Whilst this Office acknowledges the difficulties encountered by CSA in order to recoup outstanding fees, the latter is to continue its effort in improving its debt collection process, ensuring that the collection of fees is maximised.

Management Comments

Management agreed with the observation, but this can take place only within the parameters of the law.

Lack of Collection Effort by Gozo Law Courts

An analysis of the data provided by the Gozo Law Courts indicated that debt collection procedures were lacking. From the 2021 opening balance, with a total of 350 pending fees, amounting to €309,909, only one[3] fee of €597 (0.19%) was settled during the year under review. CSA confirmed that Gozo did not follow the standard operating procedures outlining the collection process[4], namely that of sending a final notice, as well as filing of judicial letters followed by garnishee orders, if the fees remain outstanding. This was evident from the three sampled debtors selected for review.

In order to address this issue, a lawyer was contracted[5] in mid-December 2021[6], to help with debt collection, to file judicial letters and garnishee orders against debtors.

Recommendation

Whilst acknowledging that action has been taken to improve the debt collection, it is recommended that prior to incurring extra charges in pursuing fees, one checks whether the costs outweigh the respective benefits and also ensures that an adequate provision is taken accordingly.

Management Comments

The Management agreed with the recommendation and following internal discussions with internal stakeholders, a policy will be drafted and implemented by end of May 2022.

Control Issues

Official Documents not retained

Bills of costs prepared by the Court's Tax Section, indicating the applicable court fees[7], should be duly signed by the foregoing and countersigned by the Deputy Registrar assigned to the registry. However, the ten sampled bills of costs were unsigned, except for two which had only one signature. According to CSA, the signed copy is given to the parties concerned or their lawyers. Consequently, the documents retained at the Courts could not be considered as the official ones.

[3] Pending since 2020.
[4] Second and final notice is sent 20 working days after the notice of payment. Then, a judicial letter is filed after 60 days from the final notice.
[5] On a part-time basis.
[6] Effective from 1 January 2022 for a period of twelve months.
[7] Including a breakdown of the registry fees and expenses.

Recommendation

For the sake of a proper internal control as well as audit trail, the bill of costs retained at CSA is to be duly signed by the Tax Section and countersigned by the Deputy Registrar.

Management Comments

This recommendation will be taken into consideration in part. It is agreed that the signature from the Tax Section is to be done once bill is compiled, however the counter signature by the Deputy Registrar should be done once the parties or their lawyers request such bill as otherwise this will give rise to legal issues according to Article 64 of Chapter 12 of the Laws of Malta.

Insufficient checking

It was confirmed by the Agency that the Deputy Registrar assigned to the Registry did not check the bill of costs, when countersigning it. Independent reconciliation was also not performed on the fees inputted in the e-fees system by the Deputy Registrar, who was assigned with the respective member of the judiciary.

Errors are usually detected either by the in-house lawyer when making the necessary verifications before filing the garnishee order or by the lawyers of the parties involved in the case upon receiving the notice of payment. Therefore, accuracy of the amounts recorded could not be ascertained.

Recommendation

It is advisable to check the respective bills prior to countersigning. Controls are also to be enhanced through independent reconciliations in order to mitigate the risk of errors and abuse.

Management Comments

Recommendation will be taken into consideration and discussed internally at Management level, to evaluate the best way forward to implement it, as this requires recruitment and training prior to implementation. This was forecasted to be implemented by last quarter of year 2022.

Decision not substantiated and regulated

During the audit it was noted that judicial letters are not sent to individuals with outstanding court fees below €50 as this amount was considered as immaterial. The Agency claimed that this was a decision taken by the previous CEO; however, no documentation was provided to substantiate this statement.

Recommendations

The materiality threshold is to be established following an exercise, whereby the expenses are weighed against the respective benefits. Moreover, decisions not to pursue with a judicial letter to recoup amounts under the established threshold is to be regulated through a formal policy.

Management Comments

The Management agreed with recommendations, and following internal discussions with internal stakeholders, a policy will be drafted and implemented by end of May 2022.

Ministry for Agriculture, Fisheries, Food and Animal Rights

Ministry for Agriculture, Fisheries, Food and Animal Rights

Personal Emoluments

Proper verification on the allowances and overtime was not always being performed by the **Ministry for Agriculture, Fisheries, Food and Animal Rights** before the respective payments were made.

Background

The Ministry for Agriculture, Fisheries, Food and Animal Rights has a vast portfolio, comprising five Departments: Rural Affairs, Fisheries and Aquaculture, Animal Health and Welfare, Public Abattoir, as well as the Agriculture and Rural Payments Agency.

This audit covered overtime and allowances of two cost centres[1], namely the Rural Affairs Department and the Office of the Permanent Secretary.

The Rural Affairs Department aims at providing support to the local farming community, in line with the National Agriculture Policy for the Maltese Islands 2018 – 2028, while also promoting the sustainable development of agriculture in Malta. This Department is made up of two interlinked Directorates, the Agriculture Directorate and the Plant Protection Directorate.

The Office of the Permanent Secretary comprises a number of sections, namely the Strategy and Support Division, the Directorate Corporate Services, the Maintenance Section, the Security Section, the Policy Development and Programme Implementation and the Information Management Unit.

Financial Information

According to Financial Estimates 2021, the aggregate budget for overtime and allowances for the Rural Affairs Department, under Vote 24, amounted to €555,000[2] while actual expenditure, as per the auditee's records, totalled €444,323.

The budget for the Office of the Permanent Secretary for this type of expenditure was €1,070,000[3] while the actual, as per the auditee's records, amounted to €937,210.

During 2021 there were around 420 employees engaged within these two cost centres; 195 within the Rural Affairs Department and 225 at the Office of the Permanent Secretary.

[1] Representing 47% of total estimated allowances and overtime amongst the seven cost centres within the Ministry.
[2] Made up of €530,000 in allowances and €25,000 in overtime.
[3] Made up of €1,009,000 in allowances and €61,000 in overtime.

Audit Scope and Methodology

The scope of this audit was to assess whether adequate controls were in place when approving the allowances, and that overtime was duly approved, attendance records were checked for accuracy in line with the applicable regulations and agreements before the respective payments were effected.

The National Audit Office (NAO) held a virtual introductory meeting with the pertinent Permanent Secretary, the Director Corporate Services and other officials at the Ministry, in order to discuss the audit objectives and to obtain a general understanding of the Ministry's personal emoluments. Meetings were also held with the responsible officials in order to establish the respective procedures in place.

The audit focused on allowances and overtime paid during 2021 since, apart from constituting the most material expenditure, these were also considered as the riskiest element of personal emoluments.

The payment of overtime and allowances is governed by the Public Service Management Code, the Manual of Allowances, relevant collective and sectoral agreements for officers in the public service. These, as well as any relevant circulars, were referred to during the audit.

The Salaries Section within the Ministry carries out any necessary changes on the computerised system (including those relating to progressions, promotions and employees who become eligible for a qualification allowance, or when they move from one pay point to another). On the other hand, it is the Gozo Salaries Section which computes the four-weekly salaries.

A detailed listing of all 13 paylists for 2021 was obtained from the auditee. These were split into two lists, one for employees receiving allowances and another one for employees who had overtime payments. A total of twenty[4] employees were selected randomly from the two lists, with twelve employees chosen from the Office of the Permanent Secretary, six from the Rural Affairs Department, as well as another two who moved from one cost centre to another during the year. For each sampled employee, NAO ensured eligibility of allowances and overtime by verifying compliance with the relevant public sector agreements and other regulations. Moreover, all the employees' Government bonus was scrutinised and any amounts over the established limits were queried upon. All the relevant documentation was obtained in order to perform the necessary detailed substantive testing.

Allowances

Two of the selected employees, one in scale 3 and the other in scale 4 of the Government of Malta's Schedule of Grades, were paid various allowances including, amongst others, allowances relating to transport, communication and responsibility, as well as a performance bonus. These were all in agreement with the latest Government collective agreement, and with the guidelines provided for the delineation in the Appointment for Directors and Directors General.

The other eight employees were tested to ensure that the allowances they received related to their duty work, namely Sundays and public holidays, class allowance for the agriculture class, allowances relating to pharmacists, acting allowance, qualification allowances, as well as a market correctivity allowance.

[4] Ten employees were tested for overtime and another ten were tested for allowances.

Overtime

In accordance with the Public Service Management Code, the responsibility for regulating all overtime work is vested with the respective Permanent Secretary, unless delegated. This Office confirmed that justification for the request of overtime was always provided prior to working the extra hours, and respective approval was given by the Permanent Secretary, the Director General and the Assistant Director. NAO encountered only one instance when approval was requested after the overtime was performed. This covered work to reply to Parliamentary Questions, which tasks could not be planned in advance. Overtime was checked to have been paid at the applicable rate of one and a half for every extra hour worked during the week, at the double rate when it is carried out on Sundays and public holidays. Officers working on a reduced hour timetable are to be paid at normal hourly rate until the forty hours in one week are reached.

Control Issues

Inaccuracies in Allowances paid

From testing carried out, it emerged that in two out of ten instances, officers were paid incorrect allowances relating to car cash fringe benefits. This indicated that checking of manual adjustments made to the basic salary were lacking.

These discrepancies were corrected accordingly during the audit.

Recommendation

In these cases, the discrepancies were not deemed material. However, when there is manual intervention, it is important that changes are checked independently to ensure accuracy; otherwise, errors may pass by unnoticed.

Management Comments

Both identified officers hail from the Engineering Class. The sectoral agreement of the said class was reviewed by the relevant stakeholders. When Corporate Services incidentally got to know about the revised agreement, action was taken by the officers within the Directorate to inform Gozo Salaries about the changes. Computations were then effected from that end as is the practice.

The necessary adjustments were concluded by Gozo Salaries after being informed by Corporate Services. However, given that a provisional paylist is issued, Gozo Salaries are being contacted and advised that computations should be double checked before the final payment.

Inaccuracies in Overtime paid

Overtime payments are calculated manually, depending on the number of hours worked extra during a particular pay. However, the necessary checking was not always being performed to ensure accuracy of the respective payment, since the audit revealed that a sampled officer was paid twice for the same number of hours carried out after work hours.

Workings provided by the auditee also showed that another officer, chosen in the sample, who was working on reduced hours, was paid at overtime rates for extra hours when, in line with standing regulations, payment should have been at normal rates since the 40-hour week was not exceeded. The auditee confirmed this overpayment and the officer was requested to reimburse the respective amount totalling €2,281.

Recommendations

Figures in the salaries' reports are to be checked with every pay run. Moreover, an exceptional report would help to identify such abnormalities, if duly scrutinised.

Manual calculations forming part of salaries, including overtime and allowances, are to be double checked, ideally by another officer, before the respective payment is effected. Any overpaid amounts are to be recouped within a stipulated timeframe.

Management Comments

Comments are fully agreed to. This calls for more scrutiny since, if officers from the Gozo Salaries check the provisional paylist for any errors, then such adverse situations are avoided.

Prior to 2020, the officer working on reduced hours was being paid correctly. Considering the possibility of changes in desk officers at Gozo Salaries, it is imperative that a proper hand over is given to any new officers.

In both instances, action was taken to recoup the money from future pays.

General Comment

The auditee extended its full cooperation throughout the audit. Moreover, except in the areas highlighted above, controls in place were found to be adequate.

Ministry for Social Accommodation

Social Projects Management Limited

Revenue and Expenditure

An audit of the **Social Projects Management Limited** revealed weaknesses in the collection of revenue, as well as in relation to the management of project agreements.

Background

The Social Projects Management Limited (SPML) is a limited liability company within the Ministry for Social Accommodation, formed in 2016. It is owned by the Maltese Government through the Malta Government Investments Limited and Malta Investment Management Company Limited. SPML was incorporated with the main objective to assist in project management services, such as engineering, design, and procurement in relation to construction projects. Its clients are mainly Government ministries, departments, public entities and authorities. The Company is governed by a Board of Directors, which is appointed by the Minister, and it follows the pertinent Public Procurement Regulations.

SPML is not funded by the Government, but finances are generated from fees charged to the respective clients, thus being able to cover the incurred expenses and make a profit. As per draft management accounts for the year ended 31 December 2021, the Company's income amounted to €1,159,508; a decrease when compared to €1,386,510 reported in the audited financial statements for 2020.

As per management accounts for the year-end 2021, SPML reported an aggregate of €919,532[1] due from trade debtors in connection with management services rendered by the Company, of which €623,665 was outstanding for over four months, thus categorised as long outstanding.

Audit Scope and Methodology

The scope of this audit was to examine SPML's revenue derived from projects undertaken and to verify accuracy of salaries paid to staff. The internal controls in place, with respect to the generation of revenue were analysed to ensure correctness and completeness of income as reported in the 2021 management accounts. This audit also ascertained whether outstanding debtors were being duly monitored.

During the year under review, 14 projects[2] at an aggregate value of €3,931,115[3] were undertaken by SPML. Three most material projects with a total value of €713,799, which were over 30% completed, were selected for review. Moreover, the National Audit Office (NAO) verified whether the invoices representing work done on such projects, as well as respective payments, had a unique consecutive reference number. These were also checked against the pertinent agreements and work certified.

[1] This amount also included credit balances, in total amounting to €555,074, which were set off before arriving at the total balance due at year-end.
[2] As at end of year 2021, 80% of such projects was still at initial stages, thus having a completion percentage less than 30%.
[3] This value also includes the profit margin.

The list of debtors as at 31 December 2021 was analysed to ensure that balances recorded were correct, reliable and recoverable.

From the total of 22 employees listed on SPML payroll, the salary of 6 employees was verified with supporting documentation, to ensure that allowances paid were in line with the respective agreements, guidelines and circulars. NAO satisfactorily noted no particular concerns in this regard.

Key Issues

No Deposit Requirement prior to Commencement of Works

SPML confirmed that once an agreement has been signed with service providers and the works progress on a particular project, the project manager certifies the works and issues a detailed bill of quantities. Material used and applicable rates are verified against measured works before invoices are issued to clients. The contractor is paid upon disbursement by the client.

SPML confirmed that no deposit or payment in advance is requested from the clients with respect to any project undertaken. This may result in lack of cash flow, thus posing a difficulty for the Company to meet its daily obligations to attain its commitments.

Recommendation

SPML is encouraged to adopt a written policy, making it mandatory to request a standard percentage of the costs involved as a down payment by the client, prior to the commencement of works. This will be deducted from the total amount due once the works are completed as per agreement.

Management Comments

SPML accepted NAO's recommendation and is in the process of drafting a Contract Management Policy, stipulating that before signing any contract with clients, a standard percentage of the costs will be requested as a down payment, and this will be deducted from the overall total amount. Such policy shall be implemented by December 2022.

Issues pertaining to Amounts Receivable

The aggregate closing trade debtors of €919,532 reported at year-end, also included a negative (credit) amount of €555,074 which was being netted off from the total balance reported[4]. SPML confirmed that these were prepaid amounts and/or credit notes which had accumulated over time and shall be set off against future invoices issued to the respective debtors.

Moreover, the ageing of debtors revealed that the majority of amounts due (€623,665) due were outstanding for more than 120 days, thus minimal effort was being made by SPML to collect debts in a timely manner.

Prompted by the audit, SPML took the initiative to collect outstanding debts, amounting to €354,429, and offset a number of credit balances totalling €438,011[5]. Eventually, this left an aggregate outstanding amount of €581,524 as at end of May 2022, with €333,985 of such debtors still showing as being older than 90 days.

[4] Debtors amounting to €1,474,606, less credit balances of €555,074, resulting in an aggregate net balance of €919,532.

[5] Outstanding credit balances amounted to €117,063.

Recommendations

SPML is to introduce a sound debtors' recovery policy to recoup outstanding balances within the agreed credit period. Moreover, SPML is to resume its efforts to collect long outstanding amounts and to eliminate any debtors with outstanding credit balances from the ageing analysis, thus portraying a true and fair view of the amounts actually due to the Company at any point in time.

Management Comments

SPML fully agreed with NAO's recommendation to introduce a sound debtors' recovery policy. Although the collection process is not documented, over the last months[6], SPML has established a modus operandi to collect the funds from clients. This includes sending monthly statements of account to each client, followed by repeated reminders and contacting clients to exert pressure to settle the overdue balances. Moreover, where necessary, issues are escalated to the respective Chief Executive Officer, to assist in the collection of balances due.

As regards the unallocated credits, SPML shall apply further pressure with the respective Chief Financial Officer to allocate the payment accordingly.

By end of 2022, SPML hopes to report further improvement on the collection of debtors.

Control Issue

Issues arising from Agreements

In January 2021, SPML entered into an agreement for the demolition and excavation works at a particular site in Siġġiewi. As per signed agreement, completion date was set for mid-September 2021, being 25 calendar weeks from date of commencement of works. According to SPML, the project deadline was later extended to cover new works required. However, NAO could not verify this, as no documentation was provided in this respect.

It also transpired that the original insurance policy which covered the period 4 March to 31 October 2021, was not extended accordingly. On 3 March of the following year, SPML made a request to extend the insurance policy; however, NAO could not verify whether this had materialised, as such information was not provided for audit purposes.

Furthermore, the original performance guarantee was extended up till 20 February 2022. An extension to this guarantee covered from 5 May until 20 November 2022. This resulted in a period of approximately 10 weeks which was not covered by a valid performance guarantee.

Recommendations

In the case of additional works being necessary and duly authorised, the revised deadline is to be made official.

Moreover, it is imperative that insurance policies and performance guarantees are extended to duly cover the entire period. This will ensure adequate financial coverage in case of an emergency or accidents on the place of work.

Management Comments

SPML agreed with NAO's recommendations and shall draft a Contract Management Policy.

[6] Management comments submitted on 12 September 2022.

Ministry for Education

School Transport

Expenditure

The lack of internal controls noted in relation to the management of **School Transport** exposed the Ministry to errors and potential abuse. Weaknesses identified ranged from reliance on data provided by service providers, in the case of payments for non-state schools transport, to general lack of independent monitoring and ease of manual intervention without any audit trail, leading to significant overpayments.

Background

Up to June 2018, free school transport was provided to students attending primary and secondary state schools and residing more than one kilometre away from their respective school. Transport was also provided free of charge to students attending other educational establishments, comprising the National Sports School, Malta Visual and Performing Arts School, Vocational Creative Centre[1], Learning Support Centres, Msida Education Hubs, Resource Centres and Migrant Hubs. This was extended to students following courses and therapeutic pedagogic programmes not available at their respective middle school or college and those attending after school Klabb 3-16, as well as SkolaSajf. With effect from September 2018, free school transport was also introduced for students attending church and independent schools[2], both referred to as non-state schools. School transport is managed by the Transport and Logistics Directorate within the Strategy and Support Department at the Ministry for Education.

As from scholastic year 2019-2020[3], the Ministry adopted the School Bus Net (SBN), an information technology system which assisted in the management of the scheme. Besides staff within the Ministry, the service providers and state schools also had access to specific areas of the system.

The Ministry had two different procedures in place for state schools and non-state schools respectively. However, all service providers were guaranteed a minimum payment, covering 165 scholastic days[4] for mainstream schools and 175 days for resource centres[5]. Payment for both state and non-state school transport was based according to pre-established rates, taking into consideration the vehicle category, as well as route type[6], namely short, medium, long routes and extra-long routes[7]. Route rates were made up of a fixed and two variable components, fuel and labour[8], with the respective percentage stipulated in the agreements with the service providers.

[1] Offers the Alternative Learning Program.

[2] Eligible students have to fulfil the residence criteria, i.e., residing more than one kilometre away from their respective school.

[3] Prior to this, school transport was managed through a manual system.

[4] Per scholastic year.

[5] Transport provided only to students attending such centres run by the State.

[6] Route distance is calculated via Google Maps.

[7] Extra-long routes apply for state school transport only.

[8] The fuel component reflected the official diesel pump price issued by Enemed Co. Ltd. for the month of September of a given year, while the labour component reflected the official cost of living increases announced by the National Statistics Office for the respective year. Reconciliation for the fluctuation element in the official pump price of diesel was carried out at the end of every scholastic year and paid within six weeks from the end of the scholastic year, while the cost of living increase was backdated to 1 January of each year, i.e., six weeks from the official publication by the National Statistics Office.

State Schools

In 2018, following a public market consultation and subsequent negotiated procedure, the Ministry responsible for Education entered into an agreement with eight service providers, valid for five scholastic years. However, as a result of the pandemic and related consequences, the contract was extended for another two scholastic years, ending June 2025.

Each service provider was allocated a specific percentage[9] of the routes available in each scholastic year, based on the type and quantity of vehicles registered by the foregoing with the Ministry. The actual routes, based on the percentage awarded, were allocated through a ballot[10] which took place at the start of each scholastic year, in the presence of all eight service providers. Extra trips[11] were also allocated to state school providers, based on the percentages stipulated in their respective contracts and paid at the same rates.

Online requests for transport were placed by parents[12] on behalf of the respective students, during an established period of time[13], through links provided by the Ministry[14]; thus, applications were entered automatically into the SBN system. Based on the data provided, routes were created by the system and it also allocated the students to the vehicles. From this data, a route register was generated, showing the routes and the vehicle category. This was then updated during the course of the ballot to show the routes allocated to each service provider. Pick-up and drop-off points were those established by the Ministry.

Payments to service providers were based on statements issued from the system, which showed scheduled trips in the respective month, based on the scholastic days of that particular month, and any penalties applicable. Payments were effected bi-monthly. Mid-month, 75% of the amount due was paid. The remaining 25% was settled at the end of the month, after deducting any applicable penalties and other deductions for trips that were not required. Missed pick-up and drop-off points had to be recorded manually[15] into the system. Up to the start of the audit, any penalties recorded in the first statement were being manually removed and then added to the second part of the monthly bill. However, following technical enhancements made to the SBN system, penalties were automatically recorded only in the second monthly statement.

Once the statement was generated, this was sent to the respective service provider and, if the foregoing was in agreement, an invoice for the same amount was raised and payment effected.

Non-state Schools

Non-state service providers catered for church and independent schools. Out of a total of 286 providers who signed a contract with the Ministry, those who actually provided the service in scholastic years 2020-2021 and 2021-2022 were 171 and 155 respectively. Although there was a list of 286 providers, parents were free to select a different provider of their choice[16].

Applications for non-state school students were not filed with the Ministry, but parents were able to apply directly with the service provider or through a contracted transport organiser. Pick-up and drop-off points, as well as the transport timings, were agreed between the parents and the service providers, with the latter planning the routes

[9] These remain fixed throughout the period of the contract.
[10] Applicable where routes can be provided by more than one service provider.
[11] These covered trips related to Klabb 3-16, SkolaSajf, school outings, as well as other trips not captured under the normal school transport routes.
[12] Throughout this write-up, reference to parents is also applicable to guardians.
[13] Usually between May and July.
[14] In the case of late applications received, parents were requested to physically visit the One-Stop Shop situated at the Head Office of the Ministry.
[15] By staff at the Ministry or the state schools.
[16] Selected service provider had to register with the Ministry to receive payment.

accordingly. Parents were required to fill and sign two data protection documents referred to as Form A[17] and Form B[18]. Form A was kept by the service provider, whilst Form B was submitted to the School Transport Section[19]. Data regarding students, such as home address and name of school, were manually recorded in the SBN system by the service providers, and a route register for each provider was generated. The service providers then forwarded the respective route register, with details of the respective students to the Ministry for its approval, together with a list of vehicles that were to service the said route. Approval was subject to the satisfaction of the route maximisation criteria, i.e., not less than 70% seat occupancy[20].

Payments to service providers for non-state schools were also based on the statement issued from the system and processed bi-monthly, issued on the 75% and 25% basis; however, no penalties were applicable in this case.

Financial Information

The budget for the year 2021 stood at €29,000,000, paid through Line Item 5063 – Extension of School Transport Network, charged to Recurrent Vote 27 of the Ministry for Education. Additional funds, amounting to €14,988,021, were approved through a warrant and virement amounting to €13,765,100 and €1,222,921 respectively. Actual expenditure amounted to €43,969,510 of which €12,944,556 related to state school transport, €29,837,986 paid for non-state school transport and €408,827 incurred on extra trips[21]. The remaining €778,141 covered expenses related to the fobbing system (€673,911) and other miscellaneous expenses (€104,230). Total expenditure charged to Line Item 5063 in calendar years 2019, 2020 and 2021, as well as the number of students who were to make use of transport and the number of daily trips carried out, are shown in Tables 1 and 2:

Table 1: Total Expenditure charged to Line Item 5063

Calendar Year	Total Expenditure €
2019	26,335,993
2020	36,123,660
2021	43,969,510

Table 2: Student Numbers and Daily Trips

Scholastic Year	State Schools			Non-state Schools			Total Number of	
	Number of Service Providers	Number of Daily Trips as at June[22]	Number of Students	Number of Service Providers	Number of Daily Trips as at June[22]	Number of Students	Daily Trips	Students
2019-2020[23]	8	-	13,143	-	-	9,292	-	22,435
2020-2021	8	1,632	12,846	171	2,850	14,311	4,482	27,157
2021-2022	8	1,774	13,172	155	3,185	16,610	4,959	29,782

17 Agreement between parent and transport service provider.
18 Agreement between the Ministry's School Transport Section and parents.
19 Falling under the Transport and Logistics Directorate Strategy and Support Department.
20 Exceptions to this condition are disclosed further down in this write-up.
21 Covering transport provided for SkolaSajf, Klabb 3-16 and school outings.
22 Based on the route register provided.
23 Service provider data for scholastic year 2019-2020 was not obtained as it was deemed outside the audited period.

Audit Scope and Methodology

The main scope of this audit was to assess the adequacy and effectiveness of internal controls in place at the Ministry; ensuring that the funds allocated for school transport were used in an efficient manner, in line with standing rules and regulations.

An introductory meeting was held with the Director General, Strategy and Support, and the Head Logistics Unit, School Transport, in order to understand the processes in place. This was followed by verifications of payments effected to a random sample, made up of 5 of the 8 service providers for state schools and 15 non-state service providers for scholastic years 2020-2021 and 2021-2022, out of a total of 155 and 171 service providers respectively. Verifications comprised an analysis of the distance codes, vehicle category codes and occupancy levels, as well as confirmation of trips recorded in statements, and were compared to those in route register and respective agreements.

Disclaimer

Since the audit focused on past scholastic years, no physical verifications could be undertaken; thus, observations were limited to those noted from the documentation provided.

Limitation on Scope of Audit

Critical data included in records provided for non-state schools, such as the vehicle number and passenger capacity indicated in the statements, was not included in the state schools' records. As a result, testing carried out on non-state data could not be replicated for the state schools.

Key Issues

No Control over Non-state School Transport

Expenditure on non-state school transport (€29,837,986) was more than double compared to that incurred on state school transport (€12,944,556) during 2021. Notwithstanding the very significant cost, controls in place prior to effecting payment were limited to checks of the statements with the route register. However, accuracy of the latter was fully dependent upon the correctness of the details, comprising students and route details, inputted in the SBN system by the service providers.

The only other information relating to non-state school transport that reached the Ministry is the Form B, also forwarded by the service providers. This only showed the parents' and students' names and identity card numbers. Hence, the Ministry had no means to confirm the routes claimed by the service provider. This exposed the Ministry to potential abuse from the part of the service providers, ranging from dummy applications to inflated routes.

Recommendations

The same system in place for state school transport is to be adopted for non-state schools, with parents applying directly with the Ministry rather than service providers. The Ministry is also encouraged to assess SBN's potential and human resource requirements, ensuring that it is in a position to implement such measure.

Management Comments

Prior to the commencement of this audit, the Ministry had already identified the issue of limited control over non-state school transport. Following technical discussions with SBN provider, it was confirmed that SBN has the *potential to handle non-state school transport applications. Hence, the Ministry has already approved that, as from next scholastic year, namely 2023-2024, parents of students attending non-state schools will be applying for school transport directly with the Ministry. Thus, the Ministry's control over non-state school transport should be substantially improved as from scholastic year 2023-2024. At the end of the said scholastic year, the system will be evaluated and required changes implemented.*

Errors resulting in Overpayments

The basis of payment for both state and non-state providers is the route rate code, comprising the vehicle category code and the distance code. Verifications carried out to ensure correctness of payments in line with the route rate code revealed the following concerns.

Vehicles allocated an Incorrect Category Code

From the sample reviewed, a total of 22 instances were noted whereby the route rate code for non-state school transport, used in the system as basis for payment, showed an incorrect vehicle category code, corresponding to vehicles of higher capacity, hence paid at a higher rate. This implies that vehicle category code was changed through manual intervention by the Ministry, which resulted in an overpayment of €140,752 pertaining to the sampled routes.

Wrong Distance Code

The categorisation of a trip as short, medium, long or extra-long is based on pre-established distances. However, instances related to both state and non-state providers were noted whereby the distance code allocated, and consequently the amount paid, did not correspond to set distance[24], indicating changes made by the Ministry. In total this resulted in another aggregate negative variance of €136,621.

Recommendations

Immediate action is to be taken to ensure that internal controls are strengthened. SBN's access levels are to be assessed and restricted as applicable, following a systems audit. The concept of segregation of duties is to be applied also with respect to information technology system. No officer is to have unrestricted access. It is also to be ensured, especially on figures that will serve as a permanent basis for payment, that adequate audit trail is embedded in the system. Moreover, the Ministry is also advised to investigate the highlighted cases as a start, after which a holistic exercise is to be performed. The respective officers are to be held responsible to recoup any overpayments.

Management Comments

All highlighted instances will be checked thoroughly.

SBN already has in place a number of user levels granting different access levels, while new user levels can be created at any time as required. The SBN system also has an embedded audit trail through which most user actions (taking place through the system) can be traced. In order to improve the system of audit trails throughout the entire process of finalising a non-state monthly statement, as from next scholastic year 2023-2024, these statements will be finalised directly from the SBN system. Hence, all necessary manual interventions will be carried out within SBN, with a complete and detailed audit trail.

Due to the huge workload and the short time span, all officers in the School Transport Unit have been working on the monthly statements and thus segregation of duties was very difficult to achieve. However, the Ministry is taking

[24] A few cases, where the distance recorded exceeded that attached to the awarded distance code, hence resulting in a lower payment, were also noted. In this respect, such cases were beyond the scope of this write-up.

this Office's recommendation on board and a Compliance Unit within the School Transport Unit has already been set up to carry out verifications and ensure compliance and financial diligence. The Ministry will also be engaging an external auditor to investigate the cases highlighted in this write-up so that any confirmed overpayments can be recouped; and carry out a full audit on all state and non-state school transport for scholastic years 2020-2021 and 2021-2022 so that any other overpayments, beyond those identified in this write-up, can also be recouped.

Through internal restructuring, the Finance Directorate and the School Transport Unit, which were both part of the Strategy and Support Department, have been assigned to two different and separate departments, adding an important level of checks and balances.

Control Issues

Lack of Adequate Monitoring on School Transport

Given the Ministry's lack of control over the student recording phase for non-state school transport, monitoring through physical inspections becomes vital as it is the sole means to ascertain that recorded routes are being serviced. However, it transpired that during the two scholastic years under review, i.e., 2020-2021 and 2021-2022, inspections were only carried out at three non-state schools in February and March 2022. These covered only 19 trips out of a total of close to 5,000 daily trips. No monitoring was performed on transport for state schools.

Recommendations

Given that this is the main element of control, the Ministry is to ensure that regular inspections are carried out. In this regard, a plan is to be drawn up, covering as many schools as possible, focusing on areas of highest risk. Moreover, where possible, repeat spot checks are to be carried out in order to confirm that recommended action was followed through.

Management Comments

Due to the huge workload at the School Transport Unit, it was difficult to carry out regular and frequent spot checks and respective follow-ups in the non-state school transport. However, the Ministry is taking the recommendation on board. The newly set up Compliance Unit will be ensuring regular and frequent spot checks together with the necessary follow-ups.

No Means to establish to what Capacity School Transport is utilised

One of the conditions set by the Ministry for the use of free school transport is that "*should the student fail to use the transport service for up to 75% of the scholastic days, the parent or guardian should provide a justification for such absenteeism, and use of the free service for that particular child will be reconsidered*". However, the Ministry is not in a position to enforce this provision, as the intended electronic students' monitoring system by means of a fobbing device was scrapped, leaving the Ministry with no visibility over the use of such transport.

Recommendation

The Ministry is to establish ways to monitor students' use of transport, for both state and non-state schools, not only to be able to enforce the set condition, but also to assess the efficiency and effectiveness of the scheme.

Management Comments

During the two scholastic years under review, a number of COVID-19 measures were in place. Due to this, the condition on the usage of school transport services was not being enforced. However, the Ministry agrees with the recommendation and will be starting discussions to identify the best and most efficient ways to monitor students' use of transport.

Manual Intervention

While the Ministry moved towards automation through the adoption of the SBN system, significant manual intervention was still taking place, very likely contributing to the concerns reported under Key Issues. Furthermore, in the case of transport for non-state schools, given that the application process is not automated, all details in the route register were manually inputted by service providers, increasing the possibility of manipulation of data.

Recommendations

As far as possible, operations are to be automated following the necessary checking of information forming the basis of payment, also mitigating the risk of error and fraud through adequate segregation of duties.

Management Comments

As already stated, manual intervention required for the finalisation of statements will be carried out through the SBN system, with a complete and detailed audit trail.

Route Maximisation Criteria not met

The route maximisation criteria included in agreements with service providers for non-state schools stipulated that provision of transport is subject to not less than 70% seat occupancy[25]. However, audit testing revealed that in the two scholastic years reviewed, only 28% of the 3,236 non-state trips, reviewed, met the seat occupancy percentage criteria stipulated in the agreement. According to the Ministry, in the foregoing two scholastic years, the 70% threshold was not enforced due to COVID-19 related measures. It was also stated that the service provider was being paid at the rate of a lower vehicle category when the route capacity maximisation was not reached. However, besides that this decision was not formalised, action to this effect by the Ministry was only taken in 9% of these trips. Tables 3 and 4 refer.

Table 3: Seat Occupancy Percentage during Scholastic Year 2020-2021

		Scholastic Year 2020-2021					
	Seat Occupancy %	**≤10%**	**11%-30%**	**31%-50%**	**51%-69%**	**≥70%**	**Totals**
Number of Trips	Action not taken	-	17	23	777	568	1,385
	Action taken	-	17	66	44	-	127
	Totals	**-**	**34**	**89**	**821**	**568**	**1,512**

[25] The Ministry may approve a seat capacity below 70% in cases where no alternative routes are available or where non-state schools have rules or limitations relative to the shared occupancy of a transport service vehicle, between students from the junior or primary sector and the senior or secondary sector.

Table 4: Seat Occupancy Percentage during Scholastic Year 2021-2022

		Scholastic Year 2021-2022					
	Seat Occupancy %	≤10%	11%-30%	31%-50%	51%-69%	≥70%	Totals
Number of Trips	Action not taken	-	14	62	1,228	338	1,642
	Action taken	6	15	46	15	-	82
	Totals	**6**	**29**	**108**	**1,243**	**338**	**1,724**

Recommendations

When the Ministry modifies or totally changes the terms of a previously established contract, an addendum is to be signed. These alterations are also to be compiled in a standard operating procedure to encourage uniformity in the treatment of payments. This will ensure a fair treatment amongst the service providers.

Management Comments

During the scholastic years under review, a number of COVID-19 measures were in place. A specific measure was the one related to student bubbles. Because of this measure, providers were not allowed to mix students from different schools in the same routes and different cohorts of students from the same schools had to be transported on separate routes because they belonged to different bubbles and were not allowed to mix. All of this resulted in a substantial number of routes with small numbers of students, in most cases less than 70% of the vehicle passenger capacity.

The Ministry agrees with the recommendation and will be preparing an addendum to the providers' contracts to state that when the contracting authority approves a route with less than 70%, the provider will be paid for a smaller vehicle category. A standing operating procedure will also be prepared, as recommended. Furthermore, in the audit that will be carried out by the external auditor, this issue will be looked into so that any overpayments can be recouped.

Lack of Standard Operating Procedures

The only two standard operating procedures[26], that were provided during the audit, covered the payment process and how this was generated through the SBN system. No documented procedures related to the operations of transport management were in place. This could have contributed to certain issues reported under the preceding observations.

Recommendations

The Ministry is encouraged to draw up standard operating procedures covering all the aspects related to school transport and ensure that these are invariably observed.

[26] In addition to the Extra Trips Policy.

Management Comments

The Ministry fully agrees with the recommendation to have standard operating procedures covering all aspects of school transport operations and ensure their observance by all officers within the School Transport Unit. Indeed, whilst this audit was being carried out, the Ministry was preparing and finalising such documents. The Ministry will also be reviewing all standard operating procedures in place to ensure that all recommendations in this write-up are captured therein.

Inconsistent Approach for the Payment of Guaranteed Number of Days

While payment for non-state school transport was fixed at 18.33 days for each service provider, spreading the guaranteed 165 days over the nine-month school period, the same strategy was not adopted for service providers of state school transport. In this case, monthly payments reflected the actual days when transport was provided. This necessitated regular manual interventions to deduct the days when transport was not required and then an annual reconciliation to pay out the difference to cover the number of days being guaranteed.

Recommendation

Given that payment for 165 days is guaranteed, the Ministry is expected to adopt the same strategy as that for non-state school transport, eliminating manual deductions and reconciliations, hence reducing the possibility of errors.

Management Comments

The Ministry agrees with this recommendation and is going to initiate discussions to amend the SBN system so that monthly statements for state schools are issued for 18.33 days.

Policy Provisions not always enforced

The Extra Trips Policy stipulates that the Ministry shall not be charged for the cancellation of extra trips booked, except in cases where the service provider is informed of such a cancellation, two days or less prior to the booking. However, instances were noted whereby, despite that the respective trips were cancelled more than two days before, it was still paid for. Furthermore, the policy does not specify whether the two days shall be working days, leaving the clause open to interpretation.

Recommendations

Set policies are to leave no room for different interpretations and are to be invariably enforced.

Management Comments

The Ministry will be updating the Extra Trips Policy immediately to specify that the two days for cancellation are two calendar days and leave no room for different interpretation. Furthermore, through the new Compliance Unit mentioned earlier, the School Transport Unit will be in a position to ensure that this policy is enforced at all times.

National Literacy Agency

Revenue and Expenditure

An audit of revenue and expenditure at the **National Literacy Agency** revealed irregularities in the working hours of officers and payments of overtime and allowances which were not in line with standard practices, as also confirmed by the Office of the Prime Minister. Procurement regulations were also bypassed, amongst which the splitting of procurement.

Background

The National Literacy Agency (NLA), falling under the remit of the Ministry for Education[1], was established in September 2014, by means of the National Literacy Agency (Establishment) Order, 2014 (L.N. 192 of 2014). The offices of the Agency are located in Ħamrun, with a staff complement of 73[2] during 2021.

Its mission is to seek to promote and enhance lifelong and life wide, high quality literacy practices among children, youth, adults, third country nationals and persons with learning difficulties. The Agency strives also to improve literacy outcomes, resulting in inclusive practices, higher educational qualifications, and better job prospects. The Agency promotes social inclusion, literate communities, participatory democracy, bilingualism, biliteracy, parental empowerment, literacy across the curriculum and balanced literacy teaching and learning.

NLA has undertaken various initiatives since the launch of its strategy, which this Office highly commends, amongst which providing family literacy programmes, that promote the love of books and develop children's imagination through fun and stimulating play activities. Moreover, there are after school literacy intervention programmes for primary school children identified by their respective schools, who need additional support to strengthen their reading and writing skills. The Agency also aims to create book rich environments by enhancing classroom libraries, enabling children to interact directly with books and furthermore organises reading campaigns. Moreover, sub-programmes target migrant children who need to learn Maltese as a foreign language.

Financial Information

The Agency, which is mainly funded by the Government of Malta, had a budget allocation of €2 million for year 2021, under Recurrent Vote 26, Line Item 6815, while another €91,620 was generated from the provision of training, membership and sponsorships, as well as various programmes provided to the general public by the Agency.

Total expenditure during the year was €2,323,452, leaving a deficit of €231,832. The largest expenditure related to salaries and resources, which in aggregate amounted to €2,045,613 (88%).

[1] As referred to in the 2021 Financial Estimates.
[2] Including detailed employees and those with a contract of service.

Audit Scope and Methodology

The scope of the audit was to focus on the adequacy and effectiveness of the existing controls over revenue and expenditure related to the different programmes offered. Compliance with the procurement regulations and other prevailing legislations, policies and procedures was also verified.

The National Audit Office (NAO) held an introductory meeting with the then Permanent Secretary and other officials, from the Ministry for Education and the Chief Executive Officer, NLA. Minutes of the meeting were sent to those present and confirmed.

Following scrutiny of the general ledger provided by the Agency, a number of accounts were identified for further testing, on the basis of materiality or nature of the expense. Testing comprised a review of seven items of fixed assets bought during the year, eight income and ten expenditure transactions, as well as payments made to ten individuals[3]. Enquiries were also made on the internal control procedures in place with regard to inventory and petty cash.

In order to carry out detailed substantive testing, the respective documentation was reviewed and audit queries were sent to the auditee.

Key Issues

Irregularities in the Working Hours and Payments related to Detailed Officers

Working Arrangements

From the manual attendance sheets made available for the three sampled public service employees, who were teachers by profession and detailed[4] full-time with NLA, it was noted that the foregoing employees retained the same working time schedule as teachers in school, even when these officers were working with the National Curriculum Centre[5] prior to being detailed with the Agency[6]. According to NLA, the working hours of these individuals were six a day. However, the six hours were actually only worked from October to May; four hours in June, first week of July and last week of September[7]; and not reporting to work during teachers' holidays, i.e., throughout summer recess, mid-term, Christmas, Carnival and Easter[8].

Furthermore, one of the individuals did not always record the time in and out on the manual attendance sheet when working remotely[9].

Overtime Payments

Notwithstanding that they were already being paid a salary according to their scale, hours claimed during the scholastic year in excess of six or four hours a day, as applicable, were being paid at overtime rates. Hours worked in the morning during the teachers' summer recess were also considered as overtime. The Office of the Prime Minister (OPM) confirmed that it is incorrect to pay overtime rates to personnel who work under the 40-hour week and given that such officers were not even on teaching duties. Overtime paid to the three sampled officers during the year under review, covering from October 2020 to September 2021, amounted in aggregate to €18,539; 68% of which (€12,526) was paid to one of the three officers.

[3] Three detailed with the Agency, three with a contract of service, one with a contract for service and three teachers who carried out overtime at Klabb Naħla.

[4] As per list of employees for the year 2021, 23 officers were detailed with the Agency.

[5] The administration of this Centre falls under the responsibility of the Agency.

[6] Two officers started with the Centre as from September 2014 and approved for detailing in May 2016, whilst the third started in January 2017 and detailed a month after.

[7] Except in the case of one officer who recorded six hours on the attendance sheet of September 2021.

[8] As per attendance sheet, one of the sampled employees reported for work during the Easter holidays of year 2021.

[9] Working remotely everyday as from mid-March up to end May 2021.

Payment of Allowances

The foregoing employees, whose duties and responsibilities were not school based, were still receiving the class allowance and work resource allowance, which entitlement is subject to actual performance of the applicable duties. During the year under review, the sampled individuals in aggregate received €12,625 and €1,971 respectively. As per sectoral agreement reached with the Malta Union of Teachers, employees on alternative duties should cease to benefit from any allowances tied to the grade of the incumbents.

Recommendations

Following liaison with OPM about working hours of all detailed officers, any respective anomalies are to be rectified without undue delay. Furthermore, for control purposes, the introduction of an automated system to enable logging in and out when on duty, is to be actively considered. The payment of overtime is also to be regularised as this entitlement should apply only to hours worked over the 40-hours in a week. Allowances introduced for teaching staff are expected to cease as soon as teaching staff is detailed with the Agency. These recommendations are in line with clarifications obtained from OPM.

Management Comments

The officers in question were detailed by OPM to the Agency on their substantive grade and on condition that they retain the rights and privileges applicable to their respective office, as well as progression and promotion rights arising from the respective classification agreement. The Agency will consider the introduction of an automated system to enable logging in and out when on duty. Overtime is in line with regulations since, as per sectoral agreement with the recognised Union, teaching staff work 40-hours per week considering the contact and non-contact time, and hence the officers in question performed extra duties over and above the full-time hours of work.

Klabb Naħla Personnel paid at Overtime Rates

Three sampled employees worked extra hours with the Agency for Klabb Naħla after school literacy programme, with their primary assignment as teachers with the Ministry for Education. Notwithstanding that the official hours of these individuals do not exceed the 40-hour a week, the foregoing were also paid at overtime rates[10] for the said programme, both for the preparation hours, remunerated at the ratio of one hour for each hour of contact time, and the session itself, even during the teachers' summer recess.

This method of remuneration resulted in a total of €21,542 paid as overtime to the three sampled officers, for work carried out between November 2020 and September 2021, with almost half of it paid to one of the individuals. OPM was not informed of such modus operandi for its approval.

As per proposal dated November 2015 for the redesigning of the Klabb Naħla programme, the tutors referred to above were to be paid at an established rate[11] for teaching, and a lower rate for offsite preparation, but not at overtime rates. Moreover, evidence of approval for such proposal from the Ministry for Education was not available. Payments to this effect, covering as from April 2016 up to September 2021, amounted to an aggregate of €235,527, 64% (€151,504) of which was paid in year 2021.

[10] Overtime rate paid to the three sampled individuals in 2021 was €17.10 per hour. There was a pool of officers carrying out such duties with Klabb Naħla according to the programmes ongoing at the time.

[11] As per proposal, being the only document available, the hourly rates for teaching and offsite preparation were €11.75 and €8.52 respectively. These were to be adjusted by the cost of living in years 2016 and 2017.

Recommendations

Whilst acknowledging the substantive work being performed to help children and the problems encountered to engage sufficient tutors to work after school hours, work carried out under the 40-hour week cannot be defined as overtime and paid accordingly, especially during the summer recess. The options of employing personnel directly with the Agency and paying at established tutor rates are to be considered; this was in fact what had originally been proposed in 2015. Subsequently, the maximum feasible hours that can be claimed on a day and the applicable rate, including that for preparation hours, if agreed to, are to be approved by the Industrial Relations Unit within OPM.

Management Comments

The work carried out by educators is performed over and above their full-time schedule and thus it is considered as overtime work, as per sectoral agreement with the recognised Union. The established tutor rates referred to, concern NWAR family literacy programme which is different from Klabb Naħla programme[12]. The former is regional and addresses adult learners' needs apart from pupils, whilst the latter is school based and intended for pupils only. In view of the above, the Advisory Board of NLA decided to organise Klabb Naħla and thus, with the approval of the Permanent Secretary[13], educators were paid their overtime rate. Requests for overtime work, as per regulations, do not require approval from OPM.

Unutilised Vacation Leave paid

Part-time tutors and administrators working with the Agency, namely for NWAR sessions held after school hours or in summer, were automatically being paid for any vacation leave not taken at the end of the year. This resulted in a total of €51,307, in respect of years 2017 to 2021, paid out of public funds.

Recommendations

Best practice suggests that, as far as possible, vacation leave is spread throughout the year and not left to accumulate towards the end of the calendar year and taken in its entirety during the respective period. If, due to work exigencies, vacation leave cannot be availed of, it is to be carried forward to the subsequent year and availability planned accordingly.

Management Comments

The Agency is paying NWAR programme part-time personnel for vacation leave not taken so as to reduce, as much as possible, the disruptions to this literacy after school programme. This family literacy intervention after school programme is dependent on a number of sessions per semester. When a tutor is sick or on leave, sessions will have to be cancelled and this means that six to eight pupils and their parent/s will miss the session/s. Most tutors do not avail themselves of their leave entitlement unless it is really needed. Given that they are paid for unutilised leave encourages them not to take leave unless really required. If this procedure had to change, all tutors will take all their leave and this would result in less sessions for pupils and their parent/s. Spreading out vacation leave throughout the year and carrying over vacation leave not availed of for the subsequent year will increase disruptions to the programme in which consistency is essential. The Agency will seek direction about this matter and if need be, have it regularised.

[12] NAO referred to the established rates indicated in the proposal of Klabb Naħla.
[13] The respective approval provided to this Office was only with regard to overtime work, covering the period April to June 2016.

Control Issues

Standing Procurement Regulations bypassed

The following procurement shortcomings were noted:

a. Executive Secretary Services

The contract for service to carry out duties as an executive secretary was continuously being extended by direct orders, going back to 13 May 2014, at least up to end June 2022. Procurement up to said date was made by 11 direct orders, in aggregate amounting to €169,905 and respective payments totalling €161,804 both excluding Value Added Tax (VAT).

Although in one of the highlighted direct orders, the contract value was €21,003 (VAT excl.), a request for approval from the Ministry for Finance was not made. Furthermore, five direct orders were approved from the foregoing Ministry; however, the reason for purchasing direct from the open market was only indicated in one case, stating that such service could only be provided by this individual. Moreover, only three of the five direct orders were published in the Government Gazette, and the contract value was only indicated in one instance.

The remaining direct orders were split in five contracts not to exceed the threshold of €10,000 (VAT excl.), as otherwise Finance approval was required. This resulted in non-compliance with the Public Procurement Regulations (PPR) (S.L. 601.03) Article 28(5) which states that when calculating the estimated value, procurement is not to be sub-divided.

b. Clerical Services

An individual started providing clerical services at the Agency's Customer Care Unit, as from April 2017 up to end June 2022. This procurement was split in several direct orders totalling €55,500 (VAT excl.). Approval from the Ministry for Finance, was only obtained once in January 2017, covering a nine-month period, for the value of €10,000 (VAT excl.), wherein it was claimed that services could only be rendered by this individual.

c. Translation and Proof Reading Services

Translation, proof reading, lecturing and training services, have been given by the same individual by direct orders at least since November 2019. Translation and proof reading were covered by four contracts for service totalling €15,200 (VAT excl.). However, in such case, this required a call for tender. Moreover, rate for lecturing and training is not included in the said contracts. Thus, verification of the amounts charged could not be verified.

Recommendations

The Agency is expected to evaluate all contracts for services in a timely manner and establish the way forward. Procurement is to invariably be made in line with PPR, whereby all potential service providers are to be given equal opportunity, ensuring fair competition and transparency while also guaranteeing the best possible rates. Direct orders are only to be used in exceptional circumstances and as a last resort, in which case, formal approval from the Ministry for Finance is to be obtained a priori. Contracts are not to be sub-divided with the intention to bypass PPR but an open call for quotations, in compliance with the legislation, is to be published on the Government's e-procurement platform. Calls for quotations or departmental tenders must be published in the Government Gazette when the estimated value exceeds €5,000 (VAT excl.).

The Department of Contracts, in liaison with the Institute for Public Service has, since 2016, provided regular training on procurement, including a hands-on electronic platform approach, which is highly recommended.

Management Comments

The Agency has evaluated all contracts for service in operation. Direct orders are used in exceptional circumstances and as a last resort, in which case, formal approval from the Ministry for Finance will be obtained a priori as per regulations and policies. Contracts will not be sub-divided and open calls for quotations in compliance with the legislation will be published on the Government's e-procurement platform with immediate effect. Alternatively, calls for quotations or departmental tenders will be published in the Government Gazette when the estimated value exceeds €5,000 (VAT excl.).

As recommended by NAO, two NLA employees have already attended training on procurement, including on the electronic platform. The rest of NLA employees dealing with procurement will attend training on procurement between September 2022 and September 2023.

Hours claimed by Individuals for NWAR Programme

The part-time qualified teachers or learning support educators, employed by the Agency as administrators or tutors for NWAR programme, as per eligibility criteria, are regulated by the approved OPM salary structure, complemented by the respective contracts signed with each individual. A review of the sampled attendance sheets, covering three weeks during the summer recess and another three weeks after school hours, revealed the following shortcomings, at times resulting in a substantial number of hours claimed on one day[14], especially during winter, notwithstanding that they were part-timers:

a. Both the administrators and tutors did not indicate the time the work was performed; only the number of hours for each respective day was recorded on the attendance sheets.

b. In line with the approved salary structure and respective contracts, administrators were expected to work a maximum of eleven hours a week, five and a half hours onsite and the rest offsite. On the other hand, for each one hour of teaching, tutors were paid double the amount to compensate for the preparation time which may be carried out offsite. However, given that timings were not specified on attendance sheets, the respective amounts claimed could not be validated. Monitoring by the Agency to this effect was also limited.

   When this Office calculated the total hours indicated at the different centres attended by the administrators, it transpired that, in the majority, the maximum aggregate 11 hours work per week were exceeded, both in summer and in winter, in some instances more than double. Similarly, the established hours[15] for tutors were at times exceeded, with up to an aggregate of 24 hours claimed both during summer and after school hours at one centre in just one week.

c. In line with the approved salary structure, tutors were to be present 45 minutes before the start of each lesson. This was covered by the compensation for preparation time. However, the respective contracts indicated just five minutes as a requirement.

Recommendations

For control and transparency, timings are to be duly recorded on the attendance sheets. In addition, considering that hours may vary according to exigencies in delivering the programme, the aggregate maximum hours that can be claimed (daily or weekly) by the administrators and tutors, as applicable, are to be revised accordingly. The anomaly concerning the requirement of tutor's presence before the start of each lesson is also to be addressed.

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[14] When taking into consideration the total hours claimed by the part-timer on the respective centre's attendance sheet on a particular day and/or week, i.e., the aggregate of both the contact and preparation hours.

[15] All contracts in respect of tutors cover four hours onsite and eight hours offsite preparation per week, per centre, but not more than two centres per week.

Management Comments

As from the beginning of next scholastic year 2022-2023, NWAR tutors and administrators will include timings on the attendance sheets. There is no need to revise the number of hours of work and the 45 minutes preparation time since, as from September 2022, NWAR family literacy programme will be delivered in person and in small groups again, not individually and online, as was the case during the pandemic. As explained in NLA's correspondence, hours of work varied due to abrupt changes in the delivery of NWAR programme that were brought about by the COVID-19 restrictions.

Shortcomings related to the Services of a Part-time Senior Manager

From the post of a full-time senior manager, an individual resigned in the beginning of year 2020, and started on part-time employment to work for after school programmes as from 13 October 2020. A review of the 15 monthly attendance sheets for the period covering October 2020 to end of year 2021 and other documentation, revealed the following shortcomings:

a. Besides that time in and out were not shown on the attendance sheets, the number of hours indicated were not always recorded on the respective day[16]. As a result, hours claimed on the various days ranged from one hour to twenty hours, notwithstanding that it was a part-time post.

b. The last payslip for year 2021, pay date 22 December, included the number of hours for 23 December, claiming that the officer projected the number of working hours.

c. The performance bonus for year 2020 was overcalculated by 30 days, resulting in an overpayment.

Recommendations

Employees are expected to substantiate the claims for payment with detailed attendance records. Any overpayments are to be duly recouped.

Management Comments

The period mentioned above occurred in the midst of the pandemic when, all of a sudden, NLA had to restructure the NWAR family literacy programme and offer the same service virtually due to COVID-19 restrictions. The hours claimed ranged widely since the individual was in charge of the NWAR programme and had to take abrupt decisions and work in abnormal situations caused by the pandemic. The overpayment was duly recouped.

Qualification Allowance paid in retrospect

The date of submission of the request for a qualification allowance by a sampled Senior Manager was on 4 May 2017. However, the officer was paid as from 5 January 2015; i.e., more than two years before submission of the application. This resulted in a total amount of €1,662 paid during the period in question. From documentation made available, it was noted that this was not the only case that NLA paid this allowance in retrospect.

Recommendation

As confirmed by OPM, in the case of the public service, a qualification allowance is to be paid not earlier than the date of application.

[16] This was referred to as PRE on the attendance sheets, meaning previous work.

Management Comments

As from January 2022, all qualification allowances are being paid not earlier than the date of application, as recommended by NAO.

No Overtime Approval

In line with the pertinent circular and related provisions of the Public Service Management Code, overtime has to be approved beforehand by the respective Permanent Secretary, unless this authority is formally delegated in writing. From all the 20 requests for overtime tested to the tune of €40,081, covering the period October 2020 up to September 2021, it transpired that, although this authority was not officially delegated, overtime was only being endorsed by the Director General, Strategy and Support Department. Overtime paid during 2021 was €211,175[17].

Moreover, in the majority of the foregoing cases, the requests for overtime work and/or the respective approvals by the Director General were dated retrospectively or undated.

Recommendation

Unless the delegation of authority is obtained in writing, the Permanent Secretary is to invariably approve requests for overtime work beforehand, in line with pertinent circulars.

Management Comments

In 2018, the Director General had received the delegated authority by email; however, this email cannot be retrieved from the external hard drive where it was saved. As from 2022 all overtime requests are being approved by the Permanent Secretary and they are being approved from the date of the foregoing's endorsement or commencement date, whichever is the latest.

Incorrect use of the Petty Cash Account

NLA does not have an established petty cash float for trivial expenditure. Instead, cash receipts from students are credited to the petty cash account without any limits, rather than posted to revenue. The highest amount held as petty cash was €4,251 in July 2021. This practice was in place as from when the Agency was established in 2014.

Moreover, this procedure goes against the General Financial Regulations (S.L. 601.01) Article 35, since the required approval to retain money in excess of €100 was not sought from the Permanent Secretary, Finance.

Recommendations

A petty cash account is to be maintained on an imprest system. This involves establishing a fixed cash amount which may be regularly replenished against supporting receipts. Cheques and cash received from students are to be posted as revenue and timely deposited in the respective bank account. Payments from the petty cash are to be limited only for minor expenses. In addition, formal authorisation from the Permanent Secretary, Ministry for Finance and Employment, is to be sought in case of any diversions from the General Financial Regulations.

[17] As per nominal accounts, this included overtime of permanent staff, amounting to €25,176, and overtime of part-time staff totalling €199,057, less a transaction of €13,058 which was incorrectly recorded in the latter account.

Management Comments

Following NAO's initial remarks, as from January 2022, NLA established a petty cash system based on an imprest system. Cheques and cash received from parents of pupils following NLA's programmes are posted as revenue and they are deposited in the respective bank account on a weekly basis, when applicable. During the pandemic, access to local banks was limited and thus the Agency kept cash monies received from parents in the petty cash account since it could not deposit cash monies on a regular basis.

Considerable Bank Charges

The bank charges incurred by the Agency, covering an approximate 15-month period, from 7 January 2021 to 24 March 2022, in aggregate amounted to €1,808. The foregoing included the amount of €1,249 representing fees charged on high amount of cheques issued.

Recommendation

In order to decrease the bank charges, in particular the cost incurred due to the number of cheques issued, the Agency is to seek alternative electronic payment methods.

Management Comments

The Agency is seeking advice on alternative payment methods as recommended by NAO.

Approved Amount exceeded

A negotiated procedure with a university college abroad for the procurement of training courses was approved by the Department of Contracts on 18 September 2019, for the amount of €295,000 (VAT excl.), covering three scholastic years, 2019 to 2022. However, total payments[18] relating to the foregoing amounted to €322,262 (VAT excl.), exceeding the approved amount by €27,262 (VAT excl.).

Recommendation

In future similar cases, ad hoc approval is to be sought to cover the excess amount a priori.

Management Comments

The cost exceeded the envisaged amount due to the wider reach of the programme in terms of schools and teachers trained. The Agency will follow PPR for any future variations.

Compliance Issues

VAT Regulations not observed

The four invoices tested relating to translation and proofreading services, in aggregate amounting to €7,680 (VAT excl.), did not have a VAT number. The services in question should be subject to 18% VAT unless the person is registered as exempt under Article 11, in which case, the individual should still have a VAT number. Moreover, payments were not supported by fiscal receipts.

[19] Payments made between November 2019 and January 2022.

Recommendations

Any person engaged in an economic activity must be registered for VAT purposes, unless solely making exempt without credit supplies in terms of Part 2 of the Fifth Schedule of the VAT Act (Cap. 406). When in doubt, guidance is to be sought from the VAT Department accordingly.

Management Comments

NLA will take on board the recommendations of NAO and will keep on requesting fiscal receipts, when applicable.

VAT Quarterly Returns not submitted

The Agency confirmed that it never submitted the defaulters' list to the VAT Department for non-compliance with fiscal obligations, in accordance with the pertinent circulars which apply also to public sector organisations.

Recommendations

Defaulters' list, including suppliers who failed to adhere to VAT regulations, as well as nil returns, as applicable, are to be submitted to the VAT Department on a quarterly basis. When possible, purchases from defaulting suppliers are to be discontinued until the matter is rectified.

Management Comments

NLA will submit a defaulters' list, including suppliers who failed to adhere to VAT regulations, as well as nil returns, as applicable, to the VAT Department on a quarterly basis as from October 2022.

Afternoon School Programme, SkolaSajf and Klabb 3-16

Revenue and Expenditure

Control over the employees' attendance records at the centres running the **Afternoon School Programme, SkolaSajf and Klabb 3-16** was insufficient. At the end of September 2021, there was also a substantial balance of outstanding amounts due from parents or guardians for extra hours utilised. Furthermore, the scope of the audit was hindered in several instances due to lack of audit trail.

Background

The Foundation for Educational Services (FES) was set up on 24 May 2001 as a public entity within the then Ministry for Education to provide quality educational services through structured contemporary programmes, ensuring financial sustainability and ethical behaviour. In collaboration with the Education Directorate, FES is committed to be a force towards educational equity and excellence, contributing directly to the wider educational systems and to society, especially towards persons at risk of social exclusion and to future generations.

With the aim of being a leading stakeholder in the provision of non-formal education in line with National Policies, the entity is responsible for the organisation and administration of the following programmes:

a. **Childcare centres** – Offer free quality childcare services in order to support and strengthen the family unit.

b. **Klabb 3-16** – An after school service that welcomes school-age children and also provides care during school holidays where needed. Service is provided against charge of €0.80 per hour or part thereof.

c. **SkolaSajf** – Service is offered to school-age children during the summer holidays. This service is provided at a standard fee of €25 per child, whilst any required extra hours are charged at the rate of €0.80 per hour or part thereof.

The expenditure incurred for the running of the aforementioned programmes is financed by Government in the form of annual allocations to FES. As illustrated in Table 1, during the year 2021, the aggregate amount of €6.175 million was allocated to cover these programmes.

Table 1: Financial Allocations for 2021

Vote	Section	Line Item	Allocation €
26	Programmes and Initiatives	5627 – Afternoon School Programmes, SkolaSajf and Klabb 3 -16	5,000,000
26	Contributions to Government Entities	6007 – Foundation for Educational Services	1,175,000

During scholastic year 2020-2021, Klabb 3-16 services were offered to more than 3,600 students, whilst 8,326 participants were registered for SkolaSajf.

Audit Scope and Methodology

The main scope of the audit was to assess the controls in place for the recording of revenue collected by FES for the attendance to Klabb 3-16 and SkolaSajf. Testing was extended over the controls in place vis-à-vis expenditure incurred by FES for the organisation of these programmes for which an annual allocation is received through Line Item 5627. Any expenditure incurred in excess of the respective allocation was borne by FES from its allocation under Line Item 6007, as well as from revenue generated by the Foundation in the form of fees paid by parents[1] utilising SkolaSajf and Klabb 3-16 services.

Furthermore, it was ensured that both revenue and expenditure as recorded in the books of account were complete and in line with pertinent regulations.

The engagement of officers by FES for the running of these programmes was also verified to ascertain that employment was duly covered by a contract of service and that salaries were paid accordingly.

To achieve the audit objectives, meetings were held with the Chief Executive Officer, and Heads of Finance and Human Resources Sections at FES, 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. Samples selected were qualitative rather than quantitative, thus not designed to gather data on the frequency of error in the population as a whole, but to check whether an effective system of internal controls was in place.

Income generated from, and the expenditure incurred for, the provision of Klabb 3-16 and SkolaSajf during scholastic year 2020-2021, are exhibited in Table 2.

Table 2: Income and Expenditure[2]

Programme	Income €	Expenditure €
Klabb 3-16	213,782	2,924,068
SkolaSajf	540,349	3,915,123

The audit was carried out in the form of a case study whereby the centres with the largest and smallest number of registrations, for Klabb 3-16 and SkolaSajf programmes respectively, were chosen as illustrated in Table 3.

Table 3: Centres falling within the Audit Sample

Programme	Centre with the Highest Participants	Centre with the Lowest Participants
Klabb 3-16	Qawra (225)	Malta College of Arts, Science and Technology (17)
SkolaSajf	Fgura (366)	Għarb[3] (32)

[1] Throughout this write-up, reference to parents is also applicable to guardians.

[2] As per data provided upon initialisation of the audit.

[3] Registrations for San Lawrenz and Żebbuġ (Gozo) amounted to three and eight respectively. Since it was not feasible to offer SkolaSajf programme at these two schools, the respective children were provided the service at the Għarb centre. Hence the latter centre which catered for a total of 43 children was selected.

Following stratification by designation, a random sample was selected from amongst employees performing duties within the identified centres. Ten employees were chosen from Klabb 3-16 centres and a further eleven employees from SkolaSajf centres. The attendance records of children attending these programmes for the months of January and April in the case of Klabb 3-16 and those of August for SkolaSajf were also analysed to identify any shortcomings with regard to the actual attendance and timings recorded therein. From the activity report, six children[4] were chosen on a random basis and their registered hours and fees charged were verified.

Limitations on Scope of Audit

In line with the Foundation's data protection policy, which was last updated on 29 November 2021, children's manual attendance records and personal data were to be discarded after two months from the service termination. The National Audit Office questioned the brevity of such duration. In the circumstances, whilst data could not be traced back to the original manual records, limiting testing to be based on the data inputted in the system by the respective centre coordinator, this Office could not verify that the necessary information was provided by the respective parents.

Packages of hours were to be acquired by parents through the electronic portal. The maximum number of hours that could be topped up in one transaction for any of the two foregoing programmes was 120, with the system maintaining only a record of the latest top-up. This was also a limitation for the purpose of the audit since testing could not be carried out to ensure that absenteeism during booked hours was deducted accordingly, unless the centre coordinator was duly informed one day in advance or a medical certificate was provided.

Key Issue

Utilised Extra Hours not paid for

By 28 September 2021, the entity had €34,175[5] worth of outstanding debtors with respect to extra hours that were utilised but for which payment had not yet been settled. This was not in line with the standard operating procedures, stipulating that "*coordinators are to monitor the balances owed by parents and reminders should be sent to all those who have a negative balance. If the said balance is not paid within one week, the parents are to be sent an email reminding parents to make payment and inform parents that should the payment not be effected within a deadline of three days, service will be suspended until the payment is made and account is back to being positive*" [sic]. To this effect, Management did not provide any evidence that the respective debtors were being chased. Table 4 provides an analysis of the pending amounts.

Table 4: Analysis of Pending Payments

Range of Outstanding Balance	Aggregate Pending Balances	Percentage of Overall Pending Balance	Number of Family Units	Number of Children involved
	€	%		
Over €1,300	1,398	4	1	3
€101 – €1,300	9,416	28	58	98
€51 – €100	8,799	26	127	180
€11 – €50	11,548	34	462	625
Up to €10	3,014	8	810	1,066
Totals	**34,175**	**100**	**1,458**	**1,972**

[4] Three children attended Klabb 3-16 and the other three attended SkolaSajf.
[5] By end of May 2022, outstanding balance as per debtors' list amounted to €21,140.

Recommendations

Management is to take necessary action to collect the pending amounts. A stricter approach is also expected against those who are violating the system.

Management Comments

Standard operating procedures outlining the process of collecting negative balances are in place, as the entity takes active measures to collect pending amounts.

A stricter approach on pending balances due from users availing of the service will be taken. The list of pending balances will be split into active and inactive users. The entity will focus more on collecting pending debts from active users.

Control Issues

Extra Hours charged to the Minute rather than the Hour

The fee for extra hours charged for SkolaSajf and for Klabb 3-16 is set at €0.80 per hour or part thereof. Yet, at times, hours were charged pro-rata.

Recommendation

Fees are to be charged on an hourly basis across all the centres.

Management Comments

Fees are charged to the hour. However, there was a period where there was an error in the system, and parents were charged pro-rata. This has been resolved with the developer.

During SkolaSajf the charge for the morning extra hours, falling between 07:00 and 08:30 was that of 1.5 hours. Klabb 3-16 service starts at 14:30 till 18:00, thus, the charge for the last 30 minutes was at half the hourly rate.

Delays in the updating of the Students' Attendance Records

Hours utilised during holidays[6] were instantaneously deducted from the individual's balance; however, those availed of on normal school days were not updated in the system in real time. Since attendances were also not recorded on the parent's portal daily, as suggested by the operational handbook and manual, FES was not being provided with the correct balances available. This situation contributed to the creation of a number of negative balances representing dues from parents.

Recommendations

FES is to ensure that the balances on the parent's portal are updated in a timely manner and that proper monitoring is performed to minimise the risk of running into negative balances, leading to pending payments which might be difficult to recoup.

[6] These include bridge holidays, Christmas and Easter holidays, as well as the two-week period between the end of the scholastic year and the beginning of SkolaSajf.

Management Comments

Students' attendances are recommended to be filled by the following day. FES Management brought this to the attention of the centre coordinators on a regular basis.

The standard operating procedure is also being revised. As of next scholastic year[7]*, the online portal will be set up to send a notification to the parents when they reach a positive €12 balance on their profile. This will give the parents a whole week to top up their balance. Parents applying for Klabb 3-16 of the said scholastic year will not be allowed to attend unless they settle any negative balances.*

Lack of Audit Trail

In a number of instances, substantiating documentation was not available, thus resulting in lack of audit trail. The following relate:

Student Placement Programme

Through its student placement programme, the Malta Information and Technology Agency engages a number of students who carry out information and communication technology services in different sectors during the summer season. However, although students were placed at different SkolaSajf centres, a memorandum of understanding between the two entities, outlining the underlying terms and conditions, was not provided for audit purposes. Moreover, from testing carried out, it transpired that the contract of service entered into by each student and FES did not indicate the hourly rate payable. Thus, the amount in question, aggregating to €62,888, could not be validated.

Documents substantiating Parents' Employment

Extended hours during SkolaSajf, as well as services related to Klabb 3-16 during school holidays, were only made available in cases of children whose parents were in employment or who were following a registered course.

However, as indicated under the Limitations on Scope of Audit, testing in this regard could not be carried out. Management verbally claimed that, in line with the Ministry's retention policy, documents were shredded after two months from the termination of service, despite that the policy only outlines the retention period of specific documentation, such as birth certificates, custody documents and copies of identity cards; it does not cover employment records. In the circumstances, it could not be ensured that the necessary information was being provided by the respective parents.

Personal Files

Following the expiration of a contract of service on 14 July 2017, the status of a playworker with extra responsibilities was converted from definite to indefinite employment in line with OPM Circular No. 4/2017 – 'Transformation of Positions without an objective reason into positions of an Indefinite Nature'. A review of the related personal file highlighted the following issues:

a. A contract of employment outlining the new working conditions was not drawn up following the change in status.

b. The employee was given seven days to confirm in writing the acceptance in relation to the aforementioned change. Yet, a copy of the respective correspondence was not traced in file. The only related document provided for audit purposes was a note of acceptance from the incumbent.

[7] Management comments were submitted on 13 July 2022.

Furthermore, personal files related to Klabb 3-16 employees were maintained in a hybrid system; the engagement form, payee status declaration form and contract of service were filed in the traditional manner, while digital copies of the respective curriculum vitae and certificates were kept in digital format. Personal data and agreements pertaining to personnel providing services at SkolaSajf were also held electronically. In such instances documents were not duly referenced.

Recommendations

All pertinent documentation is to be maintained for audit trail purposes.

A signed contract of service, clearly setting out the conditions of employment, is also to be in place for each employee. Moreover, personal files are expected to be duly updated with all relevant documentation and properly referenced.

Management is to revisit the retention policy to ensure that it is exhaustive and covers all the data at the entity's end. The established retention period should be sufficient not to hinder audit procedures expected to be carried out following the end of the related financial year. Copies of documentation falling outside the scope of the said policy are to be maintained for a reasonable period of time for future reference.

Management Comments

A letter of intent[8] between FES and the Malta Information and Technology Agency was in place with regard to the student placement programmes.

With regard to the Foundation's data retention policy, the retention period will be revised.

The point relating to personal files was not addressed.

Insufficient Control over Attendance Records

Due to the shortcomings outlined hereunder, attendance records maintained by the Foundation were not considered reliable.

Centre Coordinators approving their own Timesheet

It was the practice that all centre coordinators approve their own attendance sheets which were kept manually and these were not endorsed by an officer in higher authority.

Manual Attendance Records

Personnel working at Klabb 3-16 and SkolaSajf were required to record their presence manually, through the signing of attendance sheets. Testing carried out on the records maintained for the months of January and April by the ten sampled employees with respect to Klabb 3-16, revealed that one officer, besides endorsing the attendance record on a weekly basis, i.e., one signature covering the whole week, during the first two weeks of April, someone else signed the attendance sheet instead.

Recording of Vacation and Sick Leave

Vacation leave was not always recorded as such on the attendance records. Time in, time out and signature were at times also recorded on days when reported sick or on vacation leave. Thus, attendance records were not considered reliable.

[8] This document was not provided for audit purposes.

Recommendations

While the attendance records are in themselves an element of internal control, incomplete and inaccurate records thereof will compromise their effectiveness and reliability. Thus, Management is to ensure that all employees record their timings on a daily basis and likewise independently endorsed by an officer in a higher grade to ensure completeness and accuracy. It is also important to note that, when endorsing attendance registers, the respective officers are assuming responsibility that these are correct in every detail, and that all employees falling under their responsibility have been duly accounted for.

In line with pertinent guidelines, vacation and sick leave are to be clearly indicated on the respective attendance records. Vacation leave is to be duly authorised prior to its utilisation, properly disclosing approval date on the related application.

Management Comments

The recommendations have been noted and the centre coordinators' timesheet will be endorsed by the services programme coordinator, and then forwarded to the Business Unit for payment processing.

With regard to the observation on manual attendance records, this was not a common practice and Management stressed the importance for all officers to sign on a daily basis their time in and out from and to the centre. Any discrepancies are highlighted to the centre coordinator by the Business Unit upon vetting prior to their inputting on the payroll system.

A standard signing operating procedure with regard to amendments of attendance records will be issued and circulated to all centre coordinators.

The issue relating to the recording of vacation and sick leave will be brought to the attention of the centre coordinators. Moreover, the standard operating procedures in this regard will also be updated.

All officers are to sign and date their respective vacation leave request and the approvers should sign and date the approved vacation leave form. Any discrepancies noted were highlighted to the centre coordinators by the Business Unit upon vetting prior to their inputting in the payroll system.

Ministry for the
Economy and Industry

Lands Authority

Revenue

Government is not aware of the market value of the land and property it holds. Moreover, the **Lands Authority** did not carry out regular monitoring to ensure that the provisions in the commercial tenement contracts were observed. The audit also revealed that a significant number of former Church properties, transferred to Government in terms of the agreement, were recorded in the computer system with incorrect details and hence were not being invoiced, resulting in loss of revenue to Government.

Background

The Lands Authority was set up in 2017 by virtue of the Lands Authority Act (Cap. 563). The Authority is entrusted with the administration and management of the entire land and property owned by the Government of Malta, as well as all remaining land forming part of the public domain, governed by detailed policies drawn up by the Board of Governors. It is also considered as the principal means through which Government seeks to optimise its land and building resources from the economic and social development aspect. Through its various directorates, the Authority issues tenders, carries out property valuations and inspections, prepares rental agreements and collects respective revenue. Independent checking of transactions is carried out by its Internal Audit Directorate. The main tool used to record its land and buildings is a bespoke software system, namely the Land and Estate Management Information System (LEMIS). In February 2021, the Authority saw a change at the helm with the appointment of a new Board of Governors, as well as a Chief Executive Officer.

In September 2021, the Minister for the then Ministry for the Economy and Industry (MEI) launched the Lands Authority Scheme – Revision of Commercial Leases and Recognition of Heirs upon demise of the lessee. This brought a change to the respective two scenarios whereby previous revisions and recognitions, that were based on the property's market value[1], were replaced by a standard annual increase of five per cent, up to 1 June 2028 when all leases will automatically expire.

The 2021 estimated revenue under Line Item 0615 – Rent from Commercial Tenements, as disclosed in the Financial Estimates for the relative Ministry stood at €19,000,000 while the total amount invoiced totalled €18,801,864; however, revenue actually collected under the same charge code totalled €13,045,387, representing a collection of 69% of the budgeted amount. Outstanding debtors from commercial tenements at end 2021 stood at €19,070,820, increasing by more than €1.74 million over the closing arrears of the preceding year[2]. Every month, the ageing of debtors' report is extracted from LEMIS and debtors are followed up on the basis of materiality, in line with the Standard Operating Procedure (SOP). Legal action related to three tenements, with aggregate outstanding debt of €6,968,495, was ongoing at time of audit, of which by the end of 2021, €2,382,235 had been outstanding for over 10 years.

[1] Determined through an architect's valuation.

[2] Net collectable arrears from commercial properties were €17,327,089.

In addition to income arising from the contracts, mainly from leases, temporary emphyteusis and as a result of encroachments, the Authority is also entitled to 10% of any goodwill paid on the transfer of a commercial lease prior to its expiry.

All monies collected are remitted monthly to Central Government through MEI by means of a bank transfer. Subsequently, as approved by the Ministry for Finance and Employment, the Authority claims back 7% of all revenue collected, excluding amounts from the sale of lands, on a quarterly basis. Amounts transferred into the Consolidated Fund are recorded in the Corporate Financial Management Solution by MEI's officials. A total of €13,045,387 arising from commercial tenements was forwarded to MEI during 2021[3], representing 37% of the entire income (€35,162,711) forwarded to the latter by the Authority.

In recent years, new controls were introduced over the financial aspect. In addition to regular reconciliations, carried out on a daily, monthly and annual basis, an SOP covering the credit control function was drawn up. Moreover, the stop rent[4] facility was limited to senior officers, while another SOP regulating the use of such feature was being drawn up.

Audit Scope and Methodology

The main scope of this audit was to assess the adequacy and effectiveness of internal controls over the revenue process. Testing aimed to establish whether:

a. adequate control was exercised over the property;
b. revenue was maximised through leasing of vacant property and adequate action was taken to ensure timely and full collection of amounts due; and
c. process and procedures in place were in line with standing regulations.

Following an introductory meeting with the then Permanent Secretary, the Chief Executive Officer and Chief Finance Officer, the National Audit Office obtained the Authority's audited financial statements and the master data[5] related to rent from commercial tenements[6] in order to identify the audit population. The transaction analysis report was also obtained, showing all related invoices issued and payments. All invoices were reviewed in order to identify which properties were not billed. This was followed by a walkthrough of the revenue collection process and a qualitative review of 35 sampled tenement files, which were selected based on the results of the data analysis and materiality of the amounts involved.

Key Issues

No Property Register

The Authority has no readily available reports giving a snapshot of the total number of Government-owned properties, also indicating those in use by third parties and vacant properties. The only data available, apart from the information in the physical files, is that in LEMIS, which consists of comprehensive micro data. While this may be sufficient for the day-to-day operations, it restricts the Authority's ability to manage the same assets effectively through the expected monitoring and control.

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[3] The reconciliation between the amounts collected and those forwarded to MEI was not yet concluded as at time of audit; however, the main discrepancy is a timing difference arising from the time-lapse between the collection of monies by Local Councils and their respective remittance to the Authority's bank account.

[4] A feature in LEMIS which stops invoicing when ticked.

[5] Master data was obtained on 29 October 2021.

[6] Charge code 615. Categorisation to the respective charge code is determined by the use of property.

Recommendation

A comprehensive property register is to be drawn up, providing an overview of land and building held at macro level, hence enabling more effective management over such assets.

Management Comments

The Authority has a report that shows the total number of Government-owned properties and this is the master data which was provided to NAO Auditors. However, the Authority cannot confirm that all the property is inputted in LEMIS since a reconciliation was never carried out between the physical files and LEMIS. This matter will eventually be solved since the Authority is scanning all the files and in cases where the file is not created in LEMIS, it will be created.

Having said that, the practice at the Authority is that when there is the need to carry out work on a particular property, staff always bring up file and confirm the information in LEMIS with the physical file, since there are instances where LEMIS was not updated correctly.

Government-owned Property not recorded in Financial Records

Government is not aware of the market value of all the land and property it holds, making this a huge stumbling block to accrual accounting. Moreover, despite being the Government's most valuable fixed asset, the property is not recorded in the Authority's financial records, notwithstanding that the latter was granted the power to acquire, hold and dispose of any kind of property. The respective income and receivables were likewise omitted from the Authority's financial records, as these were remitted to and reported by MEI. According to the Authority, guidance was sought from the Ministry for Finance and Employment to this effect, but this was not provided.

Recommendation

While acknowledging that this is a matter that cannot be decided solely by the Authority, given that the foregoing was granted the authority to exercise all powers of control over the land in Malta, a plan is to be devised, to clearly identify and recognise all Government-owned property, also establishing its value, as well as record it accordingly without undue delay.

Management Comments

As per Article 7(c) of the Lands Authority Act, the Lands Authority administers the land of the Government of Malta and all land that form part of the public domain. Hence, the land is owned by the Government of Malta, and not the Lands Authority.

Since the Authority does not own the said properties, and since the Financial Statements are prepared according to the International Financial Reporting Standards, both the asset and the income generated from that asset cannot be included in the Income Statement and the Statement of Financial Position.

As advised during the audit, for the Authority to embark on such a big project to evaluate all the property it manages, the Authority would need a budget specifically allocated to this exercise as the cost will run into thousands of euro. However, in the Management's opinion, this is a futile exercise since it will not give the Authority any added value but, on the other hand, it will potentially increase property speculation by third parties.

Tenements not invoiced

During the audit, it was brought to the Auditors' attention that a significant number of entries[7], which related to the former Church property, transferred to Government in terms of the agreement, were recorded in LEMIS with incorrect details, such as wrong identity card numbers and addresses, and hence were not invoiced. This resulted in loss of revenue to Government.

Recommendations

While acknowledging that the Authority was working to address this complex issue, efforts should be made to solve it as soon as possible in order to avoid huge bills sent to tenants retrospectively. The Authority may raise this issue within the respective Ministry for the possible deployment of staff to assist with these specific tasks, if human resources are lacking.

Management Comments

The Lands Authority acknowledges the issue highlighted and, as discussed, this matter is being tackled. The following is an analysis of the status of this exercise as at November 2021:

Total lines: 18,616
Files reviewed: 12,700, of which 5,291 still had an unresolved matter
Files not reviewed yet: 5,916
Files concluded: 7,409

Control Issues

Safeguarding of Records

Important documentation relating to property was kept in physical files. Although scanning was in process during the audit, the vast majority of records were still not digitalised. In order to prevent loss of records from the possible misplacement or destruction of files, copies of these documents, including contracts, were kept in separate files, referred to as white files. However, both the main files and white files were kept in the same location. Hence in the event of any possible damage to the property, such as in case of a fire or flooding, all records will still be lost.

Recommendation

As a temporary measure until all files are scanned, the white files are to be kept in a separate location to ensure records will be preserved should the main files get damaged.

Management Comments

As from 4 April 2022, the Lands Authority has launched the paperless initiative. That is, when any employee requests a file that is in the archives, the scanning team will scan and seal the file and send it to the employee concerned in digital format through the system, LEMIS. Eventually it is being envisaged that the scanning team will collect all the files located on the employees' desks and scan them too. All physical files are being scanned and allocated to a designated box. The Authority is also seeking a location to store its archives. However, the importance of the physical file is reduced since it is scanned.

[7] Around 18,000 as at October 2021.

No Proactive Action by the Authority

The Authority did not do regular monitoring to ensure that the contracts' provisions regulating commercial tenements were observed, mainly that the tenants making use of property were the ones recognised with the Authority. Instances of abuse were either acted upon following reports from the public or in certain cases triggered by actions occasionally undertaken by the Authority.

Recommendation

Although it is impossible to check all the properties, a risk-based approach is to be adopted whereby, at least, high-risk properties are identified and checked over a number of years.

Management Comments

The Authority is looking into possible ways on how to monitor breaches of contracts. However, the Authority is limited with the human resources available. The absolute majority of the contracts carry the same risk since most of the clauses are standard for all contracts across the category.

Amounts falling in Arrears

During the audit, the following shortcomings were noted:

a. The amount of €4,442,738, representing 23% of outstanding arrears, had been pending for 10 years or more. Given that the prescription period established by Chapter 16 of the Laws of Malta is 10 years, some of the pending amounts may not be recoverable in a court of law. Notwithstanding this, no amount was estimated as non-collectable in the latest return of arrears analysed by this Office for year-end 2020.

b. Outstanding utility bills which were not yet settled by the lessee were not included in the return of arrears of revenue. The amount due was unquantified, but the Authority estimated that, at the end of each year, this totalled approximately half a million, covering amounts due by tenants, as well as amounts payable relating to property that was vacant.

Recommendations

All outstanding revenue due from third parties is to be disclosed in the respective return of arrears, including those related to unpaid utility bills. Moreover, amounts estimated as not collectable are to be indicated accordingly in the return.

Management Comments

a. The Authority continues with its efforts to collect all amounts due, even though they would not be recoverable in a court of law. The foregoing has collected several amounts that are prescribed by law during the years. Amounts that the Authority deems uncollectable are written off as soon as they are deemed uncollectable.

b. The Authority is undergoing an exercise to transfer the electricity meters from the Authority to the new tenant. Once this is done, the outstanding bill is calculated, and the tenant is billed for usage during the period the property is used by the tenant.

No Standard Operating Procedure covering the Collection of Revenue

The collection process up to the respective remittance to bank was documented by the Finance Unit specifically for audit purposes; however, this was not captured in an SOP.

Recommendations

The respective process is to be documented in an SOP and made available to all those carrying out the related tasks. This will ensure the smooth running of operations when there is any change in staff and will also assist those employed with Local Councils collecting money on behalf of the Authority.

Management Comments

One of the targets in year 2022 for all Finance Senior Managers was already set to finalise and update their respective SOPs.

Lands Authority

Debtors and Creditors

An audit to determine that the amounts reported by the **Lands Authority**, as due from Government ministries, departments and entities were recorded accordingly as payables by the respective debtors, revealed that balances did not reconcile.

Background

The Lands Authority is entrusted with the administration and management of all the land and property owned by the Government of Malta. The Authority also carries out property valuations and inspections, prepares rental agreements and collects respective revenue.

MF Circular No. 10/2001 – 'Government Accrual Accounting: Procedures for the Control of Debtors and Creditors', covered the procedures necessary for the proper management of debtors and creditors within every ministry and their respective departments. Therefore, in view of the transition to an accrual basis of accounting for the purpose of financial reporting, it is imperative for ministries and departments to maintain on an ongoing basis, accurate and timely information on their debtors and creditors.

From a review of the arrears of revenue returns, it was noted that, as at end December 2021, substantial amounts were owed to the Lands Authority from various Government-owned entities, departments and ministries, reporting an aggregate of €56,352,808 as debtors, classified as due from the following:

- Government Departments and Ministries – €3,050,422
- Parastatal and Government-owned Entities – €9,532,462
- Individual and Private Companies – €43,769,922

Forty-eight per cent of these debtors had been outstanding for over one year.

Audit Scope and Methodology

The scope of this analysis was to ensure that the amounts reported by the Lands Authority as due from Government ministries, departments and entities were recorded accordingly as payables by the respective debtors.

The identification of shortcomings and recommendations thereto were also meant to assist in making the necessary rectifications and get in line with accrual accounting.

Existence and completeness of the debtors' balances were verified by requesting a sample[1] of 17 debtors to provide the balances they owed to the Lands Authority as at 31 December 2021. However, only two replied by the established deadline and thus this Office resent confirmation letters. Following this, all the sampled debtors replied, except two.

[1] The list of debtors falling under the categories of Government Departments and Ministries as well as Parastatal and Government-owned Entities, recorded by the Lands Authority, was sorted in ascending order and then categorised in accordance with a set of thresholds. This represented 82% of the total balance of receivables.

Key Issue

Payables not reconciled

All the 15 responses received disagreed with the balances reported by the Lands Authority, with 11 of these debtors claiming they have a nil balance, when in fact the Authority was reporting a total balance of over €3 million. The remaining four debtors reported a balance which did not agree with the Lands' balance, with one of these debtors reporting a difference of €2.8 million.

This scenario did not give a true and fair view of the reported amounts since one would not be able to set off these receivables with the respective payables on consolidation.

Recommendations

In view of the transition to accrual accounting, the responsible officials are to ascertain that, payables' balances are reconciled through a debtors' control account to identify any errors and rectify them accordingly. Guidance from the Ministry for Finance and Employment is also to be sought to ensure that the rent payable is covered by the budget allocated to Government ministries, departments and entities accordingly.

Management Comments

The Lands Authority agrees in principle to the recommendation put forward by the National Audit Office, that is, regular reconciliations should be carried out to ensure completeness and accuracy of the debtors' balances.

The issues highlighted in this write-up have been accumulating for many years. This is because properties allocated to ministries change hands or are abandoned without properly informing the Authority. This means that there are instances where the wrong ministry or entity is being invoiced, and the amount is still being paid by the new ministry or entity.

Moreover, this exercise has revealed that entities are not accepting the amounts that are due by them. Hence, the Authority requires involvement at Ministerial level for these amounts to be reconciled.

It is to be noted, that the Lands Authority has already started the laborious exercise whereby properties in its register were being confirmed with the respective ministry or entity. However, due to the shortage of staff and difficulty to recruit new team members, the Authority is not able to allocate enough resources to the matter.

The Authority is looking into the discrepancies noted in the write-up especially since most of the balance, around €7 million, is made up of invoices following requests of expropriations done by the relevant entity itself.

E-Sport Policy

Expenditure

The procedures and internal controls in relation to the **E-Sport Policy** within the Gaming Malta Foundation were found to be adequate and in sound operation.

Background

Gaming Malta, which manages the E-Sport Policy Programme and Initiative, is the Foundation tasked with the remit of promoting Malta as a centre of excellence in the digital and remote gaming sector globally.

This sector is continuously growing in Malta. By the year 2030, it is targeted that income from this segment will increase from 0.1% to 1% of local Gross Domestic Product. This sector is specifically related to online video games, also referred to as E-Sport and does not include gambling.

The E-Sport Policy – Line Item 5202 featured under the Office of the Prime Minister's vote during 2019 and 2020, where €1.3 million and €2 million respectively were voted to manage this programme. Actual expenditure incurred during 2019 was of €1,264,593 whilst €1,994,337 was expensed during 2020. In 2021, this line item moved under the then Ministry for the Economy and Industry, Recurrent Vote 28, with a total budget of €3.5 million. Actual expenditure as per data received from Gaming Malta amounted to €3,024,794.

Audit Scope and Methodology

The main scope of this audit was to verify the extent of compliance with the provisions of the Public Procurement Regulations, as well as pertinent policies and procedures vis-à-vis expenditure incurred on the E-Sport Policy.

Meetings were held with the Chief Operations Officer in order to discuss the audit objectives, as well as to further clarify queries as the audit progressed.

Procurement was mainly done through negotiated procedures, following a public call for a request for proposal. Data showing all the payments made in 2021 from this line item showed that seven payments, totalling €3,024,794, were made to five companies, comprising both local and international entities. A major contractor was paid 92% out of total disbursements, while the second largest was paid 7% of the total expense.

Aggregate payments of €3,014,819, made in 2021 to the main four companies, formed the audit sample. Documentation in relation to procurement, including contracts and the relevant approvals, were reviewed by the National Audit Office (NAO) to ascertain whether these were in line with the Public Procurement Regulations, as well as with Gaming Malta's purchasing thresholds. In addition, all payments made in 2021 were vetted to ensure conformity with their underlying contracts.

General Comments

Testing carried out by NAO, on disbursements made by Gaming Malta with regard to the E-Sport Policy programme, confirmed that appropriate controls were in place and in sound operation. The respective documentation was, in its absolute majority, properly maintained and internal procedures concerning procurement were in place. All payments reviewed by NAO were found to be in line with underlying contracts and were signed off for payment by the pertinent levels of authority.

General Management Comments

The outcome of this audit demonstrated a clean bill of health and augurs well for the future of the E-Sports Policy serving to become an important economic niche. Gaming Malta will continue to endeavour ensuring that public funds entrusted to the Foundation are used in the most responsible way possible adhering to public procurement procedures.

Economic Regeneration Voucher Scheme

Expenditure

Substantial overall improvement was noted in the operation of the **Economic Regeneration Voucher Scheme**; however, the audit revealed shortcomings relating to the oversight on scanning of fiscal receipts supporting the respective sale by the merchants and compliance with the scheme's requirements.

Background

The scheme for the second round of Government vouchers was announced during the Budget Speech for 2021. The value of the vouchers had a different apportionment than in the first scheme: red vouchers, to be spent in restaurants, bars, hotels and diving schools, were worth €60[1] in total, while the blue vouchers, redeemable in retail outlets, gyms, museums, art and culture activities, had a value of €40[2]. As in the first scheme, these vouchers were to be distributed to all those aged 16 and over. The Malta Investment Management Company Limited (MIMCOL) was once again entrusted with the administration of the scheme.

A major difference from the first round of vouchers was that beneficiaries were given the option to download the vouchers electronically. Those who did not opt for the electronic version received the vouchers via registered mail. Vouchers were valid between 7 June and 15 September, with the scheme eventually being extended up to 31 October 2021.

For the second round of Government vouchers, elderly residents in private and public social care homes who did not download the vouchers online, received a monetary contribution of €100 instead of physical vouchers. This was done through a direct online transaction in their bank account or by cheque.

Businesses which had already participated in the 2020 scheme did not have to activate their business account again, but simply had to check that their credit card registered with this account was still valid. The application utilised by merchants was enhanced to cater for customers presenting digital vouchers on their mobile phones, as well as remote voucher payments.

The conditions imposed on merchants in the first round of vouchers were still applicable during the second voucher scheme. These included the scanning of the corresponding fiscal receipts issued for each voucher redeemed and the retention of the physical vouchers together with the respective receipt[3]. In the case of digital vouchers, the merchants were required to keep the fiscal receipt and write the serial number of the redeemed voucher on the back. MIMCOL reserved the right to claim back the value of the printed vouchers which were scanned by the merchants, if not presented when requested. These conditions were clearly highlighted in the business guide issued by MIMCOL, and further consolidated by Article 7 of the COVID-19 Temporary Government Financial Support Measures Regulations, 2021 (L.N. 263 of 2021).

[1] Four red vouchers of €15 each.
[2] Four blue vouchers of €10 each.
[3] For accounting, as well as auditing purposes.

The 2021 Budget Estimate for the Economic Regeneration Voucher Scheme, Line Item 5316 under Recurrent Vote 28 of the then Ministry for the Economy and Industry, amounted to €50,000,000. Apart from €508,600, utilised by the then Ministry for Social Justice and Solidarity, the Family and Children's Rights to pay the direct contribution of €100 to each elderly person residing in social care homes, the remaining allocation was forwarded to MIMCOL.

A total of 3,584,648 vouchers[4], having a nominal value of €44,808,100, were issued for this scheme. Information obtained during the audit revealed that 3,257,778 vouchers (91%), for a total of €40,722,480, were redeemed, whilst 326,870 remained unutilised[5]. The percentage of redeemed vouchers was more or less the same as for the previous scheme.

Audit Scope and Methodology

The scope of the audit was to assess the extent and adequacy of internal controls over the 2021 Economic Regeneration Voucher Scheme payments, as well as to verify the completeness and accuracy in both the issuing and redemption of vouchers. The National Audit Office (NAO) also sought to check whether the shortcomings identified in the audit of the first voucher scheme were duly addressed.

An introductory meeting was held with the Permanent Secretary of the then Ministry for the Economy and Industry, MIMCOL's Chief Executive Officer and other officers, to discuss the audit objectives, and to obtain a general understanding of the controls in place during the scheme. Reference was also made to the abovementioned legal notice, as well as the voucher business account activation guide, and the instructions for downloading and utilising the digital vouchers issued by MIMCOL.

NAO performed an analytical review of the scheme, focusing mainly on ensuring the continuity of the voucher serial numbers, that vouchers were only issued to eligible beneficiaries and that payments made to merchants were correct. Since documentation and explanations obtained were satisfactory, reliance was placed on reconciliations carried out by MIMCOL regarding the number of vouchers issued and amounts paid to businesses. Detailed lists to support the figures therein were reviewed and, where possible, these were corroborated with third party documentation.

In order to ensure that the conditions pertaining to the operation of the scheme were adhered to, a random statistical sample of 385 vouchers was selected from the total vouchers redeemed, with a confidence interval of 95% and a margin of error of 5%. Testing was performed to ensure that fiscal receipts were appropriately and timely scanned by merchants, and that these supported the value of the respective vouchers redeemed. Verification was also carried out to ascertain whether the value of the fiscal receipt was correctly input in the system and that this was equal to or greater than the total value of the vouchers redeemed for that particular sale.

Furthermore, for every fiscal receipt tested, NAO analysed the number of vouchers utilised in the respective sale, including their nominal value, as well as the corresponding value generated by the vouchers redeemed. Since very often multiple vouchers were redeemed with every sale, although the sample size was of 385 vouchers, with a total value of €4,890, NAO's verifications were carried out on all the corresponding vouchers redeemed therewith, which totalled 1,960 and worth €25,605. According to the respective fiscal receipts tested, these vouchers generated an aggregate of €35,173[6], i.e., more than 37% over and above the nominal value of the vouchers redeemed.

Additionally, to ascertain compliance with Article 7 of the highlighted legal notice, NAO randomly selected a sample of 20 redeemed vouchers. The respective merchants were asked by MIMCOL to forward the selected vouchers and fiscal receipts, for NAO to ensure compliance thereof.

[4] Made up of 2,644,776 paper vouchers and 939,872 digital vouchers.

[5] By 28 February 2022, being the date on which data required for audit purposes was compiled by MIMCOL.

[6] Where the value of a fiscal receipt could not be determined, because it was unclear or not properly scanned, the respective amount that was input in the voucher software system was taken.

Control Issues

Shortcomings in Fiscal Receipts Scanned

Testing carried out on the fiscal receipts scanned by the merchants for the sampled vouchers revealed the following[7]:

a. Documents uploaded with the vouchers were either non-fiscal receipts or the scanned document was unclear or had missing details in 29.61% of the cases.

b. Proof of sale[8] scanned by merchants was dated on the same day when redemption of the respective vouchers was recorded in the system in only 51.43% of the cases reviewed. On the other hand, 7.53% of the documents were issued days or even weeks before the voucher was scanned. This implies that the merchants did not scan the vouchers when the sale took place, or else the document uploaded was unrelated to the voucher in question.

c. In 5.45% of the vouchers tested, the sale amount input in the system was not in agreement with the value indicated on the respective uploaded document. In the majority of these cases, the amount recorded reflected the value of vouchers redeemed, rather than the receipt amount.

d. Where fiscal receipts were scanned, more than half (50.39%) did not clearly show all the necessary details and had at least one of the key elements, namely the name of the establishment, receipt number, Value Added Tax (VAT) number and/or amount, missing.

e. An instance was encountered whereby the scanned fiscal receipt showed a name and VAT number of an establishment whose business was not registered on the voucher scheme system.

Recommendations

NAO acknowledges that businesses were made aware of the requirements attached to this scheme; however, compliance thereof was still to be monitored by means of random inspections by MIMCOL and necessary action taken against merchants who fail to comply with the requirements.

Management Comments

The guidelines for keeping fiscal receipts, scanning of vouchers and VAT receipts, as well as the inputting of sale value, were very clear in the printed guidebook issued for the scheme which was sent via registered mail to all eligible businesses. All this information was also available online in both printed and video formats, which were easily accessible by all merchants.

It would have been an impossible task for MIMCOL to inspect all merchants and verify that the receipts were correctly scanned. However, for future and similar schemes, MIMCOL has already planned to introduce internal controls in the system itself. Such controls will enable the system to highlight automatically, using Artificial Intelligence, incorrect receipts scanned, or receipts scanned for multiple transactions.

MIMCOL is also investigating further on the samples identified in NAO's audit and will take all necessary action to recoup the funds from the merchants.

[7] When receipts uploaded were unclear or contained missing details, verifications could not be carried out. All percentages quoted were based on the statistical sample of 385 vouchers.

[8] This included both fiscal and non-fiscal receipts, as well as other documents, such as screenshots of booking systems.

Physical Vouchers and Receipts not retained by Merchants

Article 7 of L.N. 263 of 2021, stipulated that participating establishments were required to maintain records of redeemed vouchers for a period of one year from the end of the voucher scheme. MIMCOL also reserved the right to claim back the value of the printed vouchers which were scanned by the merchants, if these were not presented when requested.

However, out of the sample of twenty vouchers and the corresponding receipts requested for audit purposes from the respective merchants, four failed to produce these documents. Furthermore, four businesses did not present the fiscal receipt[9], while one merchant did not forward the physical voucher.

Recommendations

Since merchants were to retain records for the applicable period of time, thus ensuring transparency and facilitating verification processes, financial sanctions, as stipulated in the abovementioned legal notice, are to be considered, especially in cases of repeated defaulters.

Management Comments

MIMCOL is taking the necessary action according to the legal notice to address shortcomings in keeping the proper documentation, including the imposing of penalties within the parameters of the same law.

Ineligible Businesses participating in the Scheme

Businesses participating in the Government Voucher Scheme where red vouchers could be redeemed included restaurants, bars, hotels and diving schools, while the blue vouchers could be redeemed at retail outlets, gyms, museums, art and culture activities. According to MIMCOL, eligibility for registration of merchants for the scheme was based on data obtained from the VAT Department, which supplied the details of businesses they deemed eligible on the basis of their nomenclature of economic activities code (referred to as NACE code).

Audit testing on the sample of 385 vouchers revealed 2 instances whereby vouchers were redeemed at businesses that did not fall under any of the abovementioned categories. The following relate:

a. Although, according to MIMCOL, one of these businesses was included in the list supplied by the VAT Department, the scheme's call centre received a report regarding the merchant's ineligibility. MIMCOL was informed and subsequently the business was deactivated. However, up to this date, vouchers worth €22,110, had already been redeemed at this merchant.

b. On the other hand, information provided by MIMCOL indicated that the other business was not on the list provided by the VAT Department, but activation of the system was requested by the merchant by submitting a confirmation of the NACE code eligibility from the National Statistics Office. However, given that the name of the business as shown on the fiscal receipt indicated that it is a supermarket and most of the items purchased in the sampled case were foodstuffs, it is still unclear whether this merchant was eligible to participate in the voucher scheme. MIMCOL paid €17,970 for vouchers redeemed at this particular shop.

[9] A Press Release dated 1 June 2021, issued by the then Ministry for the Economy and Industry, required businesses to keep the printed vouchers, together with the respective receipt. In the case of digital vouchers, the fiscal receipts were to be retained, with the corresponding voucher number written on the back.

Recommendations

Eligibility criteria for such schemes are to be clearly defined and whilst ensuring that adequate procedures are in place, these have to be complied with. In order to minimise the possibility of ineligible businesses registering and benefitting from such schemes, any doubtful cases can be corroborated with other pertinent entities. MIMCOL is also to consider recouping the amounts paid to the merchants in question.

Management Comments

MIMCOL was provided with the list for the scheme by Government. There were no changes to the lists from the first scheme to the second. MIMCOL was very strict about eligibility and has evidence of the National Statistics Office NACE code, which showed that the second merchant mentioned above was eligible. It is also to be noted that the entity always took action on reports of ineligible businesses.

Same Fiscal Receipt scanned for Multiple Transactions

In reviewing transactions pertaining to one of the merchants, NAO noted that the same fiscal receipt for less than €50 was uploaded for two separate sales utilising vouchers, in aggregate amounting to €150. In both cases, the scanned receipt was for an amount that was less than the total value of the vouchers. This was in breach of the requirements of the scheme. Furthermore, the amount that was input in the system by the merchant did not reflect the actual receipt value.

NAO could not conclude whether this was a one-off occasion or an indication of fiscal default.

Recommendations

MIMCOL is to carry out checks on transactions pertaining to merchants and identify cases of abuse. Action is to be taken against defaulters.

Management Comments

Action according to the legal notice in vigore is being taken on the businesses highlighted by NAO, who uploaded the same fiscal receipt for multiple voucher transactions.

General Comments

NAO satisfactorily noted the cooperation and assistance afforded by MIMCOL during the course of this audit. Moreover, substantial overall improvement on the operation of the second voucher scheme was also evident.

General Management Comments

Looking forward, and learning from NAO's findings, Management is already ensuring that the recommendations being made in this write-up will invariably be adhered to in instances of any future schemes that may be managed and administered by MIMCOL. The following refer:

a. *Allocating work to competent and qualified individuals to ensure that there is adequate segregation of duties and continuous monitoring of the scheme as required by professional standards and best practices.*

b. *Effective liaison, corroboration and exchange of information will be made with other Government entities, to the extent permissible by prevalent laws and regulations, to address the risk of ineligible businesses prior to launch of the scheme.*

c. *Any future system used to administer schemes will be audited and meticulously tested by independent consultants prior to its launch, to enhance reliability on the technologies being used and checking carried out during its implementation.*

d. *Eligible businesses will be provided with training on how to manage the system effectively and to ensure that all relevant documentation is retained. This would ascertain that the system is being used correctly, at appropriate time intervals and that documentation is invariably held to facilitate the inspection process.*

e. *Random inspections will be carried out by MIMCOL and involved Government entities during the scheme, to mitigate and address the risk of ineligible businesses and possible cases of abuses.*

f. *An inter-Governmental entity team will be dedicated to recover monies from defaulters and impose any relevant penalties, in line with the parameters of the law and the timeframes being imposed.*

Malta Government Investments Limited

Expenditure

An audit of expenditure relating to the **Malta Government Investments Limited** revealed that the remuneration and benefits of the Board of Directors were not in line with the respective regulations. Furthermore, procurement tested during the audit was made by direct order without the necessary approval from the respective Minister.

Background

Malta Government Investments Limited (MGI) is a Government-owned company, registered in Malta under the Companies Act (Cap. 386) and falling under the responsibility of the Ministry for the Economy and Industry[1]. MGI has developed a diversified portfolio and has signed a number of memoranda of understanding in connection with the modernisation of Government-owned companies. As a holding company, MGI actively seeks to yield consistent returns with the minimum risk possible for the Malta Government. From the international aspect, the Company aims for Malta to be the hub of investment in the Mediterranean. MGI is self-sufficient, with income generated from investments; thus, it does not receive any financial allocation from Central Government for operational purposes. Historically, shares owned by the former Malta Development Corporation were transferred to MGI and, since then, MGI has published two separate sets of accounts[2], one related to its activities as a limited liability company and the other as an agent to the Government of Malta.

The Company administers its own public procurement, in accordance with the provisions of the Public Procurement Regulations (PPR) (S.L. 601.03) and, since it is included in Schedule 3 of the foregoing, there is no involvement of the Director of Contracts. Besides the Chief Executive Officer (CEO), MGI staff complement during year 2021 included a full-time Accounting and Finance Manager, a student summer worker and a personal assistant who was seconded from the Malta Investment Management Company Limited (MIMCOL). The latter is the sister company of MGI that provides consultancy and advice to state-owned enterprises, operating in a wide spectrum of business sectors, on strategies that help to add value to their business. MIMCOL charges MGI for certain administration expenses incurred on behalf of the latter.

Audit Scope and Methodology

The main scope of this audit was to ascertain that the operational expenses related to the activities of the Company, amounting to €302,862, were in line with the financial regulations, circulars and policies, as applicable, and to assess whether adequate controls were in place in relation to expenditure and that it was justified and duly backed up with supporting documentation.

[1] As referred to in the 2021 Financial Estimates.

[2] Due to a legacy issue, related to the historical treatment of shares owned by MGI, the most recent audited financial statements were those pertaining to financial year 2019.

The National Audit Office (NAO) held a virtual introductory meeting with the CEO (MGI) and other officials, in order to obtain a general overview of the operations of the Company. Minutes of the meeting were confirmed by those present.

Following scrutiny of the general ledgers, a number of accounts were identified for further testing, on the basis of materiality or nature of expense. Testing comprised an analysis of transactions pertaining to four professional service providers, twenty-one transactions related to travel, entertaining or sundry expenses, as well as remuneration to all four personnel and six Board members. Testing also included the monthly expenses apportioned by MIMCOL and the related costs of the Investment Committee. In order to carry out detailed substantive testing, the respective documentation was reviewed and a number of audit queries were sent to the auditee as necessary.

Key Issues

Incorrect Classification Level of the Board

In line with the pertinent Manual and Framework for setting the categorisation, classification and remuneration structure of Government-appointed Boards and Committees, the levels of Board classification of a commercial category are to be based on three factors, namely, the entity's income, value of assets and number of full-time employees, using source data from the latest audited financial statements. The Board of Directors of MGI was categorised as a commercial one; however, this decision was based on data[3] that also included the Company's 18 subsidiaries at the time, therefore distorting the extent of the size of the entity.

MGI provided the related information to the then Ministry for the Economy, Investment and Small Businesses, in mid-February 2017 and subsequently was accordingly classified at level 1. As a result, remuneration to the Chairman and Directors was pegged to 53% and 23% of salary scale 2[4] of the public service respectively. However, if classification was based only on MGI's data, the said Board would have been categorised in a lower level[5]. The Cabinet Office, Office of the Prime Minister (OPM), confirmed that it was not notified with such classification of the Board, as required by the applicable Manual and Framework.

Recommendations

As also confirmed by the Cabinet Office, OPM, when determining the classification level, MGI is expected to include only its income, assets and employees. Therefore, the respective level is to be revised accordingly, also adjusting the applicable remuneration. In addition, the Cabinet Office, OPM, is to be invariably informed of any revisions.

Management Comments

The Ministry takes note of NAO's finding and is undertaking an in-depth review of the objectives, structure and responsibilities of MGI (and MIMCOL). Once that is concluded, it shall reassess the Board's classification level in line with the Manual for the remuneration of such Boards against its renewed responsibilities and also its holding company status and the shareholding responsibility that it carries. The exercise will be submitted to the Cabinet Office as per procedure in place. The date set for implementation is the first quarter of 2023.

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[3] Income, assets and number of employees as declared for such purpose were €336,070,110, €390,886,977 and 729 respectively, based on 2015 audited accounts.

[4] The remuneration of €21,000 and €9,000, paid to the Chairman and Directors respectively during year 2021, was based on the salary scale for year 2016, even though as per pertinent Manual and Framework, the remuneration should have been revised when the term of a particular Board expired.

[5] Remuneration ranged from level 1 (pegged to 53% and 23%) down to level 5 (pegged to 10% and 5%), being the lowest.

Additional Allowances and Benefits to the Board of Directors

The Chairman and Directors[6] were being granted allowances and benefits which were not provided for in the respective Manual and Framework. The Cabinet Office, OPM, confirmed that MGI did not seek the approval of the Steering Committee in this regard.

During the year under review, the following aggregate amounts were paid to Board members over and above their entitlement.

Table 1: Amounts paid

Details	Amount €
Subsidiary allowance for attendance at annual general meeting	30,000
Directors' allowance[7]	19,231
Mobile allowance	6,000
Secretarial fees[8]	5,000
Fuel costs[9]	2,632
Fuel allowance	1,800
Total	**64,663**

Moreover, as per Board minutes dated April 2017 and revised in February 2019, the Board of Directors and the respective household members were entitled to a health insurance. In addition, according to the minutes of the Board meeting dated 12 November 2015, fuel cost, of €150 monthly, was to be paid in arrears as from May 2013.

Whilst some of the abovementioned benefits were approved by the Board of Directors itself over the years, between end of year 2015 and beginning of 2019, it was not always clear who approved the remaining benefits.

Recommendations

The entitlement to any benefits and allowances to the Board of Directors is to reflect the provisions outlined in the respective Manual and Framework, keeping in view the provisos in instances of ex-officio included therein. Further guidance to this effect may be sought from the Steering Committee, Cabinet Office. Ad hoc requests relating to remuneration to Board secretary are also to be addressed to the said Committee.

Management Comments

As indicated in the previous Management comments, by the first quarter of 2023, the Board's classification level will be reassessed and the exercise will be submitted to the Cabinet Office.

Furthermore, any allowances and/or additional benefits which are not in line with the Manual will be stopped with immediate effect. Moreover, a note will be issued to all Boards to further remind them that the self-awarding of any allowances or additional benefits is, in general, prohibited and a request for any exception should be made to the Line Ministry for evaluation, consideration and discussion with the Cabinet's Steering Committee. The date set for implementation is the fourth quarter of 2022.

[6] Composed of five Directors during 2021.
[7] Since no documentation was provided as from where this allowance emanates, it could not be established what it covered.
[8] As per Framework, requests for remuneration to Board secretaries are to be assessed on an ad hoc basis.
[9] Covering a twelve-month period reimbursed mainly to two of the Directors, €1,541 and €888 respectively, with a maximum amount of €150 reimbursed to one of the Directors in seven different months.

Remuneration to Investment Committee Members

During the Board meeting dated 11 June 2019 it was stated that, following consultation with the respective Ministry, the Board of Directors approved the remuneration for the members appointed on the Investment Committee[10] as per Appendix C to the respective minutes. However, such documentation could not be traced. The related amounts were only backed up by internal emails from the Chairman[11] of the said Committee stipulating that, with effect from 1 July 2019, the Chairman and members were to receive an annual honoraria of €8,000 and €5,000 respectively, whilst €100 monthly was to be paid to the secretary as from 1 November 2019. In aggregate, the amount of €21,586[12] was paid during 2021 in this regard, covering the four members and one secretary in this regard.

Recommendations

Reference is to be made to the respective Manual and Framework, which is intended to serve as a guideline to Permanent Secretaries, in order to establish the categorisation, classification and remuneration of Government-appointed Boards and Committees. This Office reiterates that, where clarification is deemed necessary, direction for the payment of any honoraria to Committee members and secretary is to be sought from the Steering Committee, Cabinet Office, also taking into consideration that some of the individuals may be considered as ex-officio members.

Management Comments

As previously indicated, the Ministry shall review the classification level and inform the Cabinet Office accordingly, by the first quarter of 2023.

Furthermore, allowances and/or additional benefits not provided for in the Manual will be stopped, whilst by the fourth quarter of 2022, a note will be issued, specifying that self-awarding of allowances and benefits is prohibited and that requests for any exceptions are to be made to the Line Ministry.

Divergences from the Approved Remuneration Package of the Chief Executive Officer

As per email dated 7 January 2016, from the then Public Administration Human Resources Office[13] - OPM, the CEO was to benefit from an annual remuneration package comprising a salary of €70,000, a fully expensed car[14] with petrol allowance of up to €150 per month, a fully expensed smartphone together with a yearly communication allowance of €1,600 for mobile expenses, including internet connectivity. However, divergences were noted from the said approved remuneration package. Furthermore, the supplement agreements[15], amending the contract of detailing, were only approved internally by the Chairman and a Director[16]. The following changes and additions were not endorsed by OPM:

a. In the first contract entered into on 8 January 2016, a provision was included, stating that the CEO was to be enrolled in a private hospital health insurance at the Company's expense, covering also household members, a term life insurance and group personal accident, as well as an indemnity insurance.

b. In the supplement agreement dated May 2017, a clause specified that should the CEO's employment be revoked or terminated, the incumbent was entitled to a service bonus, equivalent to a total sum on the basis of the salary and allowances, including fringe benefits for five weeks, multiplied by the number of years of engagement.

[10] As per respective terms of reference, the main objective of this Committee is to provide advice to MGI Board of Directors in connection with the investments belonging to or managed by the Company.
[11] Also the CEO of MGI.
[12] The Chairman €8,000, two members €5,000 each, another member €2,386 (appointed as from 9 July 2021) and the secretary €1,200.
[13] Replaced by the entity bearing the name of People and Standards Division.
[14] Workings of calculation of tax on the fringe benefit with regard to the fully expensed car were not provided to this Office.
[15] Dated August 2016, May and November 2017 and December 2018.
[16] In the first supplement agreement there was also the endorsement of the Deputy Chairman MIMCOL.

c. In another supplement agreement dated November 2017, the CEO was entitled to a yearly management allowance of €12,500 for duties performed in relation to subsidiaries held by the Company.

d. With effect from 1 January 2019, by means of supplement agreement dated December 2018, the basic salary was increased by €10,000 to €80,000.

e. During the year under review, €3,600 was paid for fuel (double the original yearly capping of €1,800), €2,160 (instead of €1,600) as yearly communication allowance and an additional €10,800 as an expense allowance[17].

f. For 2021, the CEO was paid a performance bonus of €11,225 covering year 2020, which respective percentage was endorsed by the Board of Directors[18].

Recommendation

NAO is of the opinion that any departures from the original remuneration package approved by OPM, are to be endorsed by the latter. Hence, MGI is to regularise its position accordingly.

Management Comments

The Ministry takes note of NAO's finding. The appointment procedure and determination of pay packages of CEOs in general, has been somewhat confusing and along the years, different yardsticks and measures have been applied, ranging from freehand one-to-one negotiation to strict determination of packages centrally.

In this case, MGI maintains that the remuneration of CEOs is within the duties and responsibilities of the Board of Directors and that any revisions were in line with the renumeration packages of previous CEOs and senior officials of the Company.

Regardless, note is taken of NAO's recommendation. Following the resignation of the CEO, MGI, at the time of submitting the Management comments, a new one will be appointed, with the pay package reviewed by the Line Ministry, submitted before the Board of Directors, and finally submitted for the approval or otherwise of OPM. The date set for implementation is the fourth quarter of 2022.

Control Issues

Procurement by Direct Order

The four sampled services were procured by direct order, thus lacking transparency and fair competition. Moreover, although procurement direct from the open market required the approval of the respective Minister, MGI did not provide such evidence. Furthermore, not even the respective Board resolutions were available. The following refer:

a. An initial agreement for part-time employment was entered into with a management consultant in the audit sample, as from 1 January 2016, for a definite period of 12 months[19], at a gross remuneration of €36,400[20] per annum, covering a 20-hour week. Subsequently, this was replaced by an agreement, effective

[17] No details were received as from when the fuel and communication allowances were paid at a higher rate than that approved in the salary package. Replies were also not forthcoming indicating as from when the expense allowance started being paid.

[18] Since this entitlement did not emanate from the approved salary package, this Office could not confirm whether the Board's approval sufficed, or that the performance bonus of the CEO was also to be endorsed by the Minister. Furthermore, as per minutes dated 13 February 2017, the performance bonus for the CEO was approved in line with the senior management's performance bonus structure for 2016. However, a copy of such structure was not provided.

[19] Agreement automatically renewable for further periods of 12 months.

[20] The contract did not indicate whether this was inclusive or exclusive of VAT.

from 1 January 2017, for a period of 72 months expiring on 31 December 2022[21], this time referred to as coordinator, at an annual fixed fee of €36,400 excluding Value Added Tax (VAT), for the same number of hours. According to MGI, this individual was engaged by direct order, following consultation with the then Ministry for the Economy, Investment and Small Businesses.

b. MGI claimed that upon direction from the Ministry, an agreement was entered into on 1 February 2018, with another sampled individual, engaged as coordinator providing various professional services, for a duration of 2 months expiring[22] on 31 March 2018, at €1,750 (VAT excl.) monthly, for 20 hours a week. Amongst others, services included advice pertaining to change management, financial performance and business restructuring. However, this agreement was repeatedly renewed up to June 2022 for an annual cost of €21,000 (VAT excl.) per annum.

c. Originally, a two-year agreement[23] for the provision of legal services on a retainer basis was entered into with a local legal firm, commencing on 1 December 2014, at an annual fee of €6,000 (VAT excl.). However, this agreement was automatically renewed, at least up to end of year 2022.

d. MGI's association with a local investment services firm went back to at least 2011; however, no information was available to ascertain the method of procurement of such services. On 31 January 2019, an agreement was entered into between MGI and the foregoing firm for an indefinite period. During year 2021, annual management and custody fees of the portfolio valuation, in aggregate amounted to €10,936 (VAT excl.).

Recommendations

Procurement is to be invariably made in line with the pertinent regulations so that all potential service providers are given equal opportunity, thus ensuring fair competition and transparency. In exceptional cases, where procurement has to be made by direct order, the approval of the respective Minister or delegate[24] is solicited. Furthermore, in line with PPR Article 28(1), the calculation of the estimated value of procurement is to include the total amount payable (net of VAT), taking into consideration any form of renewal options of the contracts.

Management Comments

The Ministry takes note of NAO's finding. MGI has since then established a procurement manual which provides for the authorisation of expenditure, by tender, quotations or direct orders, reflecting the spirit of PPR. Implementation is ongoing.

Miscellaneous Benefits and Payments

In addition to what was approved by the Industrial Relations Unit, within the People and Standards Division, OPM, during April 2019, the indefinite employment contract entered into in September 2019, between one of the officers in the audit sample and MGI, included the following benefits which were not duly approved by OPM:

a. The employee together with the spouse and dependants shall be enrolled in a health insurance under a private hospital cover at the Company's expense.

[21] Agreement automatically renewable for further periods of 12 months from date of expiry.
[22] The agreement is thereon automatically renewable for further periods of one month from date of expiry.
[23] Agreement was automatically renewable for further periods of one year.
[24] As per S.L. 601.03, Article 103, contracting authorities listed under Schedule 3 shall obtain the prior approval of the Minister responsible for that contracting authority who may delegate the authority in writing to the Permanent Secretary, or any other senior official in the Ministry or to the Head of the Contracting Authority.

b. The Company shall provide for term life insurance and a group personal accident insurance.

c. MGI undertakes to pay the employee's continuing professional education costs in connection with the retention of the accounting warrant[25].

Recommendation

Any benefits and payments in addition to those originally approved are considered as irregular. Therefore, the Company is not to grant benefits unless duly approved.

Management Comments

The Ministry takes note of NAO's finding. MGI will be officially informed that any allowances or benefits which are not approved as per applicable procedures are to be stopped with immediate effect.

Furthermore, the Ministry is undertaking an in-depth review of the objectives, structure and responsibilities of MGI (and MIMCOL). Once that is concluded, a new salary and grading structure will be discussed with the Industrial Relations Unit. The date set for implementation is the second quarter of 2023.

Limited Number of Board Meetings and Minutes not duly endorsed

In line with the respective Manual and Framework, amongst other requisites, the Permanent Secretary or delegate was to submit the estimated number of sittings to be put in by the Board per month. However, no documentation to this effect was provided for audit purposes. Moreover, it was noted that only three formal meetings of the Board of Directors were held during year 2021, in January, March and July.

The minutes of the meetings, dated from September 2020 till 4 May 2022[26] were not always duly endorsed by the Chairman and/or either by the newly appointed Company secretary or by the one who resigned on 17 December 2021. It was also noted that very often minutes lacked details, namely the date and time of subsequent meeting and time of adjournment.

Recommendations

Formal minutes of each Board meeting, including time of adjournment and date of subsequent meeting, are to be prepared and endorsed, both by the Chairman and secretary, in the following sitting. Furthermore, the Permanent Secretary is to be informed accordingly about the estimated number of sittings.

Management Comments

The Ministry takes note of NAO's finding. An official note will be circulated to all Boards reminding them of the importance of good governance, including proper record-keeping. Implementation is ongoing.

Revisions to Agreements not formally documented

Two separate agreements were entered into on 15 November 2018, between MIMCOL and MGI, for professional and support services, as well as for the use of office space and its premises, respectively. Both were effective retrospectively from 1 January 2016, for an initial period of 36 months, automatically renewable for further 12-month periods.

[25] At least during the year under review, reimbursements were made for the membership renewal and annual registration fee relating to the warrant.
[26] The latest one provided for audit purposes.
[27] It was not stipulated in the agreement whether the cost was VAT inclusive or exclusive.

During year 2020, the initial annual cost of €237,403[27] for the services was revised downwards due to savings, whilst the other established cost of €8,400 (VAT excl.) per annum was increased since MGI was provided with a new office space. Notwithstanding this, although MGI intended to revise the agreements accordingly, this was not yet done.

Recommendations

Agreements are to be formally updated to reflect the necessary changes by means of an addendum, duly signed by authorised representatives of both parties. This will ensure a complete audit trail until new agreements are drawn up. Additionally, agreements are to be entered into prior to commencement and not retrospectively.

Management Comments

The Ministry takes note of NAO's finding and will officially ask MGI to formally update the agreements through an addendum by the fourth quarter of 2022.

List to whom Hampers were distributed not available

Included as expenditure in MGI management accounts was an amount reimbursed to MIMCOL, representing half of the cost of hampers which were gifted by the latter for Christmas 2021. However, MGI was not aware as to the number of hampers in question and to whom these were given.

Recommendation

For the sake of transparency and good practice, MGI is expected to liaise with MIMCOL, with the aim of avoiding unnecessary costs and to be provided with sufficient details related to expenditure eventually being borne by the former.

Management Comments

The Ministry takes note of NAO's finding. MGI's records show that as per copies of invoices that had been provided by MIMCOL when recharging MGI, these amounted to a total cost of €1,880 (shared equally between both companies). The hampers were distributed to 23 individuals and the list is available for review. The Ministry will officially ask MGI to take all necessary actions to ensure improved record-keeping for all purchases. The date set for implementation is ongoing.

Compliance Issue

Travel Payments not in line with the pertinent Manuals

According to MGI, since at least year 2008, travelling officers were being entitled for a daily disturbance allowance when travelling abroad on official duties. This ranged from €116.50 to €233 per day according to the individual's designation. In 2021, in aggregate, this amounted to €5,311 over and above the per diem allowance entitlement as per standing regulations. It was verbally stated that the payment of such allowance was a standing practice; however, documentation showing who approved this allowance was not available. Although requested, the total disturbance allowance expensed from year 2008 to-date was not provided.

From a review of the three official trips abroad made during year 2021 it was also noted that, although meals were paid by MGI, the respective reductions from the per diem allowance were not effected. Moreover, the relative agenda or programme related to the visits were not available; thus, accuracy of the daily allowance paid could not be verified. Furthermore, reimbursements were made for non-eligible trivial expenses which were expected to be covered by this allowance, and the hotel rates paid by the Company were substantially higher than the respective per diem component that was deducted.

Recommendations

The pertinent regulations are expected to be followed for visits abroad. Moreover, the Manual of Allowances specifies the steps to be followed for the payment of new benefits, such as disturbance allowance, which requires OPM[28] approval. In addition, copies of agenda and/or programme are to be retained and if these are not available, the purpose of the trip is to be adequately documented. Furthermore, unless covering approval from OPM is obtained as applicable, any ineligible amounts are to be recouped from the respective officers accordingly and evidence provided to this Office.

Management Comments

The Ministry takes note of NAO's finding and will officially ask MGI to undertake an exercise at the earliest to recoup any ineligible amounts from the officers in question, and any other officers whose travel per diem were erroneously worked out. Moreover, MGI will be also requested that, with immediate effect, it is to abide with Government's travel policies and training to officers will be given in this regard to ensure strict adherence. The date set for implementation is the second quarter of 2023.

[28] As per pertinent Manual, a request for a new allowance or review of an existing allowance is to be made to the People Support and Wellbeing Directorate within the People and Standards Division for consideration, through the respective Director responsible for People Management.

Ministry for Inclusion
and Social Wellbeing

National Commission for the Rights of Persons with Disability

Revenue and Expenditure

Shortcomings identified at the **National Commission for the Rights of Persons with Disability** included the non-observance of standing procurement regulations, inadequate verification of invoices, as well as lack of adequate record-keeping. Operations related to compliance with the Access for All Design Standards were also considered as unsustainable.

Background

The National Commission for the Rights of Persons with Disability (NCRPD)[1] is the public regulator in matters regarding rights of persons with disability in Malta and Gozo. The Commission is committed to rendering the Maltese society an inclusive one, in a way that persons with disability reach their full potential in all aspects of life, enjoying a high quality of life thanks to equal opportunities. In fulfilling this mission, NCRPD works to eliminate any form of direct or indirect social discrimination against persons with disability and their families, while providing them with the necessary assistance and support.

NCRPD was established in 2000, through the Equal Opportunities (Persons with Disability) Act (Cap. 413). This act was amended in 2016, with the introduction of an extensive Bill of Rights for Persons with Disability. The Commission was set up, and a Commissioner for the Rights of Persons with Disability was appointed, in terms of Article 21. In the exercise of her duties the Commissioner is assisted by the Council for the Rights of Persons with Disability. This Council is appointed for two years by the Minister responsible for persons with disability and, during the year under review, it was composed of sixteen members[2], with the latest Commissioner appointed on 20 January 2021.

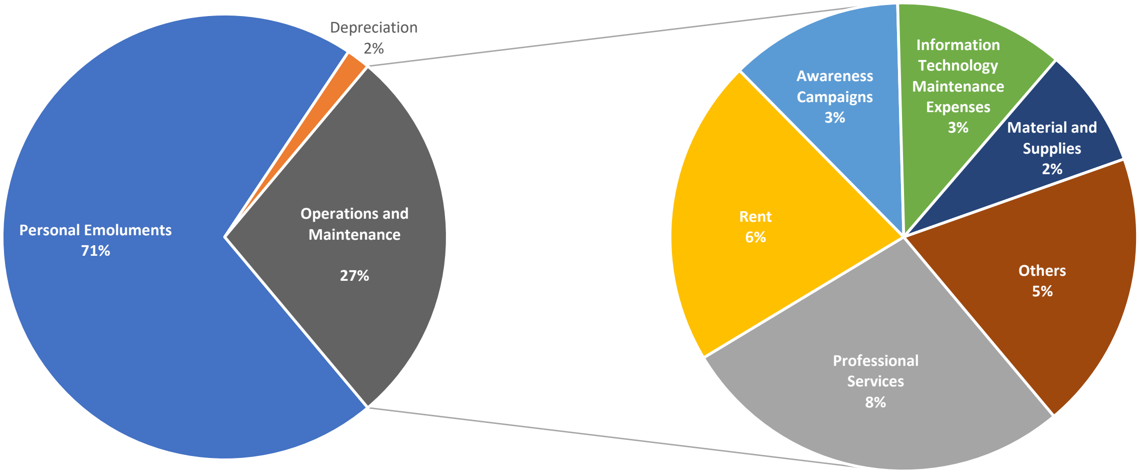
As per the audited financial statements for year ending December 2021, NCRPD registered a marginal surplus of €7,902, down by 86% from that of €55,531 registered in the preceding year. Ninety-five per cent of the income received by NCRPD was derived from Government allocation. As per Financial Estimates 2021, the Commission, which during that year fell under the remit of the then Ministry for Inclusion and Social Wellbeing[3], was allocated a budget of €1.32 million under Recurrent Vote 30, Line Item 6487. Any surplus made is retained by the Commission.

[1] Previously known as the National Commission Persons with Disability or Kummissjoni Nazzjonali Persuni b'Diżabilità.
[2] Including Commissioner and secretary.
[3] In year 2022 referred to as the Ministry for Inclusion, Voluntary Organisations and Consumer Rights.

According to the Statement of Income and Expenditure, NCRPD generated additional revenue amounting to €63,127. This comprised funds received from the Planning Authority (PA) with respect to the Inclusion Fund[4] (€28,377), amounts generated through the administration fee charged to individuals for the Blue Badge Stickers[5] (€23,197), and fees (€3,251) charged on site visits[6] held at new buildings prior to issuing the compliance certificate.

Total expenditure for the year under review amounted to €1,375,225, out of which €969,445 related to personal emoluments paid to 35 full-timers and 7 part-timers or on a reduced timetable. An amount of €381,780 pertained to Operations and Maintenance. Figure 1 relates.

Figure 1: Expenditure 2021



[4] In cases where the public building cannot be rendered accessible or fully accessible to all, according to the Access for All Design Standards, the applicant is required to contribute towards an Inclusion Fund through PA, which fund is administered by NCRPD. In such cases, rates are applicable in line with MEPA Circular No. 2/14 – 'Protocol to Regulate Development Planning Applications in terms of Access for All Requirements'. During 2021, PA forwarded two payments to NCRPD, amounting in aggregate to €28,377, accompanied by a list of the respective applicants and the individual amounts.

[5] This being a parking card for persons with disabilities. An administrative fee of €11.50 is applied for first time applications. As from the end of February 2022 the Blue Badge service was transferred to Aġenzija Sapport.

[6] Site visits are carried out by NCRPD to assess compliance with the pertinent standards. For sites which require more than one visit, a fee of €50 is applicable from the second visit onwards.

Audit Scope and Methodology

The main scope of this audit was:

a. to evaluate the adequacy and effectiveness of internal controls with respect to expenditure, as well as for the collection of revenue;

b. to ascertain that procurement for the year 2021 was in line with the Public Procurement Regulations (PPR), ensuring efficient use of public funds; however, where necessary, transactions and events pertaining to other periods were also reviewed; and

c. to assess the accuracy of personal emoluments. The audit also sought to establish whether the Commission is compliant, in all respects, with the provisions of the applicable rules and regulations, including Directive 7.2[7], pertinent collective agreements, the Public Service Management Code, as well as internal standard operating procedures and policies relating to Human Resources.

An introductory meeting was held with the Commissioner for the Rights of People with Disabilities, the Executive Director and the Manager (Finance, Procurement and Administration), as well as the respective Permanent Secretary, in order to obtain a general overview of the operations of the Commission. During audit testing, further information was obtained from various officers, as necessary. Amongst others, the requested documentation related to the sample reviewed comprised quotations, tenders, contracts, correspondence, invoices and receipts. Detailed substantive testing was carried out to confirm adherence to pertinent regulations and that the internal controls in place were adequate.

Revenue

Discussions were held with NCRPD to obtain a general understanding of the revenue collection process, as well as to identify the relevant policies and procedures adopted by the Commission. Verifications were also undertaken to assess completeness of recorded income, and timely remittance of money to the bank.

Procurement

Following scrutiny of the nominal ledger provided by NCRPD, a number of accounts were identified for testing, on the basis of materiality and/or nature of expense. These covered 77% of the expenditure incurred in 2021 on Operations and Maintenance, amounting to €381,780.

Analysis of a list of fixed assets was also carried out.

Personal Emoluments

In obtaining the required audit evidence, a sample of 6 out of the 42 officials on NCRPD's payroll[8] was selected for substantive testing purposes. The sample covered each grade[9].

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[7] Delegation of Authority to effect Recruitment, Promotions and Industrial Relations in Public Sector Entities.
[8] As at December 2021.
[9] Commissioner, two Executive Directors, Assistant Manager promoted to Manager during the year under review, Services Officer, as well as an Assistant Services Officer.

Checks mainly centred on ascertaining that:

- salary payments were in accordance with the respective collective agreement and, in the case of the Commissioner and the Executive Directors, with their contract of employment;
- the sampled officers were entitled to the allowances that they received;
- in the case of officers availing themselves of family friendly measures, that the respective approvals were in place;
- recruitment procedures were in line with the requirements of the Public Service Management Code and Directive 7.2; and
- any increase in personal emoluments was duly justified.

Key Issues

Weaknesses in the Control Environment

A number of issues which affected the robustness and effectiveness of the control environment were noted. These comprised:

a. non-observance of standing procurement regulations and procedures;
b. inadequate verification of invoices which resulted in a double payment of €10,000;
c. lack of adequate record-keeping, hindering effective control and audit trail; and
d. undocumented operating policy pertaining to the scope and use of the Inclusion Fund and the applicable fees.

Recommendation

These areas warrant a review in order to strengthen the overall control environment and ensure that NCRPD's operations are carried out in line with standing regulations and procedures, maintaining full audit trail and enabling independent verifications.

Management Comments

It has been noted that some of the regulations pertaining to procurement have not been followed. NCRPD will ensure that operations are carried out in line with the standing regulations and procedures. A more adequate record-keeping system is also addressed later in this write-up.

Double Payment

A review of the invoices forwarded by the University of Malta (UoM) to NCRPD revealed that in February 2021, UoM and NCRPD entered in a framework collaboration agreement. As per the terms of the agreement, the Commission was to pay the total amount of €10,000 as a grant for the University's Faculty for Social Wellbeing, to conduct a qualitative research-based and data-driven quantitative analysis[10].

UoM issued two invoices, for an aggregate amount of €10,000 in March 2021 and then forwarded again two similar invoices in August 2021 for a further €10,000 with respect to the same agreement and same studies. NCRPD settled all four invoices, resulting in an overpayment of €10,000.

This implied that there was minimal or no control before invoices were processed for payment.

[10] The amount of €10,000 comprised €5,000 for research on intersectionality and €5,000 for research on service provision review in the disability sector.

Recommendations

To minimise the risk of double payments, the Commission is to ensure that adequate verification procedures are in place before invoices are processed for payment. The Commission is also expected to recoup the extra amounts paid to UoM.

Management Comments

The double payment of UoM invoice has been refunded to NCRPD. In order to avoid this happening again NCRPD has put in place a system whereby, if the responsible officer is unsure whether an invoice has already been paid, the supplier's general ledger report is provided with the invoice when approval for payment is sought.

With regard to record-keeping, to ensure audit trails can be maintained, spreadsheets have been created to back up the general ledger system.

Control Issues

Non-adherence to Public Procurement Regulations

From a sample of transactions reviewed, it was noted that PPR were not always followed:

a. Development, Support, Maintenance and Hosting of the Website and Database

The agreement entered into in September 2017 with one of the service providers covered three items, namely design and development of the website and database, hosting, and support and maintenance. However, although procured direct from the open market, only the design and development of the website and database, totalling €18,000, was covered by approval from the Ministry for Finance. The rest, in aggregate amounting to €74,169[11], was acquired by direct order without the necessary authorisation.

Moreover, while the term stipulated in the agreement with the service provider for hosting, as well as support and maintenance, was up to September 2019, the service continued uninterruptedly in 2022 when the audit was in progress. In addition to the foregoing services, the contractor was paid the amount of €69,369[12], for other works and services which were not covered by the agreement.

b. Design, Production and Printing of European Union Disability Cards

An agreement, entered into in 2018, covered the design, production and printing of 4,000 European Union Disability Cards for the total value of €10,200. This contract was awarded following a call for quotations in the Government Gazette. However, since the beginning of the contract till the end of 2021, the service provider was requested to deliver at least an aggregate of 14,190 cards[13] for the amount of €36,185. This consitutes a direct order without the necessary Finance approval.

c. Architectural Services

Agreements entered into with three architects in 2019, covering vetting of applications and onsite visits to verify compliance for accessibility, as well as related consultancy work, each included a capping of €10,000 excluding Value Added Tax (VAT). However, up to December 2021, they were paid the amounts of €33,610, €29,255, and €14,050 respectively. These are also considered as purchases by direct order without the necessary approval.

[11] Of which €29,800 (VAT excl.) related to invoices covering the year under review.
[12] Between September 2017 and January 2022.
[13] Errors were noted in the number of cards reported by NCRPD for 2021. Hence, the accurate number of cards could not be ascertained.

d. Medical Doctor Services

A capping of €6,000 (VAT excl.) was stipulated in the agreements entered into with four medical service providers in 2016. Notwithstanding the specified threshold, the Commission continued to avail itself of these services[14]. An attempt was made to get new quotes; however, the respective call was only made in the Government Gazette and no one showed interest. Since the start of the respective agreements till the end of December 2021 the service providers were paid the total amounts of €27,424, €12,367, €8,588, and €7,100 respectively. However, Finance approval was not sought for amounts exceeding PPR thresholds.

e. Information Technology Equipment

From the list of assets provided it was observed that the Commission has been purchasing all its information technology equipment from the same supplier since 2015. The total amount of €36,359 was paid up to end 2021. NCRPD never sought quotations from other service providers or issued an expression of interest for the procurement of such items.

Recommendations

The Commission is to invariably acquire goods and services following a competitive procurement procedure in line with the applicable regulations, thus ascertaining transparency and fairness in the selection process, while reaching out to a larger pool of potential bidders through the e-procurement system. Moreover, where applicable, Finance approval is to be sought.

All works and services are to be covered by a valid contract to support the respective payments. Calls for quotations are to be issued in a timely manner and through the e-procurement system, hence increasing the chance of attracting more offers. Extensions beyond the expiry of the respective contracts are to be formally approved and documented, clearly indicating whether the same terms and conditions apply.

Management Comments

There was a genuine misunderstanding on thresholds for which the Commissioner could approve and those which needed to be passed to Finance for authorisation. This has now[15] been rectified and from now on Management will ensure that internal procurement processes are in line with the procurement regulations to ascertain transparency and fairness.

***Development, Support, Maintenance and Hosting of the Website and Database** – NCRPD continued the support and maintenance for this database and website after the expiry of this contract without gaining the approval of Finance Ministry in error. As the service provider was the only company with access to the code, a public tender would not have sufficed; however, NCRPD will submit a request to Finance to extend the contract for a three-year period. NCRPD will request that the relevant procurement employees are sent on procurement training courses provided by the Institute for Public Service to ensure future compliance with the procurement regulations.*

***Design, Production and Printing of European Union Disability Cards** – The company is the only printer in Malta who has the machinery to produce cards with raised braille dots. When the original stock of cards had been processed, NCRPD issued a call for quotation for additional cards without gaining the permission of the Direct Order Office in error. This will not be repeated in the future, and record-keeping has been improved to ensure a clear audit trail. As with the above, training will be provided to the relevant employees to ensure compliance.*

[14] The overall objective of the contract was to provide the Commission with the necessary consultancy and support for services for the disabled. This comprised the examining of applications from individuals, performing medical examination and attending meetings if required, advising and making recommendations to the Board on any medical issues.

[15] Management comments submitted on 8 July 2022.

***Architectural Services** – An open call for tender is being prepared to provide architectural services following a discussion with the Sectoral Procurement Directorate.*

***Medical Doctor Services** – When the maximum amount for these contracts was surpassed, a call for quotations was made in the Government Gazette; however, no one provided a quotation. In order to ensure continuity of service, NCRPD continued using the doctors whose contract had expired without obtaining Finance approval. The service contract for medical doctors has passed to Aġenzija Sapport. NCRPD has acknowledged the error and as with the architectural contracts, future contracts that are issued in this way will be passed for relevant Finance approval. Monitoring to ensure renewals prior to expiration will be strengthened and training will be provided to the relevant employees.*

***Information Technology Equipment** – In future, quotations will be sought from three separate companies before the purchase is made.*

Management is reviewing works and services to ensure they are covered by valid contracts. Requests for extensions of contracts and/or direct orders will be supported by valid justifications and sent to Finance for approval. In addition to this, NCRPD will send the procurement officers to procurement training courses through the Institute for Public Service.

Moreover, a monitoring mechanism was created whereby the responsible officer is being alerted six months before the expiry of time limited contracts so that the appropriate calls and/or tenders can be made in a timely manner. Where contracts are for a fixed amount, the officer will print a general ledger report for the supplier every time that a payment is made to ensure that the set limit is respected.

Contract for an Indefinite Period

On 1 January 2020, the Commission entered into an agreement with a service provider, covering consultation services for an hourly fee of €30 (VAT excl.). The appointment of the consultant was expected to terminate upon the expiration of the funds committed to the appointment. However, NCRPD failed to establish a budget for the foreseen duration prior to signing the agreement. This resulted in an indefinite contract.

Recommendations

A budget for this service, based on the envisaged needs of NCRPD, is to be set in line with the terms of the agreement. Should similar instances arise in the future, whereby the budget triggers the expiry of the contract, the respective budget is to be set at inception and stipulated in the agreement entered into with the service provider.

Management Comments

An insurance consultant has been working with NCRPD with respect to the New Hope Guarantee Scheme. The work carried out by the consultant relates to the research and design of the scheme, and professional consultancy regarding the applications made to this scheme. The consultant will continuously be required to provide the opinion regarding each application which is why the contract was left open-ended. A new contract with an allocated budget will be drawn up and sent to Finance for approval.

Inadequate Audit Trail

The following issues related to inadequate record-keeping were noted:

a. Records were not readily available to show the number of site visits performed by NCRPD before compliance certificates were issued during the year under review. As a result, reconciliation of the respective income of €3,251 could not be carried out to ascertain accuracy and completeness.

b. No substantiating documentation was in place, enabling independent verification of amounts invoiced by a service provider, for consultation work provided to NCRPD. Between February 2020 and end 2021, the foregoing was paid the amount of €7,114.

Recommendations

Records maintained by the Commission are expected to be complete showing full audit trail and enabling independent verifications. This includes sequentially numbered forms for any type of revenue.

Ideally, consultation work is also to be supported by timesheets from the service provider showing the hours worked, which can be duly verified before the respective payment is effected.

Management Comments

Site visits carried out to ensure compliance are being recorded so that income streams can be checked. NCRPD is requiring the consultant to provide timesheets to show the work carried out on the New Hope Guarantee Scheme.

Access for All

Background

Through its Compliance Unit, NCRPD is responsible for monitoring, auditing, advising and certifying applications filed for the development of buildings that are open to the public, ensuring that the plans which are eventually approved provide access for disabled people. In the case of new buildings, the applicant is required to obtain a compliance certificate from NCRPD before PA issues a certificate to allow for water and electricity to be connected to the development.

In cases where the building[16] cannot be rendered accessible to all in line with the Access for All Design Standards, the applicant may appear before the Test of Reasonableness Board[17] (ToRB), which Board may consider exemptions on technical and financial reasons.

As per PA's standing provisions, also stipulated in internal circular number 2/14, new developments having an area of more than 75 square metres, which do not comply with the Access for All requirements due to specific criteria[18], shall be required to contribute[19] towards an Inclusion Fund administered by NCRPD.

Lack of Clear provisions regarding the relationship with the Planning Authority

During the year under review, the Commission received two payments, in aggregate amounting to €28,377, from PA, in respect of properties lacking adequate access as per the Access for All requirements. However, due to the issues indicated below, completeness of this amount could not be ascertained.

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[16] Both new and existing buildings.

[17] Set up through Article 20A of Equal Opportunities (Persons with Disability) Act.

[18] (i) when the immediate existing and/or schemed street gradient exceeds a slope of 1:8; (ii) when the immediate existing and/or schemed public access consists of a flight of steps; (iii) when the vertical distance between the street and/or pavement and the existing elevated ground floor exceeds 1.5 metres.

[19] The normal rate applicable as per the standing 2014 circular is €20 per square metre of non-fully accessible area, subject to a maximum of €5,000, while for Urban Conservation Areas, 50% of the normal rate shall apply, subject to a maximum of €5,000.

a. Guidance by means of internal circulars regulating development planning applications in terms of Access for All requirements issued by the then Malta Environment and Planning Authority, does not indicate the relationship between PA and the Commission, specifically how and when such funds are to be transferred. Moreover, as per related circulars, applicants wishing to avail of the stipulated provisions, to be exempt from the foregoing requirements; and thus, the need to contribute to the Inclusion Fund, where applicable, do so through notification to the Authority, while the Commission is kept out of the process. Thus, the latter is fully dependent upon the former for the timing and amounts transferred and is not in a position to ascertain the completeness of the amounts received and accuracy thereof.

b. Although it is nowhere formally indicated, PA is retaining 10% from the amounts paid by applicants as an administration fee.

Recommendations

The parties concerned are to consider entering into a new agreement, whereby their relationship, as well as the modus operandi, are clearly defined, stipulating amongst others the terms of payment to NCRPD. A committee, with representatives from both parties may also be set up, whereby respective applications could be analysed together.

Management Comments

NCRPD are kept out of the loop with respect to these funds and are unable to confirm the completeness or correctness of any payments provided by PA. No measures of accountability and timeframes when PA is to pass on the funds had been previously agreed upon.

Meetings are being held with PA to provide NCRPD with more access to the scheme and its procedures to ensure transparency. More clear parameters with regard to the processing of financial contributions will be established.

Undocumented Operating Policy and Applicable Fee for Site Visits

The Commission vets all applications forwarded by PA, very often more than once, and also performs site inspections prior to the issuance of compliance certificates.

Third parties are not charged for the first site visit to ensure compliance, but a charge of €50 is applied by the Commission when a second site visit or more are required. However, this procedure is not documented.

Recommendation

Procedures are to be formally approved by Senior Management and duly documented.

Management Comments

This procedure is being reviewed and will be documented following discussions with the Senior Management.

Unsustainable Operations

To fulfil its roles in relation to the Access for All Design Standards, besides its eight employees, NCRPD uses the services of outsourced architects who are paid €20 per application for the vetting and to issue the respective report, €50 for each site visit performed[20] and €25 per hour for related consultancy work[21].

[20] Applicants pay PA an administration fee of €60 for each request for a compliance certificate.

[21] Mainly related to attendance at ToRB meetings.

a. During the year under review, besides the salary to its employees, the Commission paid the outsourced architects the amount of €35,785, while on the other hand, the respective income generated in relation to the pertinent standards amounted only to €3,251[22]. It is also pertinent to note that architects' fees are based on 2019 agreements, which have since expired, with rates likely to increase with new calls. Hence, if the intention behind the charge of €50 was to recover the costs incurred, this aim was not being achieved.

b. While such exemptions obtained through PA are granted upon the contribution of the specified fee to the Inclusion Fund, no charges are applicable for similar exemptions obtained through NCRPD's ToRB[23], despite the expenses incurred mainly relating to architects, staff and the Board members themselves.

Recommendation

As far as possible, the Commission is encouraged to use in-house resources, thus limiting the use of external service providers to when absolutely necessary, especially in view of the precarious financial situation.

Management Comments

In 2019, the previous Commissioner suggested that a €50 fee should be imposed on applications for exemptions from ToRB. However, the proposed fee was deemed as a new tax, thus was never introduced. NCRPD is still of the opinion that an application fee should be introduced. NCRPD would like to re-address this issue given that the National Audit Office has also stated that operations are not sustainable under the given regime.

NCRPD is exploring ways to introduce a more coherent approach to exemptions made either by PA, through the Inclusion Fund, or through the said Board.

No specific Plans how to utilise the Inclusion Fund

The Commission has no particular scope and objectives how it intends to utilise the balance in the Inclusion Fund. Testing revealed that although there is a separate bank account for this fund, with a balance of €16,830 as at December 2021, funds are mainly being used to make up for shortfalls in the recurrent allocation.

Recommendations

The scope and objectives of the Fund are to be formally established. Only related expenditure will then be expected to be charged to this account.

Management Comments

Following discussions, a decision will be taken with regard to the specific use of the funds received through the Inclusion Fund.

Bank Accounts

The Commission had seven active bank accounts, some of which were seldom used. During the year under review, NCRPD paid a total of €816[24] in bank charges and given recent increases in such fees, this is expected to rise in the coming year.

[22] This income is generated from the €50 paid by applicants when a second visit or more is required.
[23] ToRB considers exemptions on technical and financial reasons on behalf of NCRPD.
[24] This included charges related to transactions effected.

Recommendation

The Commission is to assess its requirements and close those bank accounts that it can do without, transferring the respective balances to those accounts in use.

Management Comments

NCRPD had several bank accounts which were not being used regularly but were incurring fees. These bank accounts have been closed.

Compliance Issues

Shortcomings in the Upkeep of the Fixed Asset Register

Assets included in a list kept by NCRPD were not supported by an asset identification code. Moreover, the description included in the record provided did not enable identification of the respective asset.

It was also noted that an office car[25], which was disposed of during the year under review, was still showing in the said list at year-end, with a cost of €15,000. Hence, it was concluded that effective control over fixed assets was not being exercised.

Recommendations

The responsibility for maintaining the inventory records and to ensure that rules established to safeguard Government property are rigidly adhered to, is to be delegated by the Commissioner to a specific officer. Guided by the provisions of the pertinent circular, a fixed asset register is to be drawn up, ensuring adequate audit trail and easy identification of all Government-owned assets. Moreover, regular checks are to be carried out enabling timely identification of any discrepancies.

Management Comments

NCRPD maintains a list of information technology equipment purchased for fixed asset purposes; however, a full fixed asset register with item identification is not present. NCRPD will create a register in line with the respective circular, which will be maintained by the Finance Manager.

Non-submission of VAT Defaulters Returns

NCRPD did not submit quarterly returns listing VAT defaulters to the VAT Department, in line with standing regulations. It was also noted that VAT receipts to cover payments effected were only obtained by NCRPD during the course of the audit.

Recommendations

NCRPD is expected to ensure compliance with the relevant regulations. Regular returns, including nil returns, are to be submitted to the VAT Department as per standing provisions.

Management Comments

VAT defaulter returns were not being provided to the VAT Department by NCRPD. Following the audit, the first quarterly return has been submitted and a return for the second quarter is being compiled.

[25] Acquired by ex-Commissioner.

Ministry for the Environment, Climate Change and Planning

Ministry for the Environment, Climate Change and Planning

Personal Emoluments

This Office was satisfied that the procedures and controls in relation to the payment of allowances and overtime by two Departments within the **Ministry for the Environment, Climate Change and Planning**, namely Ambjent Malta and the Environment, Climate Change and Planning, were overall adequate. However, this audit revealed an anomaly in the remuneration for duty on Sunday by workers on a shift basis, deployed with Ambjent Malta from another Government entity.

Background

Ambjent Malta and the Department for the Environment, Climate Change and Planning (ECCP) are two Departments within the Ministry for the Environment, Climate Change and Planning[1].

Set up in 2018, Ambjent Malta is primarily responsible for protecting and enhancing Malta's natural capital, as well as preserving the country's biodiversity. Amongst other duties, its portfolio includes the implementation of green infrastructure projects and habitat restoration measures for maintaining and restoring natural areas and protected sites. Ambjent Malta is also responsible for implementing plans, policies and programmes as prepared by the Environment and Resources Authority.

On the other hand, the ECCP Department has been established as the arm to drive the strategies and policies falling within the remit of the highlighted Ministry. To this effect, the Department aims to mainstream green and low carbon policies and related practices in all levels of the Government, as well as the society in general. It also designs, evaluates and oversees policy matters, including legislative proposals, European Union directives, transpositions and implementation, strategy and other policy documents, such as management and action plans.

As at end 2021, Ambjent Malta employed a total of 139 personnel while 38 officers were on the ECCP payroll.

For financial year 2021, the budget earmarked for allowances and overtime (line items 16 and 17) for the two Departments in question was as follows:

Table 1: Budget for Financial Year 2021

Department	Allowances	Overtime
	€	€
Ambjent Malta	325,000	40,000
Environment, Climate Change and Planning	400,000	40,000

[1] Following the reshuffle in March 2022, the name was changed to Ministry for the Environment, Energy and Enterprise.

Ambjent Malta's overtime budget was eventually augmented through a virement of €136,000, whereas ECCP's overtime and allowances' allocations were decreased by €20,730 and €39,397 respectively. According to Management, the virement of €136,000 was required to cover the unforeseen overtime of Ambjent Malta, which occurred in the normal course of business operations.

Audit Scope and Methodology

The main scope of the audit was to ascertain the adequacy of the internal control system in place with respect to the payment of allowances and overtime effected by the two Departments under review, i.e., Ambjent Malta and the ECCP. The audit also sought to ascertain whether overtime payments were supported by the required documentation, including evidence of the necessary approvals and pertinent timesheets ahead of effecting the respective payment.

To achieve the objectives, audit procedures were aimed at ensuring compliance with the applicable rules and regulations, including the Public Service Management Code and related manuals, contracts of employment, applicable collective agreements, as well as other pertinent circulars and policies.

The audit was conducted in accordance with generally accepted auditing standards. Sampling techniques applied were qualitative in nature and testing was designed with the intention of ascertaining compliance and identifying methods through which current practices could be improved. Thus, in obtaining the required audit evidence, a sample of ten officers in receipt of either allowances or overtime, or both, from each of the two Departments being audited, i.e., Ambjent Malta and ECCP, was selected for review.

Control Issues

Anomaly in the Remuneration for Duty on Sunday by Workers on a Shift Basis

Ambjent Malta has a number of employees seconded from other entities, including three officers deployed from the Resource Support and Services Limited (RSSL), working on a shift basis[2]. While the salary of these employees is paid by the employing entity, i.e., RSSL, Ambjent Malta issues reimbursements to the former, covering the officers' salary, including allowances related to workers on a shift basis.

Testing carried out on the reimbursement of such allowances revealed inconsistency in the manner through which duty on Sunday by shift workers was remunerated. While, as per the requirements of the Public Service Management Code, Ambjent Malta officers were in receipt of an extra payment equal to a day's pay, RSSL employees were instead remunerated at double the hourly rate for shift hours falling on a Sunday.

This resulted in RSSL officers receiving higher allowances than those actually employed by Ambjent Malta for the same shift hours, and the latter reimbursed RSSL in full.

Recommendation

Considering that the employees in question are deployed with Ambjent Malta and performing the same work and shift hours as its officials, the same terms and conditions are expected to be applied and reimbursed to RSSL accordingly.

[2] Day in, day out.

Management Comments

On this matter the Ministry stands to be guided by the Human Resource/Salaries Section of RSSL.

Should the Ministry (or Ambjent Malta) introduce an alternative computation, it would create a situation where RSSL employees who are assigned duties at the Ministry for the Environment, Energy and Enterprise would be paid less than their counterparts within other Ministries.

The National Audit Office's recommendation will be referred to the attention of RSSL and further discussion will be undertaken as necessary.

Requests for Overtime Work approved retrospectively

The audit revealed instances where overtime work was approved by the pertinent parties retrospectively.

Recommendation

Planned overtime work is to be immediately brought to the attention of the approving parties for the necessary approval ahead of its commencement.

Management Comments

There could be instances where overtime is approved within short timeframes due to urgency or other exceptional circumstances. This was indeed one such case where Ambjent Malta was required to vacate its Ta' Qali premises.

General Comments

This Office was satisfied that the procedures and controls in relation to the areas tested were overall adequate except for the issues outlined in this write-up. Furthermore, requested documentation was promptly available for audit purposes.

Ministry for Gozo

Ministry for Gozo

Personal Emoluments

Overtime at the **Ministry for Gozo** was carried out habitually, very often with vague justifications given for its requirement. Attendance sheets supporting overtime claims were also not deemed reliable. Moreover, verifications on allowances could not be carried out since the required documentation was not made available for audit purposes.

Background

The vision of the Ministry for Gozo (MGOZ) is to secure economic and social prosperity for Gozo within the context of the island's unique characteristics. This is done through the effective, efficient and economic implementation of the regional and national strategies and policies.

The initial budget estimate for overtime and allowances for 2021 under the Strategy and Support Division, MGOZ, amounted to €61,000 and €815,000 respectively. Additional funds of €113,668 were allocated to cover overtime expenditure, resulting in a revised estimate of €174,668. The allocation for allowances was also increased by €141,120, for a total budget of €956,120[1]. Both allocations were almost fully utilised by the end of the year.

As at December 2021, active officers employed with the Ministry's Strategy and Support Division, totalled 797. Another six officers were on long or special leave.

Data obtained from MGOZ showed that the foregoing Division incorporated 35 departments and sections, including the Maintenance and Restoration Directorate, Construction and Maintenance Unit, Public Cleansing Section, Roads Section and Villa Rundle. The amount paid by the Strategy and Support Division on overtime and allowances represented 53% of the total of such expenditure budgeted for MGOZ.

Audit Scope and Methodology

The scope of the audit was to assess the extent and adequacy of internal controls over payments for overtime and allowances effected by MGOZ during the year under review, as well as to ascertain compliance with standing regulations and policies.

An introductory meeting was held with the Permanent Secretary, Director General Operations Division, Director General Strategy and Support, and the Director Corporate Services, to discuss the main audit objectives and to obtain general information on the Ministry's payroll function.

Information pertaining to salaries paid in 2021 was obtained and data for each department or section was extracted, to identify which departments had the highest payments for overtime and allowances during the year under review.

[1] According to MGOZ, the substantial increase in overtime and allowances was due to certain directorates being transferred to the Strategy and Support Division.

A sample of employees[2] was selected from each of the identified sections, based on the materiality of amounts paid, also taking into consideration the grades of the employees in the case of allowances.

For each of the nine officers selected in the overtime audit sample, testing was performed on the highest three payments, for an aggregate of €34,911, effected during the year under review. This represented 20% of the actual total overtime payments for 2021.

Key Issues

Limitations on Scope of Audit

Although the audit was planned to cover the payment of both overtime and allowances, no testing could be carried out on the latter expense since MGOZ did not provide the list of allowances and respective amounts paid to each of the sampled officers, notwithstanding reminders sent. This limited the audit scope. Furthermore, the attendance records for the first three months of 2021, pertaining to one of the officers in the audit sample, were also not made available for audit purposes. Thus, the respective overtime payment[3] could not be validated.

Recommendation

The Ministry is expected to provide all documentation required for audit purposes in a timely manner.

Management Comments

All the information was gathered. The Director Corporate Services had assured the Director General Operations Division that the information had been sent to the National Audit Office (NAO)[4]. Management was not aware that information was still pending as otherwise it would have complied.

Furthermore, as far as Management can verify, these attendance sheets were never requested[5].

Unreliable Attendance Records

Although attendance sheets were expected to be the primary source of information to support the number of extra hours claimed by employees, testing revealed that these were not reliable. The following relate:

a. Instances were noted whereby employees were paid for overtime when, according to the attendance sheets, no additional work was carried out. On other occasions, officers did not claim all the extra hours showing as having been worked according to attendance records[6]. Discrepancies were also noted between the number of hours worked as per attendance sheets and the overtime hours claimed for payment.

b. At times, attendance sheets indicated that during weekends and public holidays, overtime was equivalent to a full day's work, when actual overtime hours worked and claimed, as confirmed by MGOZ, were less.

[2] The audit sample comprised nine officers for overtime and twenty-six in the case of allowances.
[3] Covering 75 hours at a cost of over €1,400.
[4] On 20 June 2022, MGOZ was notified that unless this information was sent to NAO, testing on allowances could not be carried out and the matter would be reported upon. The requested information was still not made available during the audit.
[5] As confirmed by the supporting documentation submitted by Management with its reply, these were first requested on 27 May and then again a month later.
[6] According to MGOZ, one of the sampled employees was aware that the approved number of overtime hours was reached, but still worked extra hours (without payment) due to work exigencies and to meet targets. A similar explanation was given in the case of another sampled officer, claiming that although on vacation leave, the individual had to report to work at no pay due to work exigencies.

c. Several attendance sheets for two of the sampled officers did not bear any signature of a reviewing official. Furthermore, some of the attendance sheets pertaining to one of these employees were certified correct by the same officer, thus offering no assurance that the details held were correct.

d. Clocking details on all the attendance sheets pertaining to another officer selected in the audit sample were illegible. Nonetheless, the attendance sheets were still certified correct by the responsible officer. Illegible clockings were also encountered when reviewing attendance sheets pertaining to another sampled officer.

As a result, NAO has reservations on the reliability of attendance sheets and cannot comfortably conclude whether the sampled officers were accurately paid for the overtime that they claimed.

Recommendations

MGOZ is to ensure that all officers accurately record their attendance on a daily basis, as also outlined in the Public Service Management Code (PSMC). All details are to be clear and legible. The information held, especially that relating to overtime, is to be reviewed judiciously and certified correct by a responsible officer, independent from the officers signing for the same records. Action is to be taken against those officers who try to abuse.

Management Comments

Management did not state whether the recommendations will be taken on board but submitted the following comments:

With regard to the abovementioned employees who were paid overtime when according to the attendance sheets no additional work was carried out, the necessary approvals were in place; however, erroneously, they did not sign the attendance sheet. Officers who exceeded the approved overtime were not paid. In the case of discrepancies between attendance sheets and the overtime hours claimed for payment, the officers were paid the confirmed hours of work.

The highlighted shortcomings in the attendance sheets were rectified as soon as they were detected.

In the first case of illegible clockings mentioned, the officer in charge always verifies the attendance sheets after confirming the attendance to work, as both officers work in the same premises. With respect to the second officer, most of the clockings on the attendance sheets are legible. The supervisor in charge is more familiar with the officer's handwriting and that is why the former verifies the attendance sheets of the officer.

Vague Justifications for Habitual Overtime Work

Testing carried out on overtime performed by the nine sampled officers revealed lack of control over overtime, which was being performed habitually. The reasons given for the need of this additional work were generic, raising doubts on whether all overtime was justifiable and suggesting that extra work at MGOZ was possibly being considered as an extension to the respective officer's basic salary. The following shortcomings were noted:

a. All requests for overtime work[7] reviewed during testing were undated; thus, it could not be established whether these were timely raised and approved.

b. The justifications given for additional work varied from duty on weekends and public holidays, pressure of work, inspections and organisation duties. This was not in line with the PSMC, which requires overtime work to be linked to specific tasks.

[7] Approved by the Permanent Secretary.

c. Six out of the nine sampled officers carried out overtime work for more than five consecutive months, even reaching eleven months in one case. This suggests that the performance of additional work was a habitual practice rather than an exceptional occasion as required by standing regulations. Overtime for prolonged periods of time, if justified, could be the result of inadequate planning, both in terms of human resources and work performed.

d. The overtime hours worked by two sampled employees was rather significant. An Assistant Principal was paid €6,084 for a total of 395 overtime hours worked between mid-July and the first week of October 2021. The request for overtime work did not indicate the reason for this requirement. Another officer engaged as a Labourer worked 322 overtime hours in a consecutive five and a half-month period, resulting in a payment of €1,665. According to the respective overtime request, this was due to pressure of work at the Civil Abattoir.

e. Several requests indicated specific number of overtime hours to be carried out by certain individuals on Saturdays, Sundays and public holidays three months in advance. As also commented upon further down in this write-up, officers made sure that they claimed all overtime that was approved.

Recommendations

MGOZ is to exercise full control on overtime work, which is to be resorted to only in exceptional circumstances and, as far as possible, linked to ad hoc assignments with specific targets to be reached. If the work carried out outside office hours is deemed routine, MGOZ is to consider revisiting current work practices and seek alternatives which would still be efficient, but at the same time more economically beneficial. The redeployment of employees to other departments and vice versa, depending on seasonal requirements, and shifting working hours, are also to be taken into consideration.

The Ministry is also expected to analyse whether continuous overtime work is attributable to underperformance during normal office hours and act accordingly.

Management Comments

Management did not indicate whether the recommendations will be taken on board but submitted the following comments:

The PSMC template for the request for overtime does not contain a request date but Management has to indicate the period for which overtime was being requested, in the justification sent to the Permanent Secretary.

Overtime is always linked to tasks; however, in certain cases, these were not written on the request for overtime. It has to be pointed out that MGOZ is responsible for all that happens in Gozo, be it cleaning after feasts and events, maintenance of ladders and walkways, collection of dead animals, unforeseen emergency road patching, repositioning of manhole covers that become dislodged after storms, clearing of debris, concrete spillages, torn trees, collection and placement of carcasses in containers to be delivered to Malta, etc. Therefore, this means that Management needs staff who is available to ensure that every complaint and request are dealt with in a timely manner. It has to be pointed out that Management also offers support to the Police and the Civil Protection Department when needed.

In the case of officers carrying out overtime for consecutive months, the related was spread over the year and not one-time specific tasks. This means that when this work is not completed during normal working hours, officers need to be assigned these tasks outside working hours. This is a reflection of the shortage of staff in certain areas and is being tackled through Human Resources planning.

The reason for the Assistant Principal's overtime was not specified in the request simply because the officer continued to carry out the normal work even outside office hours. The officer used to coordinate the Animal Welfare Section in Gozo and had to attend to calls on injured animals even outside office hours and support the Animal Welfare *officers. Both the Assistant Principal and Labourer have an on-call allowance as their job is required on a regular basis after office hours. The Assistant Principal no longer works with MGOZ.*

The request for overtime is usually done according to the average number of hours that the service was required in the previous three months.

Control Issues

Overtime on Sundays and Public Holidays

The overtime returns reviewed for two of the sampled officers showed that every time these employees reported to work on Sundays or public holidays, this was only for two hours. The reasons given for this overtime work were pressure of work and duties as a carcass loader. In line with the PSMC, both officers were paid the equivalent of a day's pay on each occasion[8].

During the audit, various other instances of officers performing few hours of overtime on Sundays and public holidays were noted. Very often, this was done in order to meet the targeted overtime hours that were approved. However, not all employees received the equivalent of a day's pay but were paid by the hour instead[9].

Instances whereby overtime worked on public holidays was paid at the one and a half the applicable hourly daily rate instead of at double the rate were also noted.

Recommendation

Unless specifically required for urgent tasks, MGOZ is to avoid having officers reporting to work for just one or two hours on Sundays and public holidays, as this would be inefficient, both economically and in terms of productivity.

Management Comments

Certain jobs require that an employee reports for work on Sundays and public holidays according to work exigencies. However, this recommendation will be taken on board and MGOZ will ensure that henceforth payments will be effected correctly.

Fixed Monthly Payment for a Specific Task

An Assistant Foreman was granted approval to be paid for 13 hours of overtime, in each payroll, for welding works requested to be carried out from time to time. For 2021, the total paid in this respect was around €2,000. However, the respective attendance sheets reviewed during the audit did not provide such evidence; thus, the overtime paid in this respect could not be duly validated. According to MGOZ, the officer erroneously did not sign for this additional work on the attendance sheets. It was also claimed that very often this was verified through onsite spot checks, but proof of this was not provided.

Recommendation

Payment for overtime work is to be justified and duly recorded.

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[8] Officers reporting to work on Sundays and public holidays are to be paid at double the plain hourly rate for every hour worked, which amount should not be less than the minimum of the respective officer's day's pay.

[9] According to MGOZ, officers who were in receipt of a standby allowance were not paid the equivalent of one day's pay since this was already factored in within the said allowance. However, this is an incorrect interpretation of the clauses regulating the standby allowances, as the Manual of Allowances forming part of the PSMC clearly states that, if an officer who is on standby and paid the due allowance, performs overtime work on Sundays and public holidays, the standard arrangements for overtime compensation apply.

Management Comments

This is noted. Staff who is responsible for the attendance sheets and absences was informed of these errors and shall ensure that any overtime worked is reflected in the attendance sheets.

Insufficient Information on Overtime Rate and Payments

During the year under review, some of the sampled officers carried out overtime work considered as being outside their normal responsibilities and not in consonance with their job titles. For example, a photographer with the Cultural Heritage Directorate performed overtime as Head Beach Supervisor, while an Assistant Foreman[10] and Technical Officer at the Public Cleansing Section carried out additional work at the Civil Abattoir and also as Beach Inspectors.

In all cases, the officers were paid overtime based on their respective daily hourly rate. However, NAO could not establish if this was correct or whether a lower rate in line with the PSMC should have been applied[11], as information requested on the applicable salary scale for the assigned overtime jobs was not received during the audit.

Furthermore, the workings for overtime payments effected to another sampled officer, forwarded for audit purposes, did not specify which rates were used to arrive at the respective amounts; thus, NAO could not check accuracy thereof.

Recommendations

MGOZ is to ensure that, if overtime is really necessary, officers are paid at the correct rate and that each payment is supported by computations for audit trail purposes.

Management Comments

The work carried out by the Assistant Foreman and Technical Officer at the Civil Abattoir was related to metal works, while the overtime as Beach Inspectors related to seeing that all metal infrastructure and walkways at the respective beaches were repaired in time and kept in good condition to avoid injuries. Therefore, the same rate of overtime was applied. The Assistant Foreman is also called upon whenever a section within MGOZ requires any work relating to metal. This sometimes entails that work needs to be carried out after normal working hours so as to keep up with the demand. Management is taking necessary action to increase the number of welders in this section.

[10] This officer was also being paid for 13 overtime hours every payroll for performing welding works as indicated in the preceding observation.
[11] The PSMC stipulates that if employees are assigned to perform overtime work in lower grades, the lower rate is payable.

Ministry for Home Affairs, National Security and Law Enforcement

Land Registration Agency

Revenue

Audit testing at the **Land Registration Agency** revealed that basic internal controls, including segregation of duties, audit trail and adequate checking were lacking, thus hindering assurance of completeness of revenue collected.

Background

The Land Registration Agency (LRA) was established by virtue of the Land Registration Agency (Establishment) Order, 2019 under L.N. 4 of 2019. It is regulated by the Land Registration Act (Cap. 296) and by the Condominium Act (Cap. 398). LRA, with a headcount of approximately 38 employees, falls under the Ministry for Home Affairs, National Security and Law Enforcement, and is headed by an Executive Head who is appointed by the Minister.

The main functions of LRA are to carry out duties of public administration in relation to registration of land, also assisting the Minister responsible in related matters. LRA is governed by the Public Finance Management Act (Cap. 601); thus, it is required to duly prepare its annual financial statements in terms of the Public Administration Act (Cap. 595).

As per Government Estimates 2021, it was estimated that LRA will generate a total of €1,900,000 in revenue, comprising €1,100,000 from Land Registry Fees, €500,000 related to Fees from Searches and a further €300,000 from Sale of Plans. Meanwhile, total actual revenue amounted to €3,093,604, a significant increase of approximately 63% over the estimated amount.

Audit Scope and Methodology

The scope of this audit was to examine LRA's main sources of revenue and to verify correctness and completeness of such income by ensuring that related internal controls were in place.

The National Audit Office (NAO) held a number of meetings with LRA officials in order to obtain a general overview of the operations of the Agency and to better understand the systems in place with respect to the collection of revenue.

A system-based audit was carried out, whereby substantive testing was conducted on selected transactions. Testing was based on the revenue processes dealt with by LRA, from the initial stages up to the final deposit to the Central Bank, focusing on the three different types of income, namely, applications for the registration of land[1] and searches, as well as the sale of site plans from both Malta and Gozo offices. NAO requested the lists of all income received and processed under each category, during the first three quarters of 2021, from which a total of 35 transactions was selected, using random sampling techniques.

[1] Also includes, but not limited to registration of condominium, change of property, change of owner, cancellation of hypothec, correction and resubmission of plan and others.

Another 20 transactions, representing cancelled receipts in relation to applications for registration of land, were also selected for testing and, in this case, NAO verified the reason for such cancellations and whether these were backed with proper authorisation. Checking of the applicable rates against pertinent legislations, issued by the Government was also made.

Selected transactions were traced to the daily reconciliation reports compiled by LRA, including the individual sales report issued by the respective desk officer and the overall reconciliation report which was being updated every fortnight. NAO was also provided with details of total revenue received by LRA and deposited to the Central Bank during the first nine months of 2021. Due consideration was given to the cash flow procedures, in terms of collection, handling and deposits.

Key Issues

Lack of Segregation of Duties

No segregation of duties was exercised during the revenue collection process. The majority of applications for the registration of land and searches were mainly received, processed and recorded by the same official. It also transpired that during the period under review, a significant number of approximately 350 receipts were cancelled before the correct receipt was officially issued to the respective customer. Such cancellations were not pre-authorised by a designated senior official. According to LRA, the receipts were cancelled when the computation errors were noticed, either by the respective officer or during occasional random checks, although the reason was not indicated accordingly. Also, given the insufficient audit trail, as indicated further down, it was not possible to establish who actually cancelled the respective receipts.

Recommendations

Segregation of duties is one of the fundamental internal controls that is expected within an entity, especially where the handling of cash is concerned. Thus, LRA is to immediately step up its controls to provide a higher level of comfort with respect to revenue received. This will also minimise inaccuracies, corrections and the possibility of fraud.

Moreover, any corrections, leading to cancellations are to be duly authorised by a senior officer and the respective reason indicated, in order to mitigate the risk of abuse.

Management Comments

The clerical section at the Agency is headed by one Unit Co-ordinator, while the staff consists of one Junior Administrative Officer and eight clerks.

The lack of staff does not provide the means to carry out the necessary segregation of duties. As from this year (2022), LRA has started random checks to verify the correctness of cash transactions which are carried out. However, if additional staff is made available, an internal audit section will be set up to verify the cash transactions received by all staff.

Moreover, the system only allows the person who issued a receipt, to cancel the respective receipt. Staff has been instructed that cancellation of receipts is effected only after being authorised by the Unit Co-ordinator and the Junior Administrative Officer.

Insufficient Audit Trail

Testing revealed that for the applications of land registration and searches, the system does not generate a user reference for each application, identifying the officer recording the respective transaction. Thus, there is no full audit trail.

It was also not possible to generate a report from the system showing the actual request received for the applications of land registration and searches, as well as site plans, by the respective clients, except for a manual list compiled in spreadsheet format.

Recommendation

The revenue process is to have full audit trail, also identifying the name of the respective user. This should be applicable to all transactions across the board.

Management Comments

All receipts, invoices and cash returns, now[2] generate a user reference, identifying the officer recording the respective transaction.

The present system does not create a list or report with all the details as correctly indicated by NAO; however, LRA is in the process of creating a new system for the registration of property which is planned to be completed by the end of 2022. It is intended that the new system will incorporate such reports.

Reconciliation for Completeness of Revenue not possible

Record of all applications and searches that reached the Agency during the year was kept manually on a spreadsheet. Although this comprised a reference number, date of receipt, details of the respective notary and the property concerned, the monetary values were not included, to enable reconciliation. In the circumstances, completeness and accuracy of revenue recorded by LRA could not be ascertained.

Recommendations

To enable a full audit trail, LRA is encouraged to request enhancement to the computer system in order to be able to generate the necessary reports for reconciliation purposes, even at the initial stages of receipt of applications for registration of land and searches. Besides the reference number of each transaction, this is also expected to include some form of monetary value.

Management Comments

As already indicated earlier, the new system will be able to generate the necessary reports for reconciliation purposes.

Furthermore, since certain data is kept manually on spreadsheet, the number of the receipt as well as the amount paid will be included with each search and application.

Inadequate Checking Procedures

Checking of fees computations was not being done in a systematic manner to ensure that the client was accurately being charged. LRA verbally confirmed that checking was only done randomly on specific applications and time permitting.

[2] Management comments submitted on 9 February 2022.

Recommendations

LRA is to perform regular checking in a systematic manner, to ensure correctness of revenue charged and recorded. Documentation evidencing such verification is to be retained for audit trail purposes.

Management Comments

The Agency will conduct random checks and verifications. Documentation evidencing such verification will be retained for audit trail purposes.

General Comments

During this audit, LRA fully cooperated and provided all documentation required for testing purposes in a very efficient manner, as all documentation in relation to the audit was readily available and timely submitted.

Ministry for Tourism
and Consumer Protection

Foundation for Tourism Zone Development

Expenditure

Serious corporate governance issues, including lack of internal controls in the procurement processes, were noted at the **Foundation for Tourism Zone Development**. The insufficient human and financial resource capacity also hampered its operations.

Background

The Foundation for Tourism Zone Development (FTZD) was established by means of the Deed of Foundation on 23 March 2015. This was a further step in achieving an element of centralised, prioritised and planned tourism zone management.

In coordination with various public entities, ministries, local councils and other nominated representatives of the regional tourism zone committees, the Foundation aims, inter alia, to:

- address and manage any concerns raised by the various stakeholders in the areas;
- ensure efficient and cost-effective provision and maintenance of public areas and basic services pertaining to each tourism zone;
- co-ordinate the management of public utilities and works in the zones; and
- add value and improve the attractiveness of these zones.

In October 2021, through the Tourism Zones Regeneration Agency (Establishment) Order, 2021 (L.N. 399 of 2021), an Agency was set up with the aim of taking over the role and responsibilities of FTZD. However, upon the initiation of the audit in March 2022, the National Audit Office (NAO) was informed that a Board had not yet been appointed as required by the pertinent legislation; hence, the Agency was still not operational. The Board was eventually appointed for a period of one year with effect from 17 June 2022. Due to the paperwork that still needed to be undertaken, the Board agreed that the Agency would officially initiate its operations as from January 2023. In the meantime, the Foundation continued to assume the responsibilities for the smooth running of the daily operations.

As disclosed in the management accounts for the year 2021, the Foundation reported a total income of €1,378,368, including a €1 million annual allocation provided by Central Government under Recurrent Vote 39, Contributions to Government Entities, Line Item 6820 – Foundation for Tourism Zone Development.

Meanwhile, total expenditure for 2021 totalled €2,051,881, resulting in a net deficit for the year of €673,513.

On its books, the Foundation had only seven[1] employees as at December 2021. Another 22 employees were seconded from WasteServ Malta Limited (WSM), Malta Tourism Authority, Corporate Services Directorate within the Ministry for Tourism and Consumer Protection, Resource Support and Services Limited (RSSL), as well as another 22[2]

[1] One of which was seconded to the Ministry for Education, and another appointed in November 2021.
[2] Sixteen of which were not engaged for a full year.

individuals engaged on a contract for service. The respective contracts for service, as well as underlying agreements with aforementioned Government entities and directorate providing the necessary human resource, were also requested for review.

Audit Scope and Methodology

The main scope of the audit was to verify that Public Procurement Regulations (PPR) were adhered to when incurring expenditure for the short-term upgrading of the Xemxija promenade, which project was selected on the basis of financial materiality. This project was completed during the year under review, whereby total payments effected in this respect, totalled €370,014.

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 FTZD was adequate. Governance procedures overseeing the Xemxija project were assessed. Furthermore, since most of the maintenance work was done inhouse, projections and plans on the allocation of resources were also analysed. In addition, inventory control measures over the assets falling under the Foundation's remit were evaluated.

To this effect, NAO held meetings with the Chief Executive Officer (CEO), Chief Operations Officer, Director Operations and Head of Zone Officer. The relevant documents required for audit testing were requested and analysed accordingly. Furthermore, the shortcomings identified in an operational review report, compiled by a private auditing firm in March 2020, were followed up.

The sample of transactions selected in relation to the upgrading of Xemxija promenade amounted to €90,340. This was randomly selected following stratification. Expenditure as illustrated in Figure 1 was examined for audit purposes.

Figure 1: Xemxija Promenade Upgrade Disbursements according to Expenditure Category

Limitation on Scope of Audit

Formal agreements with suppliers, as well as substantiating documentation were not maintained by the Foundation. At times, the auditee had to revert to the respective contractor or the then accountant to obtain copies of the requested data. Besides causing unnecessary delays, this hindered the scope of the audit.

Key Issues

Vacant Posts and Insufficient Financial Resource Capacity

During 2021, several posts within the Foundation, including those in headship positions, were vacant. The Foundation was basically relying on employees seconded from other Government entities and directorate, and the engagement of personnel through a contract for service.

This negatively impacted upon the administrative aspect, which was rather weak during the period under review. By way of example, lack of segregation was noted between the executive arm and the Foundation's Board[3] whereby, in a well-defined structure, the latter was only responsible for overseeing the Foundation's overall direction and strategy. Yet, in this case, a member of the Board, who was also appointed as an acting CEO, was taking over the administrative and operating functions, including the hiring of service providers and signing of the respective contracts.

In addition, one of the Foundation's main aims and objectives, as outlined by its Statute, is to propose and execute approved projects of a capital nature within the tourism zones in line with the parameters of law. However, the annual financial allocations received from Central Government since its inception, were insufficient to cover the operating and administrative expenditure. Thus, the Foundation could not undertake any capital projects but only maintenance works were carried out.

As per management accounts provided, as at end of financial year 2021, the Foundation reported a negative reserve of €445,567.

Recommendations

Management is to escalate such issues with the right level of authority. Strengthening both the financial and human resource capacities will enable the Foundation to achieve its objectives within a framework of a sound internal control setup.

Furthermore, a clear distinction is to be made between the executive and the administrative arm of the Foundation. Proper segregation of duties is also expected.

Management Comments

A detailed human resources plan was prepared and submitted to the People and Standards Division during the last quarter of 2021, whereby follow-up meetings were held. Although the Foundation requested the recruitment of a procurement manager, project managers, skilled and unskilled labourers, a warranted architect and a quantity surveyor, only the last two posts were approved. A warranted architect was appointed on 10 October 2022, whilst the recruitment of the quantity surveyor was still not yet finalised by the time this reply was concluded, i.e., 24 October 2022.

[3] As per Statute dated 23 March 2015, the Board shall determine the general policy and shall be responsible for the activities, organisation, financial administration, implementation of approved business plans, approval of its budget and the administration of property movable and immovable, bestowed upon or otherwise by the Foundation.

Through RSSL's network, an administrative officer joined the Foundation during July 2022. In addition, as from the second quarter of 2022, a public company namely the Malta Investment Management Company Limited was assigned all the financial and human resources services at the Foundation, which work was previously procured from a private service provider.

With respect to the issue of proper segregation of duties, the current CEO is not a member of the Board of Directors[4].

Lack of Strategic Planning

Whilst the Foundation is continuously aiming to improve its services, it lacked long-term strategic planning as described hereunder.

Strategic Plan not formalised

A strategic plan for the implementation of upgrading works across Malta was not formulated. According to Management, the original plan for the Xemxija project was shelved and only the promenade area was upgraded to render the place safe for visitors before summer 2021.

Rebranding Costs and the setting up of a New Agency

As evidenced through the minutes of the fourth Board meeting held on 15 March 2021, rebranding of the Foundation was underway at the time. Table 1 depicts the costs incurred in this respect up till end of 2021.

Table 1: Rebranding Costs

Details	Costs incurred €
Development of contents, adverts and posts on social media	18,644
Corporate identity	5,487
Signs	3,887
Flags	1,379
Mobile responsive website	1,260
Email account service and hosting	543
Total	**31,200**

Within a seven-month period, a new Agency was set up with the intention of taking over the Foundation's operations. This raised concern on the appropriate timeframe for incurring such expenditure on rebranding although, according to Management, there was no intention to change the logo and website.

Recommendation

In this environment, strategic planning is more crucial as it will enable Management to attain optimal use of the limited resources at its disposal. Without a coherent strategy, the Foundation will not be in a position to meet its objectives in an efficient and effective manner.

[4] Management comments were submitted on 25 October 2022.

Management Comments

Article 4 of L.N. 399 of 2021 lists the objectives of the new Agency and hence the strategic direction for the forthcoming period. In addition, the human resources plan, the business plan, together with the budget and manifesto measures provide direction in terms of human and financial resources requirements, and the projects to be implemented in the next three to five years. The implementation of the business plan depends on the actual allocation of financial and human resources.

There is no intention to undertake further rebranding in the immediate and short-term period; however, this might be revisited in the medium and long-term.

Lack of 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. Each issue is outlined separately further down in the write-up, under the pertinent observation.

- Non-adherence to PPR.
- Formal agreements with suppliers not in place.
- No segregation of duties.
- Source documentation not maintained.
- Lack of verification before payment.
- Statutory audit not carried out in a timely manner.
- Proper fixed asset register not in place.
- Non-compliance with standing rules and regulations.

Recommendations

Internal controls are fundamental to the successful operation and day-to-day running of any Foundation. Thus, FTZD is to develop its own internal control procedures to mitigate related risks.

Moreover, Management is to ensure that ongoing monitoring of activities, to evaluate and improve the design, execution and effectiveness of internal controls, is duly carried out. Spot checking transactions or checking based on basic sampling techniques can provide a reasonable level of confidence that the controls in place are functioning as intended.

Management Comments

Remarks noted and recommendations will be followed.

Control Issues

Actual Expenditure exceeding the Budgeted Cost

A brief on the short-term upgrading of the Xemxija promenade issued in April 2021 indicated that the average cost of the related proposed works totalled €330,400. Yet, as per transactions disclosed in the nominal ledger, the project costed €370,014, translating into an overrun of almost €40,000, equivalent to 12%[5] of the estimated project cost.

[5] The percentage variance was calculated as per data provided by the auditee.

According to the Foundation, due to the short timeframe of the project, the overall cost could not be determined from the start. It was also noted that all the civil works[6] were carried out by the Foundation's employees[7]; however, apportionment of labour cost was neither included in the budget nor with the actual cost incurred; thus, resulting in an understated actual cost.

As regard the human resource cost, it was claimed that this was considered as a fixed cost which still had to be met by the Foundation; thus, it was not taken into consideration in the total cost of the project.

Recommendations

Incomplete valuations will provide distorted project costs which will be considered as meaningless. Thus, it is pertinent that the respective data incorporates all expenditure incurred for the execution of the related project, including the respective labour costs. Moreover, any divergencies between the estimated and actual costs are to be properly analysed and formally approved.

Management Comments

Points noted. Projects will be estimated in advance by the architect in charge and/or the quantity surveyor. The actual cost of the project will include both the price of the tender/s and the related variations.

Non-adherence to Public Procurement Regulations

Testing carried out revealed that PPR were not being followed. Below are the major shortcomings identified during sample testing.

Xemxija Project

A review of the payments effected with respect to the Xemxija project highlighted the following concerns.

a. All sampled procurement for the Xemxija project, irrespective of the amount involved, was carried out through a direct contract. Moreover, where applicable, approvals from the right level of authority were not sought as required by standing regulations when buying from the open market.

b. At times, procurement of homogenous items was split in a number of batches to intentionally circumvent the issue of a public call for tenders.

c. A formal agreement outlining the rights and obligations of both parties was also not in place.

d. The service provider carrying out upgrading works at the Xemxija promenade was hand-picked; however, the foregoing was still expected to provide a quote identifying the costs applicable for each phase of the project, for the purchase order to be raised accordingly. Yet, in three out of nine instances, related quotations were not traced and thus it could not be ascertained on what basis were the purchase orders, aggregating to €22,519 excluding Value Added Tax (VAT), drawn up.

e. Endorsement from the Chairman of the Foundation for the related procurement was given by initialising the respective correspondence, without disclosing the date. Thus, it could not be determined whether authorisation was given prior to placing of the order.

[6] Civil works included the maintenance works required, such as fixing of railings, installation of planters etc.
[7] A total of 27 individuals working on site projects, of which 22 were seconded from other Government entities and directorate.

Contracts for Service

During the financial year under review, around 22 individuals[8] were given a relatively short contract for service with the Foundation. The aggregate cost of such engagement amounted to more than €206,000. Amongst others, these included maintenance service, office and liaison office duties, as well as head beach supervision. Besides that no expression of interest was published prior to the engagement of the respective service providers, agreements were repeatedly renewed upon expiration.

Leasing of Motor Vehicles

Throughout the year under review, the Foundation spent almost €54,000 for the renting of a total of nine vehicles, from three local private service providers. The following shortcomings relate.

a. Although it was claimed that a long standing agreement forming the basis of the chargeable rates was in place with a particular service provider, such document was not provided for audit purposes. Management claimed that since then, an updated agreement was not requested as this meant a substantial increase in the monthly fee charged.

   A one pager rental agreement was endorsed by both parties upon the start of the respective lease. This included the leasing date, leasing period and the monthly charge. However, for three out of the five leased vehicles, the document provided for audit purposes did not relate to the year under review, but to 2019 and 2020. In another case, whilst the agreement sheet made available indicated a lease window of only 14 days (1 to 14 September 2021), payments recorded in the nominal ledger captured a leasing period of more than 7 months (14 May to 31 December 2021).

b. Amounts paid to the other two service providers, aggregating to €11,754, were solely substantiated by a single quote directly obtained from the two respective providers. In these cases, formal agreements were also not traced.

Recommendations

PPR are to be invariably complied with. Management is to ensure that procurement is not intentionally fragmented to bypass procurement regulations. The needs for goods and services are to be determined at an early stage, allowing enough time to follow the appropriate procurement procedures. Direct orders are to be justified according to the circumstances listed in MFIN Circular No. 3/2013 – 'Public Procurement Regulations – Direct Orders', Procurement Policy Note No. 32 – 'Direct Orders below the local threshold' and approval from the Ministry for Finance is to be sought beforehand.

Moreover, agreed procurement terms are to be formalised, endorsed by both parties and filed accordingly.

Management Comments

Tenders will be prepared and published as per PPR. In addition, direct orders will be published every six months as established in the aforementioned regulations. Moreover, the Foundation has been in discussion with the Ministry for Finance, for the publication of a tender for the purchase or leasing of motor vehicles, since June 2022.

[8] Ten of these service providers had their contract for service extended in 2022.

Shortcomings in the Contracts for Service

A review of the contracts for service in place during 2021 revealed the following deficiencies.

a. The contracts entered into with two individuals, for the provision of maintenance works and office duties respectively, disclosed only the monthly payable remuneration, without outlining the number of hours these covered. Thus, it could not be verified on what basis the payments were made.

b. In another case, the average weekly number of hours to be worked as stipulated in the contract was substantially exceeded.

c. Inconsistencies were noted in two instances in the payable rate as denoted in figures and that disclosed in words.

d. Four contracts covering office duties were not countersigned by the witness, with one of them also not signed by the service provider. In addition, one of the contractors gave the termination verbally, which was duly accepted by Management, despite that the respective contract stipulated that this was to be given in writing one month in advance.

e. In another instance, an eight-week contract for the post of an assistant head beach supervisor, commencing from 1 June 2021, was endorsed retrospectively by the Foundation and the service provider on 15 July 2021. The date of endorsement of the subsequent contract, entered into on 27 July 2021, was not disclosed.

Recommendations

Contracts with service providers are to be duly formalised to ensure that the respective terms and conditions are clear from the outset. The number of working hours to be performed, as well as the chargeable rate, are to be included. This will ensure transparency and eliminates any possible disputes between both parties.

Management Comments

Issues relating to the contracts for service were noted and recommendations will be taken on board.

Seconded Employees not covered by an Agreement

During 2021, the workforce at FTZD also included 22 employees on secondment from other Government entities and directorate. Formal agreements outlining which body was responsible for the payment of wages, including overtime where applicable, as well as the rights and obligations of the respective employees, were not traced.

This vacuum resulted in disputes between the Foundation and WSM. As from August 2021, the latter issued invoices for the reimbursement of wages; however, FTZD was of the understanding that the salaries of the respective workers should be covered by WSM from its budget from Central Government.

Moreover, it was noted that up to July 2021, the Foundation paid €30,181[9] for overtime charged by WSM, despite that documentation substantiating how these were worked was not provided.

Different procedures with the different entities and directorate were in place for the reimbursement of the related salary costs by the Foundation during 2021. Table 2 relates.

[9] This covered overtime carried out in prior year and paid during the financial year under review.

Table 2: Reimbursement of Salary Costs of Seconded Employees

Entity or Directorate	Number of Employees seconded with the Foundation	Procedure in place during 2021
WSM	9	only overtime was reimbursed
Corporate Services Directorate within the Ministry for Tourism and Consumer Protection	6	only overtime was reimbursed
Malta Tourism Authority	5	only allowances[10] paid to those employees who were contributing part of their time on the Foundation's tasks were reimbursed
RSSL	2	part of their salary was paid by FTZD[11]

Recommendation

The secondment of employees is to be supported by an agreement, clearly indicating the precise extent of each party's rights, duties and obligations. This will also enhance internal controls and prevents disputes.

Management Comments

Agreements with related parties will be sought. In the case of WSM, the situation is more complex. Following communication with the Ministry for Finance and WSM, during October 2022, a meeting was held with Director General at the Department of Contracts, to evaluate the contractual options to transfer WSM employees with the Foundation. However, since these were employed by a direct order through a private company, which direct order was recently extended for another three years, the advice provided was to keep the current contractual arrangement. Hence, further discussions with WSM are required on this matter.

Shortcomings in Overtime Payments

From the audit procedures carried out, the following shortcomings on overtime were noted.

a. Overtime work performed, to the tune of at least €46,000, was not covered by a formal approval from the Permanent Secretary. Neither was such authority officially delegated by the foregoing, in line with the Public Service Management Code (PSMC) section 2.2.7.

b. In breach of standing regulations, overtime was not adequately planned beforehand according to work exigencies. From sample testing carried out over a five-week period, falling mainly in July, the total 188 hours of approved overtime were exceeded by 18%.

c. In the case of seconded employees, email traced indicated that prior approval was actually sought from the acting CEO. The date of endorsement of the latter was indicated manually on the respective email, but it is inconclusive as it only indicated the month and year. Thus, this still raised doubt as to whether consent was granted in a timely manner.

[10] As from November 2021, only an allowance of €153 per pay period was paid to one employee.
[11] RSSL employees were pegged to FTZD grade structure and the difference in salary was paid by RSSL.

d. Inconsistencies were noted in the treatment of overtime in excess of six hours to finish works on the promenade. In certain cases, a half an hour rest break was deducted whilst in other instances the full number of hours worked were paid for.

Recommendations

Necessary approvals from the right level of authority are to be obtained prior to the commencement of overtime work. Moreover, a consistent approach is to be applied across the board, whereby the minimum rest break period, as stipulated in section 2.2.7.1 of the PSMC, is to be respected.

Management Comments

Points noted. Requests for overtime are documented in advance. Overtime is approved by CEO following a request by the Manager of the Tourism Zone Team and a review of the works schedule, urgency etc.

Insufficient Control over Manual Attendance Records

Employees' attendance was recorded through the signing of manual attendance sheets. On the other hand, service providers were also expected to substantiate their invoices with a signed detailed record of work performed, endorsed by top Management at the Foundation. A review of the documents provided revealed the following concerns.

Foundation's Employees and Seconded Employees

Shortcomings were noted from scrutiny of a sample of the attendance records as indicated hereafter.

a. The zone's supervisors, i.e., both employed by the Foundation and those contracted, as a way of approval, were to endorse the attendance record of the employees falling under their responsibility on a daily basis; however, it was not always evident that this procedure was followed.

b. At times, certification of these documents was being carried out just for formality, as certain errors were overlooked. By way of example, attendance was still endorsed by employees on days when sick leave was availed of and on days when attending a hospital appointment.

c. A number of attendance sheets were not endorsed by both the supervisor and CEO.

d. Date of endorsement by CEO was not always indicated. Thus, it could not be confirmed that attendance records were certified on a weekly basis, in line with standing regulations.

e. Arrival and departure times were not always logged in the manual attendance record.

f. Corrections made to entries were not countersigned by a senior official.

Service Providers

An official attendance record template was not in place; thus, inconsistencies were noted in the way data was maintained by the different service providers. Moreover, details of work performed by these individuals, which was stipulated in most of the agreements, as well as the date of certification, were not disclosed, casting doubt on whether verification was carried out in a timely manner prior to effecting payment.

Recommendations

Proper management of personnel, which requires both the existence of adequate attendance records and their verification, is a vital aspect of supervision in the workplace. In line with section 2.1.2 of the PSMC, the previous week's attendance registers are to be inspected and certified correct at the start of each week by Directors or senior officers authorised by them, who are to see that the previous week's record of attendance is complete in every detail, and all employees are accounted for. Once such checks are carried out, the attendance records are to be endorsed, clearly indicating the date, as well as the name and the grade of the officer performing the respective verifications.

Management Comments

Points noted and recommendations will be taken on board.

Untimely Authorisation for Accumulation of Vacation Leave

All the requests raised by the seconded employees[12] from the Corporate Services Directorate, to carry forward unutilised vacation leave from 2020 to 2021, were dated in January 2021 despite that in line with pertinent regulations, this process should have been concluded by not later than the end of September. Furthermore, Management's approval of these requests was not dated.

Recommendations

Standing policies and regulations are to be complied with. 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 vacation leave accumulated to the following year is to be duly authorised.

Management Comments

Point noted and recommendations will be taken on board.

Lack of Control on Leased Vehicles

Fuel purchased for leased vehicles is controlled through the issue of automated fuel chits from the Fleet Management System. However, the vehicles at the disposal of FTZD were not controlled by this application. A logbook disclosing the exact mileage covered during each journey, as requested by section 5 of the Manual on Transport and Travel Policies and Procedures, was also not maintained. Thus, control over such cost was lost.

Recommendation

The Foundation is expected to start using the Fleet Management System in order to benefit from controlling features embedded in the system. These include an audit trail which logs all trips performed, a record of vehicle odometer readings at the time of refuelling, as well as the details of the employee entrusted with the respective vehicle.

Management Comments

Points noted. Management will delve into the matter regarding the system.

[12] Data in relation to the other employees was not traced in file provided for audit testing.

Transport Allowance to Service Provider

An individual on a contract for service, carrying out various duties[13] with the Foundation, was paid the amount of €280 as transport allowance for utilising the personal vehicle for work related purposes for a period of five days. Quotes obtained by the Foundation to hire a vehicle ranged from €10 to €16 per day. Thus, the allowance given covered a total of at least 125 kilometre daily, using the official rate of €0.32 per kilometre established by Government for the use of privately-owned vehicles. However, since a logbook was not maintained to disclose the trips performed, the reasonableness of this allowance could not be confirmed.

Recommendation

If transport allowance is justified, this has to be granted in line with standing regulations at the established rate.

Management Comments

Point noted and recommendation will be taken on board.

Lack of Segregation of Duties

Certification of completed works was carried out by the same officer issuing the purchase order, thereby highlighting lack of segregation of duties.

An instance was also encountered whereby, a part-payment of €8,850 was honoured prior to the certification of completed works. However, this was not covered by an interim certificate to ensure that funds released reflected the percentage of work carried out. Moreover, there was no indication by whom the respective invoice was approved for payment.

Recommendations

Segregation of duties is imperative for proper internal control purposes.

Moreover, payment for works without the necessary certification is not recommended as it exposes the Foundation to various risks.

Management Comments

Quotes, together with approval trail, will be maintained for future reference. Segregation of duties will be implemented as the recruitment of the warranted architect during October 2022 will facilitate this process. It will also be ensured that works are certified prior to effecting payment.

Proper Fixed Asset Register not maintained

Property, plant and equipment bearing a net book value of €68,628[14] were only substantiated by a copy of the respective nominal ledger transaction account, rather than through the upkeep of a proper fixed asset register that included the asset description, date of purchase, cost, supplier's details, invoice number, asset tag code, location of the asset and depreciation rate.

[13] These included organising and managing inventory, storage and transportation, providing logistic support, liaising with suppliers, overseeing maintenance and embellishment operations, ensuring customer satisfaction and any other duties as directed by the Foundation.

[14] As per management accounts for the year ended 31 December 2021.

Recommendations

Government property is to be adequately safeguarded. To this effect, adherence to inventory control regulations is recommended. This entails the compilation of a proper fixed asset register as stipulated in the respective circular. It is pertinent that such exercise is carried out without further delay.

Management Comments

Fixed asset register started to be compiled.

Board Meetings not held on a Regular Basis

Whilst acknowledging that the Statute does not specify the frequency of Board meetings, it was noted that these were not held at regular intervals. The Board in office between 1 January and 6 May 2021 held only two meetings; on 15 March and 29 April 2021 respectively.

With effect from 7 May 2021 a new Board was appointed for one year. The first Board meeting was only held on 5 October 2021, i.e., five months after its appointment. Thereafter another two meetings were convened on 29 October 2021 and 26 November 2021 respectively.

Recommendation

The Board can only achieve its goals through regular meetings to oversee the accomplishment of the organisation's plan and provide the necessary support to the executive.

Management Comments

Points noted. The new Board of Directors was appointed in June 2022. A Board meeting was held on 9 August 2022 and another one was scheduled for 28 October 2022.

Compliance Issues

Financial Statements not duly prepared

Notwithstanding that the Foundation was set up in 2015, by the time this audit was concluded, i.e., mid-September 2022, the only annual audited accounts presented were those for financial year 2019. This is in breach of pertinent legislation, Article 11(2) of the Foundation's Statute, stating that the audited accounts[15] should be presented to the Minister responsible for Tourism by the end of the following June.

Recommendation

Audited financial statements are an indispensable tool to provide unbiased and objective assessment of whether the accounts show a true and fair view of the state of affairs. Thus, for the sake of good governance, Management is expected to comply with the reporting mechanism in a timely manner.

[15] As per Statute, the accounts of the Foundation shall cover up to end of December of each year.

Management Comments

Audited financial statements for the year ended 31 December 2020 are finalised and were to be presented to the Board of Directors during the meeting which was scheduled to be held on 28 October 2022. Meanwhile, audit for the financial year 2021 is still in progress.

Misallocation of Expenditure

An instance was encountered whereby the cost of €11,682, for 18 planters along the Xemxija promenade, was not categorised under the respective project.

Moreover, during an onsite visit, the then accountant confirmed that, when there were insufficient details disclosed on the invoice, clearly indicating to which project the procurement related, such costs were allocated as a general repair and upkeep expense. This could possibly impinge on the completeness of the actual overall cost of the underlying project.

Recommendation

Transactions are to be charged to the proper account; otherwise, it would be very difficult to exercise control and determine the total cost within each category of expenditure. This will also avoid the possibility of distorted and misleading financial information.

Management Comments

Remarks were noted and the recommendation will be taken on board.

Expenditure not covered by Fiscal Receipt

With the exception of 13 instances, fiscal receipts covering the 58 sampled payments effected during 2021 were not traced.

Furthermore, despite that the Foundation acknowledged the fact that such suppliers were in default, these were not being reported to the VAT Department, as outlined in the pertinent circular.

Recommendations

The Foundation is to ensure that all suppliers, who have received payments, in part or in full, for goods and services provided, adhere to the VAT regulations by issuing a fiscal receipt, as applicable. Any defaulters are to be highlighted to the pertinent authority on a quarterly basis.

Management Comments

Points noted and effort will be made to follow the respective recommendations.

Untimely Publication of Direct Orders

The lists of direct orders issued during 2021 were published on 11 March and 5 July of the subsequent year. As per cited Article such publications are to be carried out biannually.

Recommendation

For the sake of good governance, Management is to ascertain that regulations and circulars are fully complied with.

Management Comments

Direct orders up till the end of June 2022 have all been published in the Government Gazette.

Malta Competition and Consumer Affairs Authority

Revenue and Expenditure

Audit verifications carried out on human resource practices, as well as revenue generating activities at **Malta Competition and Consumer Affairs Authority**, revealed instances whereby the necessary documentation, invariably required for audit trail purposes, was lacking.

Background

The Malta Competition and Consumer Affairs Authority (MCCAA) was established on 23 May 2011 with the coming into force of the Act Cap. 510 bearing the same name. The main purpose of the Authority is the attainment and maintenance of well-functioning markets for the benefit of consumers and economic operators. MCCAA's role include, amongst others, the promotion of competition, safeguarding consumers' interests, encouraging voluntary standards, promoting the national metrology strategy and the smooth transposition and adoption of technical regulations.

Due to the extensive number of tasks entrusted to it, apart from the Administration Office, the Authority comprises four other Sections, each of which has a set of core operational functions:

- Office for Competition
- Office for Consumer Affairs
- Technical Regulations Division
- Standards and Metrology Institute

Financial Information

During 2021, MCCAA was allocated a Government subvention of €5.25 million[1] under Recurrent Vote 39, Line Item 6799 (Contributions to Government Entities) to fund its operational exigencies. It was also granted a capital allocation of €400,000 under Line Item 7606, which was used to upgrade obsolete and old laboratory equipment and to invest further in information technology hardware and software. Moreover, during previous financial years, the Authority received Government grants which were shown as deferred income and released gradually, as well as European Union funding in relation to specific projects pertaining to 2020-2021.

The Authority also earned substantial income from its business operations, which for financial year 2021 totalled around €3 million.

Table 1 provides a summary of the financial performance of each Section for the period ending December 2021[2].

[1] Budgeted Government contribution stood at €7 million; however, actual subvention received in MCCAA's bank account stood at €5.25 million, since the Authority had enough cash from its commercial activities to sustain the expenses covering the last quarter of 2021.

[2] Forecasted net surplus for 2021 for the Authority as a whole was €101,075.

Table 1: Authority's Financial Performance as at end 2021[3]

	Standards and Metrology Institute	Technical Regulations Division	Office for Consumer Affairs	Office for Competition	Administration Office	Totals
	€	€	€	€	€	€
Revenue	936,912	1,975,625	5,664	2,446	5,319,633[4]	8,240,280
Cost of Sales	(2,371)	(1,240,530)	-	-	-	(1,242,901)
Expenses	(1,639,313)	(1,363,931)	(1,147,339)	(394,977)	(2,383,736)	(6,929,296)
Net Result	**(704,772)**	**(628,836)**	**(1,141,675)**	**(392,531)**	**2,935,897**	**68,083**

Audit Scope and Methodology

As illustrated in Table 1, the highest revenue-generating Sections within MCCAA during financial year 2021 were the Standards and Metrology Institute and the Technical Regulations Division. These two Sections also had material recurrent expenditure, mostly payroll costs. Thus, the audit focused on the operations of the foregoing.

The main scope of the audit was to ascertain that revenue generated by these two Sections was covered by relevant supporting documentation, including formal agreements with customers, and that invoices and related costings clearly reflected amounts invoiced. Checks also entailed ascertaining that services subject to fixed pricing were charged in accordance with MCCAA's pre-established price lists.

As for payroll expenditure, the audit sought to establish accuracy of salary payments, including claims for overtime and allowances made by employees within the same two Sections.

The audit was conducted in accordance with generally accepted auditing standards. Audit procedures were designed to obtain reasonable assurance on the effectiveness of the internal control system adopted by MCCAA in relation to revenue collection and the payment of personal emoluments within the selected Sections. To achieve the audit objectives, the following procedures were performed:

a. The National Audit Office (NAO) held a meeting with the Chairperson of MCCAA and the respective Financial Controller to obtain a general overview of the operations of the Authority. This was followed by site visits at the two selected Sections. During audit testing, further information was obtained from various officers as necessary.

b. A sample of two revenue accounts from each of the two chosen Sections was selected, on the basis of materiality. Selection covered 45% and 82% of revenue derived by the Standards and Metrology Institute and the Technical Regulations Division respectively, for the year ending 31 December 2021. Another sample of 15 transactions was selected randomly from each of these accounts and formed the basis of substantive audit testing on revenue.

c. With respect to payroll expenditure, a sample of 10 MCCAA officers from within both the Standards and Metrology Institute and the Technical Regulations Division was chosen for testing purposes. Officials within these two Sections were stratified according to their grades and a random sample was selected from each category of grades. Materiality of overtime payments was also taken into consideration.

Any conclusions reached in this write-up only relate to those areas that have been reviewed.

[3] Figures quoted are unaudited and were derived from cost centre reports.
[4] Including Government subvention of €5.25 million.

Key Issue

Lack of Audit Trail or Inappropriate Substantiating Documentation

Audit verifications carried out at MCCAA, on both human resource management practices as well as revenue generating activities, revealed instances whereby pertinent Management decisions were either not backed up by any form of supporting documentation or not appropriately substantiated. The following are examples of instances identified, each of which is reported upon further down in the write-up.

a. No documentation to substantiate the recruitment procedure applied by the Authority for the employment of certain officers.
b. Instances of officers not having an updated contract of employment.
c. Undated and unsigned performance appraisal reports, at times also being manually modified.
d. Lack of documentation supporting fees charged to clients for revenue-generating services provided by MCCAA.
e. No evidence of internal checks, claimed to be carried out by the Authority ahead of invoicing clients.

Recommendation

The Authority is to ensure that there is a proper audit trail supporting pertinent Management decisions, including the employment of personnel and related procedures. This will enhance accountability.

Management Comments

Whilst the Authority appreciates the importance of having appropriate documented Management decisions and is committed to review and enhance any procedures in this respect, it also takes this opportunity to provide further specific comments in respect to the observations and recommendations highlighted.

Control Issues

Payroll

Recruitment Documentation not available

Audit verifications carried out on the recruitment process of the 10 officers in the audit sample revealed several shortcomings. NAO observed the following:

a. The personal files of two officers in grade 7 falling within the audit sample did not contain documentation relating to the manner of recruitment.

b. The contract of employment of another sampled officer in grade 5 was not renewed upon being promoted to clearly describe the incumbent's new responsibilities. To this effect, MCCAA only issued an appointment letter pegging the respective officer to the new position.

c. Email sent by MCCAA to one of the sampled officers indicated that the respective employment contract was to be amended to part-time, casual basis, with effect from 1 October 2017 and extended on a yearly basis. However, the official employment contract covering the initial year, i.e., 1 October 2017 to 30 September 2018 was not traced.

Recommendations

MCCAA is to ensure that official documentation relating to recruitment, as well as detailing of employees, is in place and safeguarded for audit trail purposes.

Moreover, contracts of employment, clearly defining the relationship between the employer and employee, as well as the respective roles and responsibilities, are to be invariably entered into. This is also necessary upon the promotion of officers.

Management Comments

The concern raised with respect to the missing recruitment files is acknowledged. The Authority confirms that since 2019 it has introduced a digital filing system which facilitates retention and access to files over time.

The Authority wishes to clarify that appointment letters are issued in the case of promotions where the general terms of the employment remain unchanged barring the relative job description and financial package which is invariably referred to in the appointment letter.

The digital filing system should facilitate appropriate document keeping. Nonetheless, the Authority commits to revisit its document keeping to ensure appropriate safeguards by the third quarter of 2022.

Shortcomings in Performance Appraisal Reports

According to MCCAA, the procedure adopted with respect to performance appraisal forms is "… paperless and makes use of a form with locked cells which does not require the appraiser or appraisee to physically sign the form". However, performance appraisal forms were not signed, at least digitally, by either party, i.e., the appraiser and the respective officer. Thus, there was no evidence of the person authorising the performance bonus. Moreover, the forms were undated and did not indicate the period being reviewed. Errors and inconsistencies in such forms were also noted.

Recommendations

This Office acknowledges that MCCAA is committed to start addressing the concerns raised during the audit fieldwork and will also be reviewing the possibility of introducing appropriate automated controls in the performance appraisal form.

In addition, MCCAA is to ensure that the performance appraisal forms are duly signed by both the appraiser and the officer concerned, thereby ensuring the endorsement of both parties to the rating provided. These forms are also to be dated and clearly indicate the year of assessment.

Management Comments

The Authority acknowledges that the forms were not signed and dated; however, it wishes to clarify that there exits an audit trail with respect to the performance bonus by means of email.

The Authority is committed to introduce a fully automated system that will address the audit concerns. The system is planned to be in place for 2023. In the interim, dates and signatures will be introduced in the current forms.

Overtime Policy not in line with the Authority's Business Practices and Collective Agreement

Audit verifications revealed conflicting terms between the overtime policy, dated in April 2018, provided by MCCAA for audit purposes, and the collective agreement for the years 2017 to 2020[5]. According to MCCAA, the policy in question has been abolished and a new one was being drafted. Issues concerning differing business practices were also noted. The following matters relate:

a. While, as per overtime policy, only employees in grades 3 to 8 are eligible for overtime payment, one of the sampled officers occupying grade 9 was paid overtime, in aggregate exceeding €15,000 during 2021. The highlighted collective agreement in force does not specify which grades are eligible for overtime payment.

b. Audit testing revealed that the rate of overtime pay as calculated in the payroll system slightly differed from that as per MCCAA's collective agreement and overtime policy[6]. In this regard, MCCAA claimed that the respective clauses "*… should be amended accordingly*".

c. According to the overtime policy, the undertaking of all additional hours worked must be authorised in advance by the Director General or Head of Department, and after considering the option of awarding time off in lieu. If this agreement is not in place, additional hours worked will not qualify for overtime payment. However, cases were encountered whereby overtime was being approved by the Line Manager either on the same day or subsequent to that, when overtime hours were performed[7]. At times, the Director's approval for overtime hours was only sought retrospectively in the following month.

Recommendations

Clauses within the collective agreement and the overtime policy are to be aligned. Moreover, the overtime policy is also to be revised to reflect the terms of the new collective agreement which MCCAA is negotiating.

As for overtime approval, Management is to endeavour, as far as practicable, for overtime to be approved ahead of it being performed.

Management Comments

The Authority acknowledges the findings of the audit and is in the process of updating the overtime policy which will be completed by the second quarter of 2022, thereby aligning it with the collective agreement under which all grades are eligible for overtime.

The error highlighted in the collective agreement with respect to working hours will be addressed in the upcoming revision.

The Authority will continue to maintain post-overtime approvals to the minimum necessary.

Errors in Overtime Payments

Audit testing revealed errors in the calculation of overtime payments. Instances of overtime paid at incorrect rates were also noted. In addition, overtime hours worked by a sampled officer could not be validated as clocking data did not evidence such overtime.

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[5] This is still in force since negotiations on the new collective agreement were ongoing while the audit was being carried out.

[6] The overtime policy and collective agreement require for the overtime rate to be calculated at the basic salary divided by 2088 hours (261 days by 8 hours each). However, in the payroll system this was being computed at the basic salary divided by 2080 hours.

[7] Instances where Line Manager approval fell ahead of the date of overtime was only in cases where overtime was performed either during weekends or during public holidays.

Recommendations

MCCAA is to enhance its internal controls with respect to overtime payments, thereby ensuring the reliability of overtime hours claimed and correct payment thereof, in line with the requirements of the collective agreement. This will also minimise instances of salary adjustments.

Moreover, before payment for overtime is authorised, the responsible officer is to ensure that overtime hours claimed are reflected in the attendance records.

Management Comments

The Authority will endeavour to introduce an automated system of requests, validation against attendance records and corresponding computation of payments. Indicative implementation date is the first quarter of 2023.

With regard the issue of authenticity of overtime payment, this case related to overtime carried out outside the office. The approval process is being revisited to ensure appropriate controls are in place by the second quarter 2022.

Revenue

Internal Decisions not substantiated

Costings supporting invoiced amounts, documentation relating to the selection of experts, as well as proof of necessary checks performed by MCCAA ahead of charging clients for services rendered, were not provided for audit purposes.

Services related to Plant Protection Products

The provision of certain services by MCCAA, such as evaluation of plant protection products, is subject to a fixed price list. However, according to MCCAA, fees charged with respect to other services, such as evaluation of post authorisation data for a product, depend on the direct costs incurred to deliver the service, including labour costs and materials consumed, which are then re-charged upon the client.

One of the sampled revenue transactions, relating to an evaluation of a plant protection product, was charged at a fee of €48,000. This fee was above the respective price of €35,000, as established in the MCCAA price list. Requests for the actual costings to establish how the fee of €48,000 was arrived at were not acceded to.

Furthermore, in another instance, concerning an evaluation of post authorisation data for a product, MCCAA charged a fee of €2,100, which fee was not substantiated. The Authority claimed that the fee charged depends on the specifications and requirements of the work involved by the experts, as well as recovering the number of working hours carried out by MCCAA staff, further stating that the list of fees is a baseline of the services offered by the Authority.

Laboratory Services

Laboratory services provided by the Standards and Metrology Institute within MCCAA were subject to a fixed price list, as agreed upon between the Authority and the pertinent customer. In this regard, NAO was provided with a copy of the related price list in spreadsheet format; however, it was noted that this was not formalised. It further transpired that the laboratory uses an operational software to generate system reports as proof that the related tests or projects have been conducted, but no record is maintained of man hours spent on each test or project, including any overtime hours worked by MCCAA in performing such tests and other costs incurred in delivering the service.

Variable Element not reflected in Prices

Fees charged by MCCAA for quality management system certification are subject to prices that vary depending on the number of individuals employed by the entity being certified. However, the fee charged by MCCAA to one of its clients remained constant over a 16-year period 2005 to 2021.

According to MCCAA, "… *checks are done through records, such as the organisation chart, job descriptions and training records* …". However, although requested, supporting documentation to this effect was not provided. Moreover, while a copy of the final certificates issued to three clients falling within the audit sample was submitted as proof that the service was actually carried out, copies of the reports in connection with the respective verification were not made available.

Recommendations

Invoiced amounts are to be invariably supported by adequate costings and filed for future reference.

Moreover, MCCAA's procedures performed to attest clients' data shown in the application forms, including the number of employees, are to be invariably documented, thereby enhancing audit trail and facilitating external verification.

Furthermore, considering that laboratory services are provided to a repeat customer of MCCAA, NAO recommends that the works carried out are covered by a contract, also formalising the credit period and prices charged within the period of that agreement.

Management Comments

The Authority has a methodology for establishing fees and is cognisant of the fact that the response at time of audit might not have provided enough detail.

In this regard, the Authority takes this opportunity to clarify that the first case was a fast-track application as requested by the applicant. All fast-track applications of this type are billed at the rate of €48,000. This fee was established on the basis of the fees submitted by the experts as part of the expression of interest response for fast-track application. As regards the €2,100, this charge was established on the experts quote plus the pre-established flat administrative charge that is not calculated on a case-by-case basis.

The methodology adopted for validating clients' data will be revisited.

With regard to laboratory services, the Authority wishes to clarify that correspondence between the Authority and the pertinent customer exists to cover the pricing structure for services rendered.

The Authority appreciates the importance of the improvements highlighted and takes on board the recommendations made, which will be addressed by end 2022.

Errors in Invoices

Audit verifications carried out on invoices issued to customers for services rendered by MCCAA revealed certain errors in amounts invoiced, indicating that no checking is performed before the bill is sent to the client.

Recommendations

The Authority is to double-check invoices ahead of these being issued to clients to ensure accuracy thereof. Moreover, the price of all services offered is to be established and agreed upon by the respective parties in advance.

Management Comments

Whilst acknowledging NAO's observations in this regard, the Authority wishes to highlight that the Mosta Laboratory carries out a substantial number of tests, which exceeds 2,500 tests on a yearly basis. Each client is invoiced manually on a monthly basis according to the tests completed. The errors identified have been acknowledged and also rectified with each client.

To further enhance the accuracy of the invoicing mechanism, the Authority has already agreed to upgrade its operational software to process the test reports. An integration with the accounting system will also be explored to automate the workflow and avoid further manual intervention, thus reducing human error and making the process more efficient. Indicative implementation date is the second quarter of 2023.

Compliance Issue

Rest Breaks not deducted from Overtime Payments

MCCAA's collective agreement states that "Employees are to avail themselves of 15 minutes unpaid break when working more than 6 hours per day." This condition is also emphasised in the Public Service Management Code section 2.2.7.1 (iii), highlighting that the minimum rest break periods stipulated in the relevant legislation are to be respected. However, this provision was in several instances not followed.

Recommendation

MCCAA is to ensure that, where applicable, the break period is deducted from the respective overtime payments.

Management Comments

Recommendation will be taken on board with immediate effect.

Ministry for Energy,
Enterprise and
Sustainable Development

Electric Vehicle Charging Pillars

Expenditure

The review of **Electric Vehicle Charging Pillars** project remained inconclusive due to lack of project ownership by the respective entities involved. Significant delays, resulting in additional costs, were noted in the main contracts relating to the procurement of charging pillars and the respective Network Management System. Moreover, inadequate project planning and execution were noted.

Background

In April 2016, Malta signed the Paris Agreement which provided a global framework to help countries combat climate change and support their efforts. In view of European Union objectives, Malta aims to reach carbon neutrality by 2050. The availability of electric vehicle public charging infrastructure is considered a key contributor towards reaching this target.

The number of electric and plug-in vehicles[1] registered as at April 2022, amounted to 6,246 and 2,152, respectively[2]. During the first quarter of 2022, an average of 58 daily charges was registered across the 122 pillars installed throughout Malta and Gozo[3].

According to the Financial Estimates for 2021, €200,000 was allocated to the Ministry for Energy, Enterprise and Sustainable Development (MESD) for the project (Recurrent Vote 40, Line Item 5299 – EV Charging Pillars). Funds from other line items were eventually also utilised to finance additional expenditure. According to the Ministry, the actual disbursement for the project during the year under review amounted to €828,000.

Audit Scope and Methodology

The main scope of the audit was to verify whether procedures adopted in relation to the project were in compliance with the Public Procurement Regulations (PPR), as well as applicable circulars. The National Audit Office (NAO) also sought to determine the level of existing internal controls over the expenditure incurred. The reliability and adequacy of information available for decision-making and accountability purposes were considered.

An introductory meeting was held with Management[4] to discuss the audit objectives. The Auditors obtained a general understanding of the administrative procedures adopted for the execution of the project. A sample representing 56% of the total cost incurred in 2021 was selected on the basis of materiality from the different categories of expenditure.

[1] While electric vehicles need to be charged, plug-in hybrid electric vehicles may either function through charge or conventional fuel.
[2] According to information provided by Transport Malta.
[3] By end of October 2022, the average daily usage had increased to 124.
[4] MESD Permanent Secretary, as well as Director and Assistant Director from the Strategy and Support Directorate.

Disclaimer

Different line items were used to finance the costs of this project. However, these could not be easily identified; consequently, NAO could not ascertain the accuracy and completeness of the expenditure incurred in this regard during 2021.

Moreover, the procurement process for the contracts relating to the supply, delivery, installation and commissioning of roadside electric vehicle charging infrastructure, was managed by Transport Malta following a public call for tender. Although the respective contractual obligations were subsequently transferred to MESD in 2021, the procurement process was outside the scope of this audit. Thus, the respective contracts were only reviewed by this Office from an administrative point of view.

Management Comments

Management has taken note of this concern. Besides the fact that this issue would be addressed through appropriate record-keeping, more attention will be given to the correct incidence of charge.

Limitation on Scope of Audit

The expected level of cooperation from the auditee was not forthcoming to enable the smooth performance of this review. Although the respective engagement letter was sent by NAO in November 2021, information was received intermittently. The last batch of information was only received during the last week of August 2022, following several reminders and a number of meetings. In the meantime, the then responsible officers were no longer engaged with the Ministry. Moreover, not all the requested documentation was made available. Due to these significant delays and the tight publication deadlines, the extent of testing was restricted, leading to an inconclusive review.

Management Comments

Up to August 2022, the responsibility for this project was within the remit of the Strategy and Support Directorate, as assigned by MESD prior to change in Ministry portfolios. Following the Ministry for Environment, Energy and Enterprise's decision to reassign the project to the Energy and Water Agency (EWA), progress started to be registered on the project itself and, despite the limited visibility available at the time, the new Management reengaged with NAO to provide the necessary documentation and bring the audit to a closure.

Key Issues

Concerns arising from the Purchase of Charging Pillars and Respective Software

The contracts for the supply, delivery, installation and commissioning of roadside electric vehicle charging infrastructure, with a total value of €1,043,931 for Lot 1 and €322,592 for Lot 2, both exclusive of Value Added Tax (VAT), were signed between Transport Malta and the contractors[5] in May 2019. Lot 1 catered for the supply, delivery, installation, commissioning, and after-sales services of 130 charging pillars (22 fast-charging and 108 medium-charge). On the other hand, Lot 2 contract was for the provision of the Network Management System.

An addendum was signed in November 2021 to procure a further 56 charging pillars with the aim of replacing obsolete infrastructure.

[5] Lot 2 contract was later terminated due to the lack of compliance with contract obligations. This was subsequently awarded to the next cheapest bidder, i.e., the same contractor of Lot 1, at a contract value of €387,149 (VAT excl.).

The installation of the charging pillars only commenced in February 2021, following a shift in responsibility to MESD in the previous month. According to information provided by Management, an aggregate of 108 charging pillars were commissioned in 2021, whilst a further 19 followed by August 2022.

Additional Costs due to Project Delays and Contracts not formally extended

The project was to be completed within eight months from signing of contracts, i.e., by January 2021 for Lots 1 and 2; however, significant delays were registered. Up to the finalisation of this audit, i.e., September 2022, the deadline was extended three times for Lot 1 contract, the last extension given till end March 2022. Lot 2 contract was also extended until the same date. Subsequently, on 24 October 2022, Addendum 5 was signed, whereby another extension of 10 weeks from the foregoing date was granted for the commissioning of the additional 56 pillars. Moreover, the contracts for the pillars that were installed prior to July 2022 were not covered by valid performance guarantee[6].

As a result of this delay, MESD incurred additional costs, amounting to €24,007, for storage, insurance, bank guarantee extension, engineer and project management fees to postpone until September 2021. This was authorised by the Department of Contracts and paid accordingly.

Modifications to Contract

It transpired that the original contactor for Lot 2 relating to the software, did not comply with the obligations pertaining to the whole operation of the system; thus, contract was awarded to the next cheapest compliant bidder. The new contract, endorsed by the Department of Contracts, had a contract value of €387,149 (VAT excl.), i.e., €64,557 higher[7].

Subsequently, a total financial modification[8] of €243,231 (VAT excl.)[9], was approved through Addendum 4 to Lot 2 contract in November 2021; this resulted in a total contract cost of €630,380 (VAT excl.). Moreover, no explanation was provided to justify part of this modification, amounting to €170,000 (VAT excl.), since the respective bills of quantities were not provided for audit purposes. Consequently, this Office could also not verify whether the 50% threshold for modifications, allowable by the contract, was exceeded.

Recommendations

MESD is encouraged to discuss its future requirements with all pertinent stakeholders prior to any commitment. It is also important that a responsible officer is kept abreast with the comprehensive planning and implementation of the project. Besides enhancing ownership, this will avoid unnecessary costs.

Management Comments

In August 2022, responsibility for the installation of charging pillars' infrastructure was assigned to EWA; thus, shifting responsibility for both existing and future contracts. This decision established the Agency as the clear owner of the project with overall responsibility to attain stated deliverables.

In order to plan for the longer term and establish future requirements more clearly, EWA is conducting a process to procure specialist services for the preparation of a master plan. This will involve consultation with major stakeholders and set a clear roadmap for the achievement of future extensions to the public charging pillars' infrastructure. Government is also committed to install 1,200 charging points by 2025. Hence a hybrid approach is planned to achieve both the immediate targets and also future requirements.

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[6] Performance guarantees for Lots 1 and 2 were issued in July 2022.
[7] Original contract amounted to €322,592 (VAT excl.), whilst the second one had a contract value of €387,149 (VAT excl.).
[8] Awarded through Addendum 4 to the contract to cover for the whole operation over a five-year period.
[9] According to information provided by Management, as at 31 December 2021, this amount was not yet paid.

EWA requested additional human resources to enable the setting up of a team to manage properly both existing, as well as extensions to public charging pillars' infrastructure. Additionally, the Agency has a setup to ascertain that procurement procedures are in line with PPR.

Control Issues

Concerns related to Trenching and Ancillary Works

Inadequate Planning

In December 2020, the Ministry obtained a direct order approval[10] for trenching works pertaining to 10 charging pillars, at a cost of €125,974 (VAT excl.), on the basis of extreme urgency occasioned by unforeseeable events. Following the installation of this batch, the Ministry intended to work on a separate tender for works on the remaining 120 pillars.

Notwithstanding this, the departmental tender for trenching covered 30 pillars, at a contract value of €163,098 (VAT excl.). Through a modification to contract, the Ministry also requested additional works at another six different locations, four of which replaced those which were no longer needed, and the other two were required to correct work previously carried out by another contractor. Additionally, the contracted works pertaining to each site also required modification to cater for the requirements of Enemalta Corporation.

The Auditors were informed that the trenching works for the remaining sites were carried out by Infrastructure Malta upon a verbal agreement with the Ministry.

Project Management Concerns

The decision to increase the number of sites and replace others while also modifying certain works was not supported by a signed contract. Thus, there was no evidence that this was approved by the respective Permanent Secretary. The aggregate amount disbursed with respect to the second contract trenching and ancillary works for the installation of 30 roadside electric vehicle charging infrastructure was not communicated to NAO, with the result that the Auditors could not establish the total value of variations and/or modifications, if any.

Undetected Errors at Bidding Stage

Although the evaluation report indicated that the selected bid was verified for arithmetical accuracy, the bills of quantities supporting the invoice included various corrections to the respective amounts, pertaining to 29 out of 30 bills submitted at bidding stage.

Unrealistic Timeframes for Trenching Works

The first contract covering trenching works for ten pillars was signed on 2 December 2020 and had to be executed within five weeks. It was noted that in May 2021, the relative performance guarantee was extended until end August 2021. This may imply that the duration of works spanned over several months. However, Management was not in a position to confirm whether the contract was officially extended.

The second contract, dated 13 August 2021, covering works for 30 charging pillars had to be executed within 8 weeks. The performance guarantee was extended until the beginning of April 2022, implying that works were still ongoing, but an official extension of the contract was not available.

This also meant that although the Ministry was supposed to have gained experience through the previous contract, it was evident that the original timeframe was not realistic. This could have discouraged other contractors from submitting offers which could have possibly been more advantageous to Government.

[10] Selected from three quotations.

Recommendations

Considering the materiality of disbursements, the Ministry is expected to improve upon its project planning and management practices to avoid resorting to short-term decisions, which may ultimately result in cost inefficiencies. Variations and/or modifications to the contracted works are to be duly authorised and included as amendments to the original contracts. Such safeguards should be in place prior to the commissioning of works to avoid any misunderstandings, and thus ensure the smooth running of the project. Bids submitted at tendering stage are to be checked thoroughly.

Management is also to strengthen the administration of contracts by ascertaining that respective documentation, including the necessary approvals and extension to contracts, is in order and systematically filed for ease of reference.

Management Comments

EWA is in the process of issuing new tenders for the procurement of works and services which would cater for the upcoming 1,200 charging points and will take into account any lessons learnt in previous projects. Enhancing the team would also assist in the planning of the works rather than having a short-term approach.

The Agency has its own procurement setup to ascertain that PPR are followed. Moreover, with the increase in staff, each contract will be assigned to an officer in charge who will be performing contract management and ascertain that filing is systematically performed as per EWA policies.

Shortcomings related to the Provision of Architectural Services

During 2021, an aggregate of nearly €52,000 was paid to three different providers of architectural services in connection with the charging pillars project. The review of documents revealed the following concerns:

a. Nearly half the payments related to architectural services, amounting to €25,311, were procured directly from the open market, with a covering approval from the Ministry for Finance on the basis of urgency. This approval was given on 6 July 2021; however, documentation in file indicated that on 25 June 2021, the respective architect was already providing the services.

b. Although the aforementioned contract, with the value of €25,311 required the architect to submit timesheets detailing hours and work carried out, these were not traced in file. Thus, NAO could not conclude whether the charge was fair and reasonable, as claimed in the request for direct order.

c. Another architect, who was paid an aggregate of €13,270, failed to comply with the contractual obligations of providing an explanation of works carried out, as well as supporting timesheets. Nevertheless, an addendum for repetition of services, amounting to 25% of the original contract value[11], was signed during the same period.

Recommendations

The Office acknowledges the necessity to meet deadlines for the timely implementation of projects. However, procurement through direct orders is to be resorted to only in exceptional circumstances. Such instances are also to be duly authorised in line with standing regulations prior to commitment. Additionally, officers in charge of project management should ensure that contract conditions are fully adhered to.

If the Ministry requires the services of an architect on a regular basis, it may also evaluate the possibility of engaging someone inhouse, as besides increasing cost efficiency, this would also enhance project ownership and execution.

[11] 600 hours at €18 (VAT excl.) per hour, i.e., €10,800 (VAT excl.).

Management Comments

EWA has a procurement setup to ascertain that PPR are followed. Moreover, with the increase in workforce, each contract will be assigned to an officer in charge who will be performing contract management and ascertain that any terms and conditions are observed.

The Agency concurs with the recommendation and has requested additional human resources to enable the performance of a number of architectural services inhouse. Until such recruitment takes place, EWA will have to rely on contracted services to manage its obligations.

Conflicting Information regarding Revenue Collection

An officer claimed that payment was being effected by users of the charging pillars through the Charge my Ride Application as from inception in October 2021. In contrast, another official stated that no revenue was generated in this respect up till end of April 2022. Thus, entitlement to such income, or otherwise, could not be ascertained.

Recommendation

Better communication is expected amongst Ministry officials to ascertain that revenue in favour of Government is duly collected and recorded.

Management Comments

EWA is in the process of starting a reconciliation exercise to ascertain that any revenue due is collected accordingly.

Inadequate Record-keeping System

A number of electronic files pertaining to the project were made available for audit purposes. However, NAO noted that there was no systematic filing. Particular documentation, such as, the bills of quantities, updated performance programmes, commencement orders, as well as evidence of inspections and after-sales services, was at times lacking. Additionally, by the end of the audit fieldwork, some documentation was still not made available. This indicated an incomplete audit trail, also limiting the scope of this assignment.

Recommendations

Management is expected to enhance its filing system, possibly organising information by supplier. All supporting documentation is to be readily available for verification by third parties.

Management Comments

EWA has a digital document management system which is used for systematic filing as per its internal policies.

Compliance Issue

Procurement not published in the Government Gazette

NAO was not provided with evidence of publication in the Government Gazette with respect to the following sampled procurement:

a. **Directly from the open market** – The purchase of 200 bollards at an estimated value of €19,000 (VAT excl.), as well as architectural services costing €21,450 (VAT excl.).

b. **Tender** – The contract awarded for the provision of 600 hours of architectural and engineering services at €18 (VAT excl.) per hour, totalling €10,800 (VAT excl.).

c. **Modifications to contracts** – The value of modifications to the two contracts, signed with the charging pillars contractor[12], both exceeded 5% of the original amount.

Recommendations

In compliance with regulation 111(2) of PPR and other pertinent circulars, all contracts whose value exceeds €5,000 (VAT excl.), as well as all cases involving variations which exceed the original contract value by more than 5%, are to be published in the Government Gazette. Such requirement also applies for procurement effected through calls for quotations and direct order procedures.

Management Comments

EWA has a procurement setup to ascertain that PPR are followed.

[12] Modifications to contracts amounted to €477,706 (VAT excl.) for Lot 1 and a further €243,231 (VAT excl.) for Lot 2.

Pandemic Assistance Schemes

Expenditure

Although the original intention of the National Audit Office was to carry out a compliance audit on the **Pandemic Assistance Schemes**, mainly the COVID-19 wage supplement scheme, to be finalised by the third quarter of 2022, the exercise proved to be more challenging in view of the complex processes and more so, due to the fact that Malta Enterprise claimed that by mid-June 2022, it was still fully engaged in providing extended assistance to beneficiaries under the scheme and also in carrying out post grants checks. It has been agreed to extend the audit to a later period to ensure that the assignment is finalised in 2023.

Background

A number of schemes were introduced by the Government to assist private enterprises during the COVID-19 pandemic. The most material was the wage supplement scheme which was meant to be the focus of this audit.

On 13 April 2020, by means of notice number 389 in the Government Gazette, the Government detailed the measures launching the COVID-19 wage supplement scheme which was announced towards the end of March of the same year. By virtue of these measures, individuals employed in those sectors of the economy which were most significantly disrupted by the pandemic were to benefit from a basic wage cover, equivalent to the minimum wage for workers in certain economic sectors.

The Government appointed the Malta Enterprise to manage the wage supplement scheme on its behalf. Accordingly, as stipulated in the foregoing notice, the Enterprise was entrusted with a number of tasks, including:

a. processing of applications;
b. carrying out checks and verifications as deemed necessary;
c. sharing data submitted in the application forms with other public entities and authorities, with the intention of recovering any payment of funds made in error or on the basis of false, incorrect, or incomplete information;
d. making any necessary adjustments as a result of double funding; and
e. requesting the institution of criminal procedures against any person who submits false information or fails to forward the funds received to employees, as obliged to do under the terms of the scheme.

Details of the Scheme

The COVID-19 wage supplement scheme was applicable to both full-time and part-time persons employed by enterprises, as well as to self-employed individuals operating in certain sectors, as determined by the Malta Enterprise. Sectors were split in different categories in accordance with their NACE Code[1], with the amount of supplement varying, depending on the sector in which the respective employing company or sole practitioner operated. Businesses operating in sectors that either had their operations fully suspended, or suffered drastically, were granted a wage supplement higher than that paid to those which were less affected.

[1] Statistical classification of economic activities in the European Community is referred to as NACE – it is the industry classification system used in the European Union.

The scheme came into effect as from 9 March 2020. Throughout the duration of the scheme, there were various revisions to the terms under which wage supplement payments were made, depending on the circumstances prevailing during the pertinent period. In fact, upon the easing of restrictions in June 2020, the lists of NACE Code categories were revised to move certain sectors accordingly, covering the period July to December 2020. Further revisions were then effected as follows:

a. As of January 2021, the amount of the wage supplement started to be calculated according to the drop in sales of businesses. This change was to be worked out on the Value Added Tax (VAT) declarations, through an agreement reached with the VAT Department.

b. As of August 2021, a new tapering system was announced, whereby the worst-hit entities, or individuals with a drop in sales of 55% or more, from 2019 to 2020, were to continue to receive the wage supplement in full until the end of year. Therefore, these companies experienced no change. Tapering for the other categories was to take place in two phases; Phase 1 covering the period August to September 2021, beneficiaries received 60% to 80% of the previous benefit and Phase 2 covering October to December 2021, the payment amounted to 50% of the supplement paid in Phase 1.

In order to simplify the administrative processes, the Malta Enterprise decided to adopt a procedure whereby it would forward the respective funds to employers, who were in turn obliged to guarantee that the COVID-19 wage supplement was forwarded to the employee.

The scheme was to be modified, amended, or terminated by the Government. In fact, wage supplement payments were effected up till the end of May 2022 (under the tapering system, Phase 2), following which the scheme was terminated.

As claimed by the Malta Enterprise, the urgency of the scenario under which the scheme was introduced, together with its unprecedented and exceptional nature, as well as the hefty number of applications received, offered a major challenge to outrightly identify potential loopholes, since there were no established models to emulate. Matters were further complicated by limitations in the data provided by other Government entities and departments which, according to the Enterprise, lacked complete reliability. The latter highlighted that internal control systems were enhanced over time, as initial control systems were checked and refocused, thereby ensuring that abuses were captured and rectified.

Financial Information

For financial year 2021, Line Item 5163, Pandemic Assistance Schemes under Programmes and Initiatives (Vote 40 Recurrent), Ministry for Energy, Enterprise and Sustainable Development, was allocated a budget of €120 million.

Review of the data as submitted by the Malta Enterprise, covering the period since inception up to mid-April 2022[2], revealed that aggregate payments made under this scheme, amounted to almost €677 million.

Audit Scope and Methodology

The audit aimed to identify whether the minimum requirements of the scheme were complied with in all respects, thereby ensuring that payments were made to beneficiaries in accordance with the established regulations. The audit also sought to determine what checks were carried out by the Malta Enterprise ahead of granting this financial assistance, to confirm authenticity and accuracy of the data submitted by applicants in their application forms.

Following the submission of the engagement letter on 1 February 2022, the National Audit Office (NAO) held various meetings with the following officials to understand the procedures applicable to manage this scheme:

[2] Being the date when data was provided to this Office.

a. The then Permanent Secretary within the Ministry for Energy, Enterprise and Sustainable Development (on 24 February 2022).

b. Officials from the Malta Enterprise, including the Chief Executive Officer and other individuals responsible for managing the COVID-19 wage supplement scheme (on 12 April 2022).

c. Officials from the Planning and Priorities Coordination Division[3], including the then Director General (on 2 May 2022).

d. The then Permanent Secretary (Ministry for Finance and Employment) and Director General within the same Ministry (on 31 May 2022).

Limitation on Scope of Audit

Following these meetings, ahead of selecting an audit sample and commencing testing, NAO requested the Malta Enterprise to facilitate a walkthrough of the system to gain a better understanding of the processes and procedures adopted by the Enterprise to manage the scheme in question. Unfortunately, however, NAO was unable to conduct this walkthrough at the originally planned time since, according to the Malta Enterprise, responsible personnel was fully absorbed and engaged in urgent post scheme closure work. Although NAO's preference was to conclude the audit by end of summer, in acknowledgement of the unparalleled efforts by the Enterprise to implement the scheme, it was agreed to postpone the audit to a later period.

Preliminary Findings

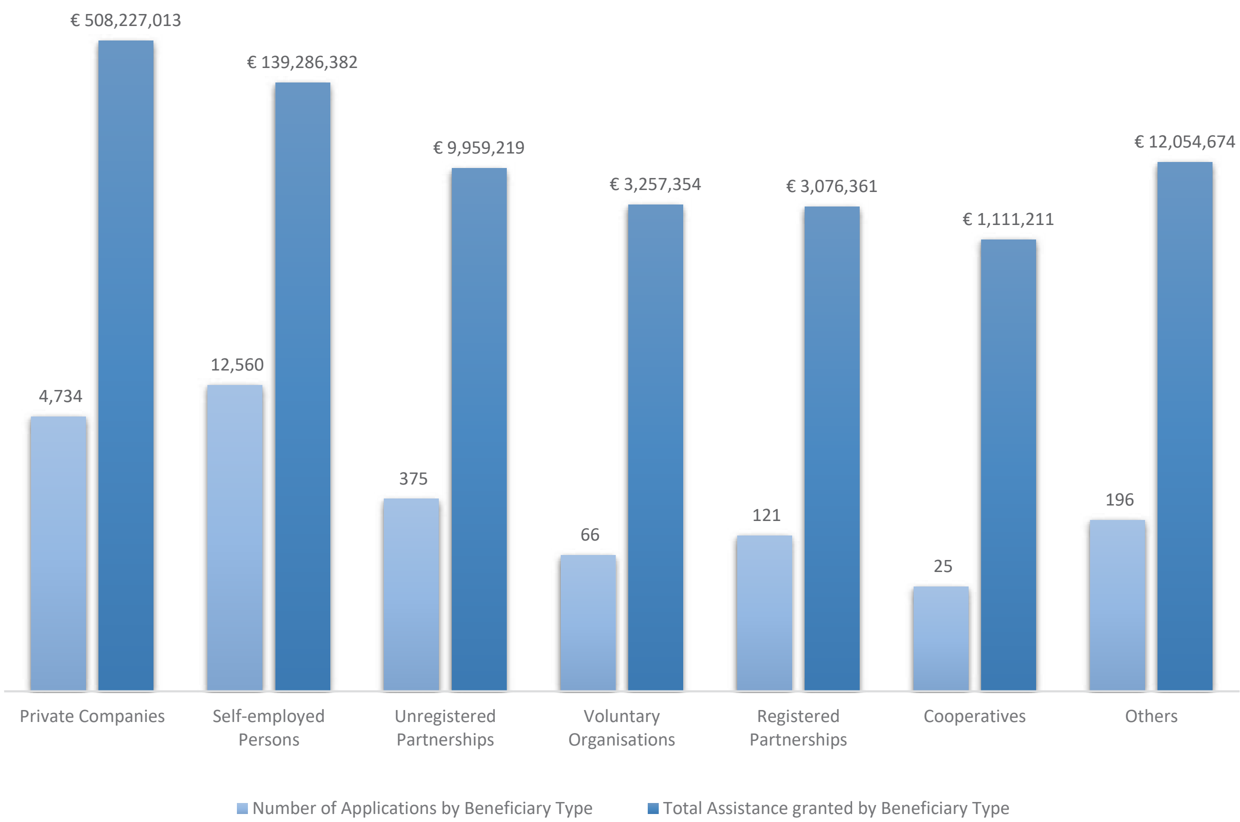
The principal segments benefitting from the scheme consisted of the following:

- Private Companies
- Self-employed Persons
- Unregistered Partnerships
- Voluntary Organisations
- Registered Partnerships
- Cooperatives
- Others (mainly sports clubs and other individuals)

Chart 1 depicts the total number of applications received by the Malta Enterprise by beneficiary type and the respective global amount of payments made, covering the period since March 2020 up to mid-April 2022.

[3] The Planning and Priorities Coordination Division, with the assistance of private audit firms, was carrying out an audit on the portion of the COVID-19 wage supplement which was funded by means of European Union Funds.

Chart 1: COVID-19 Wage Supplement Scheme Payments by Beneficiary Type



NAO's preliminary review of the entries forming the depicted data revealed certain anomalies which could pinpoint towards an insufficient level of checks performed ahead of granting assistance. Such anomalies comprised the following:

a. Multiple applications with the same company name, but with a different VAT number were encountered. Following queries raised with the VAT Department in this regard, it was confirmed that an entity is only provided with one unique VAT number. Thus, this could imply that a company submitted more than one application for assistance and was paid accordingly.

b. Applications of self-employed persons using a different name and surname but with the same identity card number were also noted.

c. The third largest tranche of assistance, reported as paid to other beneficiaries, amounted to over €12 million. Amongst the beneficiaries falling under this tranche, there were football and other sport clubs[4], as well as payments made to other individuals.

Management Comments

Clearly, the walkthrough process, scheduled for a later stage, will provide further insights, assisting NAO in establishing a more comprehensive assessment of the data and related processes.

[4] Various other sport clubs were also reported under voluntary organisations.

NAO's Position

The Malta Enterprise confirmed that checks and controls were still under way and will continue into the foreseeable future to ensure clawbacks against defaulters. In the meantime, and until the walkthrough is carried out, NAO will not be able to vouch on the regularity of the claims and payments made.

Ministry for Finance
and Employment

Customs - Excise Duties

Revenue

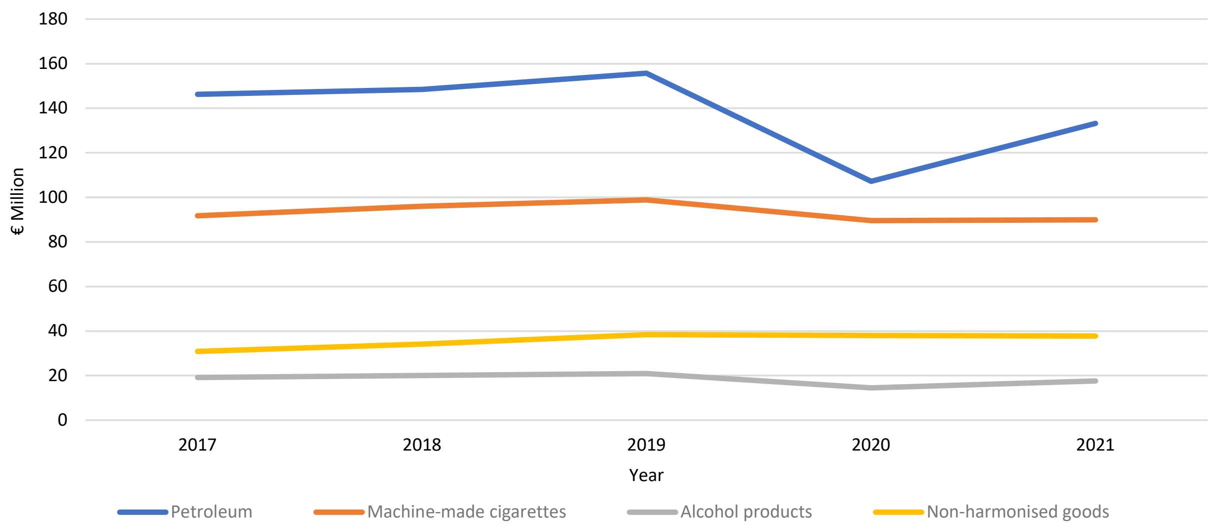
An audit on **Excise Duties** revealed that, during the year under review, Customs did not carry out the required physical stocktakes at the warehouses where clients had the faculty to keep merchandise in a bond under duty suspension until goods are released. Thus, this most important control in the excise regime, which was also outlined in the established standard operating procedures was lacking.

Background

Customs within the Ministry for Finance and Employment 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 through the relevant legislation. It also has a multi-functional border agency role with specific focus on trade facilitation, alongside security and safety borders controls. Most of Customs' clients are Tax Warehouse Keepers (TWKs) who have the faculty to keep merchandise in a bond under duty suspension. Any excise duty becomes due upon releasing of the said merchandise, following which, TWK must provide a stock report and pay the related duties.

According to the Financial Estimates (Vote 46), in 2021, €325 million was to be collected from excise duties. However, repercussions of COVID-19 pandemic on the economy had a material negative impact on general consumption, triggering lower revenue such as taxes. Actual revenue by Customs as reported in the 2021 Financial Report amounted to €278,433,974, out of which 48% and 32% were derived from excise duty on petroleum and machine-made cigarettes respectively. Comparison against the income generated in the prior four years is shown in Chart 1.

Chart 1: Trend Analysis of Excise Duties Revenue (2017 to 2021)



(Source: 2017: Financial Report 2018 page 6; 2018: Financial Report 2019 page 6; 2019: Financial Report 2020 page 25; 2020 and 2021: Financial Report 2021 page 42)

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 excise duties, with particular focus on physical stocktaking required by standing procedures and stock reporting by TWKs.

Introductory meetings were held with Management to obtain a thorough understanding of the revenue cycle across different Units within Customs, in connection with excise duties. Further meetings with various Customs officers were necessitated to carry out systems overviews and walkthrough tests on the collection of excise duty on the following items:

- energy products (including petroleum) and lubricating oils;
- machine-made cigarettes and tobacco;
- alcohol products; and
- non-harmonised goods.

During these meetings, an assessment of the internal controls in place and the risks involved, as well as the identification of any concerns in relation to revenue collection, was made. The respective Standard Operating Procedures (SOPs) in place were also reviewed. Detailed substantive testing was performed on the evaluation of recent applications in respect of new TWKs. Monthly stock reports and the outcome from physical stocktakings were also reviewed.

Between 2020 and June 2022, four applications were received by Customs from traders, to be registered as TWKs, all relating to energy products. No observations were noted by the National Audit Office in the evaluation of the two selected applications; thus, no further testing in this area was deemed necessary.

Out of a total of 91 existing TWKs, testing was performed on the monthly stock reports of a sample of 11 TWKs and related physical stocktaking carried out for the year under review. All the 12 monthly stock reports of each selected TWK for year 2021 were examined to ensure that the required reconciliation was carried out by Customs. Moreover, evidence of all physical stocktakes carried out during the same year was requested.

Key Issue

Lack of Physical Stocktakes

As outlined in the respective SOP, physical controls relating to energy products should be performed monthly, in the form of end of month stocktaking[1] in all tax warehouses[2]. According to the Key Performance Indicators for the Alcohol Products Unit which are outlined in the respective SOP, stocktaking is to be taken four times annually, as a minimum for every stakeholder. On the other hand, the frequency of the periodic physical stocktaking relating to machine-made cigarettes and non-harmonised goods rests upon the discretion of Customs and is dependent on human resources, risk analysis, stock type and the size of the respective enterprises.

However, testing revealed that, during 2021, Customs did not carry out the required physical stocktakes in accordance with the established SOPs. In fact, for eight of the eleven sampled TWKs, no stocktake was carried out at all, while in another two cases that required four annual separate stocktakes, only one for each case was performed.

[1] The operation involves the dipping of shore tanks, road tankers and bunker barges on the last day of the month.

[2] Except for Customs' major customer, where these are performed every three months.

Recommendation

Being one of the most important controls included in an excise monitoring regime, Customs is to ensure that regular physical stocktakes are carried out at every tax warehouse, in line with the pertinent SOPs.

Management Comments

In general, base year 2021, which was selected for the auditing exercise, was unfortunately associated with a turbulent period in terms of health issues. In an unexpected manner, COVID-19 pandemic had impacted Malta, same as the rest of the world. Eventually, the staff at the Excise Directorate and TWKs' personnel were compelled to work in bubbles, as instructed by the Maltese Health Authorities. This, inevitably, brought about logistic problems and certain jobs had to be restrained to prevent direct contact between Customs' officers and TWKs' staff.

The unusual circumstances are fortunately over. Therefore, as normal business resumed in April 2022, the Excise Directorate re-embarked on the mandatory regular physical stock controls which are carried out at every tax warehouse. In fact, evidence of a substantial amount of stocktakes carried out by Customs in the period between April and September 2022 was provided to the National Audit Office.

Control Issue

Required Stock Statements not available

All stock movements relating to energy products and lubricating oils, made during each month, must be forwarded to Customs by the respective TWK by the first week of the following month, in accordance with the relative SOP. Statements are to be officially signed and kept at the Energy Products Unit for any scrutiny that may be required. A list of all bunker issues supplied during each month must also be attached to the statement. These should tally with supporting documents duly signed by the Captain of Chief Engineer of the ship receiving the supply.

However, one of the sampled TWKs, relating to energy products, was not supported with the necessary statements. According to Customs, this warehouse keeper never submitted the reports in question. Notwithstanding this, no corrective action has been taken by Customs so far.

Recommendation

Management is to resolve the existing impasse and chase the responsible warehouse keeper to submit the reports in question.

Management Comments

The practice was that the sampled TWK recorded all ins and outs within the bonded warehouse system. This notwithstanding, the bonded warehouse reports in question have been submitted by the respective TWK in mid-September 2022. Reconciliation of these reports is being carried out by the Energy Products Unit and will be completed by end of October 2022. Henceforth, stocktakes will be performed monthly as per normal procedure.

General Comment

This Office satisfactorily noted that officers involved were very cooperative and knowledgeable on the respective area of work, and documentation requested was always submitted in a timely manner.

Malta Air Travel Ltd

Revenue and Expenditure

A revenue and expenditure audit carried out at **Malta Air Travel Ltd** revealed issues relating to an expired contract of a high-ranking company official, which had also been signed retroactively, and irregularities relating to the remuneration rates of others.

Background

Malta Air Travel Ltd (MAT) is a limited liability Company registered under the Companies Act (Cap. 386). The Company was set up and registered on 10 January 2018 with an authorised share capital of 70 million shares[1], with a nominal value of $83,944,000[2]. The Government of Malta is the sole shareholder and thus the ultimate controlling party of the Company, which falls under the responsibility of the Ministry for Finance and Employment.

The Company is commercially known as Malta Med Air, a European based airline registered in Malta and flying under a Maltese Air Operator Certificate. Its operations mainly comprise charter and consultancy services, to aviation and non-aviation business customers in Europe and beyond. The Company owns the landing rights at Heathrow and Gatwick airports, which were purchased for $69.8 million during its first year of operations.

The operating licence from the Maltese Aviation Authority was obtained on 15 March 2018 and the first commercial flight, undertaken on behalf of the national airline, Air Malta plc, was on 27 March 2018.

Financial Information

The last audited financial statements as at 31 March 2021 showed that the Company's revenue amounted to around $7 million, a decrease of 46% over the prior year, mostly due to the COVID-19 pandemic and its impact on the aviation industry. The profit before taxation amounted to almost $0.6 million, compared to a $1.7 million in the preceding period.

Following the suspension of a wet lease agreement[3] with Air Malta plc, MAT started entering into new agreements directly with charter clients, separately from the former. These agreements covered, amongst others, the provision of crew, independent flight numbers and ground handling arrangements, including a new reservation system whereby charter clients, as well as individuals, could book directly through the airline's website.

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[1] Issued share capital amounted to $71,640,341 for 59,740,111 shares.

[2] The Company's official currency is the United States Dollar ($). Some of the transactions are carried out in Euro (€), which amounts are converted to Dollar using the applicable exchange rate.

[3] A wet leasing agreement means that the organisation who owns the aircraft will provide that aircraft, as well as one or more crew members to the lessee. The owner is also obliged to conduct adequate maintenance and procure the insurance necessary to operate, in what is called ACMI (aircraft, crew, maintenance and insurance). On the other hand, a dry lease consists of solely the lease of the aircraft.

Audit Scope and Methodology

The main objective of the audit was to determine the level of existing internal controls over the collection of revenue by the Company, as well as its expenditure.

The National Audit Office (NAO) held an introductory meeting with the Chief Executive Officer at MAT, as well as the Director General representing the Ministry. The purpose of this meeting was to obtain an overview vis-à-vis the Company's business in general.

Various other meetings were subsequently held with officials from the Company, in order to understand both its revenue and expenditure cycles.

Revenue

- **Wet leasing** – An amount of $3 million was received up to July 2020, after which no further revenue was generated from this type of leasing, as a result of the suspension of the relative agreement. No testing was deemed necessary in this respect.

- **Landing rights at Heathrow and Gatwick airports** – Subsequent to the purchase of landing slots rights, an agreement was entered into with the national airline, for an amount of $203,583 payable per month to MAT, for the use of these landing rights for a 20-year period. The monthly revenue was tallied to the applicable agreement.

- **Charter agreements and scheduled services** – Revenue is calculated based on the number of block hours and is charged per hour. Following successful negotiations with a customer for a particular charter flight, an agreement is signed, and the invoice and respective payment follows. According to the list of all charter flights obtained for audit purpose, till June 2021, a total of 21 agreements, amounting to around €1.3 million, were entered into. A sample of six transactions was subsequently chosen, amounting to close to €604,000 and testing was carried out by checking the transaction amounts to the signed agreement, as well as to the respective invoices and proof of payment.

- **Other income** – At the time of audit, up till June 2021, MAT had only recorded other income of €75,000[4] from consultancies; for services rendered to a limited company, covering assistance given to the latter to obtain an Air Operator Certificate licence. The respective payments were verified against the agreement in place. Furthermore, the Company, together with three other entities (Air Malta plc, the Ministry for Tourism and the Malta Tourism Association), entered into an agreement with a former Air Malta plc Officer, for the provision of consultancy services, for a total charge of approximately €156,000 per annum. This amount is initially paid by MAT but costs are eventually split equally between the four entities concerned and refunded accordingly by the three other entities. This refund was checked for accuracy.

Receivables

The list of receivables as at 31 March 2021, obtained from the auditee, was verified against the balances that were paid after year-end, where it was confirmed that the only outstanding amounts pertained to two debtors for $211,971 and $19,601 respectively. Both invoices dated back to December 2020.

[4] Representing 50% of the amount receivable. A further 50% is to be paid on the date on which both the Air Operating Certificate and the Air Operating Licence are issued to the private company.

Expenditure

NAO obtained the cost of sales and administration expenditure listings as per March 2021 management accounts, amounting to $1.1 million and $5.6 million respectively. The most material categories of expenditure were identified. These included legal and professional fees, cabin crew and pilots' costs, training, insurance, information technology services, aviation audit costs and aviation services, for a total value of $1,279,117. The respective payment vouchers and invoices were obtained, and the procurement process was also reviewed.

Furthermore, given that salaries were considered as a substantial expense for the Company and amounted to around $521,000 for the year ending March 2021, a sample of six out of fifteen employees was chosen for testing. Their monthly salaries, and the Company secretary's fee, including allowances, were recalculated and verified for accuracy against their work contracts. The Directors' Fees were verified against the Manual for setting the Categorisation, Classification and Remuneration of Government-appointed Boards and Committees, to ensure compliance with the Commercial Board Category.

As part of the audit, reference was made to a number of agreements entered into between the Company and various entities, both in relation to its revenue and expenditure. Reference was also made to the Framework for the Categorisation, Classification and Remuneration Structure of Government-appointed Boards and Committees.

Control Issues

Expired Employment Contract

At least up to end March 2022 when the audit was in progress, the Company secretary was still on the Company's payroll, even though the relative contract, which had expired in January 2021, i.e., over one year, had not yet been renewed.

Furthermore, the original three-year agreement, which covered the period January 2018 to January 2021, was signed retroactively in August 2018.

Recommendations

Should the services in question still be required following expiration of contract, a new agreement or renewal thereof is to be signed in order to formalise such positions.

Moreover, contracts are to be entered into before the actual term starts and not retroactively.

Management Comments

The Company secretary is a legally required function; hence the role and services are required for good governance and to keep within the Malta Business Registry rules. Following the audit, the Company acted accordingly and on 15 June 2022 entered into a contract extension agreement with the Company secretary until 15 November 2022. MAT will endeavour to ensure that it will be able to extend such contract accordingly.

Incorrect Directors' Remuneration

The Framework for the Categorisation, Classification and Remuneration Structure of Government-appointed Boards and Committees indicates that if a company sets up a Commercial Board of Directors, then its classification and members of the respective Board are to be based on three variables: the company's income, the number of employees and its total assets.

According to NAO's workings, using the audited figures for the financial year ended 31 March 2020, the Company was established as being at Level 3, with the Non-executive Chairman paid 33% of the salary in scale 2 and the Directors pegged at 13% of the same salary scale[5]. Instead, since inception, they were incorrectly paid at Level 1, whereby the Chairman and the Directors are pegged at 53% and 23% respectively of the salary in Scale 2.

In aggregate, the officers in question were overpaid around €20,000 during the financial year ended 31 March 2021.

Recommendation

Direction to this effect is to be sought from the Ministry for Finance and Employment to decide the way forward and subsequently inform the Board of Directors accordingly.

Management Comments

When the Company was established, the categorisation of remuneration of the Board of the Company was established at Level 1 by the then Ministry for Tourism on the basis of the business plan of the newly established Company and expected operations. The Board was at the time informed and paid according to such classification. An exercise carried out in 2022, following the audit, indicates that the categorisation of the Company should be at Level 3 and thus henceforth the remuneration of the Board will be at this level. The Board of Directors is informed accordingly.

Procurement by Direct Order

Pilots and Cabin Crew

Until June 2020, pilots and cabin crew working for MAT were on Air Malta plc's payroll. Following the termination of the respective agreement between both parties, the Company had to recruit its own employees. This recruitment was done by direct order with two private companies, a foreign company for pilots and a local one for cabin crew. For the eight-month period August 2020 to March 2021, a total payment of around €160,000 (VAT excl.) was made for the recruitment of around twenty cabin crew, while another €322,000 was paid for the services of three pilots and five first officers.

Information Technology Services

A local company was engaged in June 2019 to provide information technology services, for a monthly fee of €1,080. According to MAT, this company in question was chosen since it provides the same infrastructure to Air Malta plc; thus, considering the knowledge, the local company was given the contract for a period of 25 months.

Recommendation

NAO acknowledges that MAT is not bound to follow the Public Procurement Regulations. However, for good practice and considering the considerable amounts involved, the Company was at least expected to obtain quotes from potential service providers, either locally or abroad to get the best competitive offers.

Management Comments

The Company resorted to direct orders due to the prevailing situation on the ground and in the case of information technology services, also reflecting the experience of the existing service provider. MAT would continue to endeavour to seek quotations from the market and/or follow tendering procedures as may be possible.

[5] During the financial year ended 31 March 2021, in line with the schedule of grades published every year in the financial estimates, the yearly amount payable to the Chairman and Directors should have amounted to €14,000 and €6,000 respectively.

COVID-19 Guarantee and Interest Rate Subsidy Schemes

Expenditure

An audit on the **COVID-19 Guarantee and Interest Rate Subsidy Schemes** did not reveal any internal control weaknesses or other concerns. Detailed standard operating procedures covering the respective processes were in place and duly followed by the Malta Development Bank. Regular internal audits were also being undertaken.

Background

Following the COVID-19 Response Support Programme announced by the Government on 18 March 2020, an aggregate Guarantee Fund[11] of €350 million was set up to guarantee loans granted by credit institutions in Malta accredited by the Malta Development Bank[2] (MDB) to meet the working capital requirements of undertakings facing liquidity shortages because of the pandemic.

On 16 April 2020, the Government then announced the setting up of a COVID-19 Interest Rate Subsidy Scheme (CIRSS) as an extraordinary budget measure to complement the COVID-19 Guarantee Scheme (CGS). For this purpose, an additional amount of €40 million was allocated by Government through the Interest Fund. All beneficiaries under CGS are eligible for a grant under CIRSS to cover up to 2.5% interest on the loan for the initial two years. The borrower must pay an interest rate of at least 0.1% on the loan out of pocket.

MDB was appointed by Government as the entity responsible for the implementation, administration and monitoring of these two schemes, and is paid a service fee[3] to manage CIRSS. No such fee is payable by Government in connection with CGS.

As per the Corporate Financial Management Solution, the Ministry for Finance and Employment (MFE) recorded a total expenditure of €9,662,597 from the Interest Fund for the year 2021 under Recurrent Vote 41, Line Item 5071 against a budgeted total expenditure of €12,000,000. There was no expense from the Guarantee Fund.

Audit Scope and Methodology

The main scope of the audit was to assess the adequacy and effectiveness of internal controls over expenditure incurred on CGS and CIRSS in 2021, as well as to establish whether Government resources were used prudently and in a judicious manner. The audit also aimed to assess whether the administrative procedures adopted were in compliance with the applicable terms and conditions, as outlined by MFE.

[1] This fund served to finance the COVID-19 Guarantee Scheme.
[2] The Malta Development Bank is fully owned by Government.
[3] CIRSS management fee is equivalent to a base remuneration of 0.5% of the interest rate subsidy paid by MDB to the financial intermediaries during the relevant invoicing period.

The audit team held an initial meeting with the Director General Strategy and Support Services, the Director General Budget Affairs, as well as an Officer in Scale 5, all within MFE. Subsequently, a more detailed meeting was held with MDB's Chairman, Chief Executive Officer, Deputy Chief Executive Officer, Chief Internal Auditor and Senior Credit Officer within the Bank. Both meetings were held to discuss the audit objectives, as well as to obtain a general understanding of the schemes under review and pertinent administrative procedures. These meetings were followed by a review of the applicable terms and conditions relating to the financial assistances in question and the list of accredited commercial banks, as well as the respective expenditure incurred during the year under review.

The National Audit Office (NAO) enquired on the internal audits carried out at MDB in recent years, one[4] of which concerned adherence to eligibility criteria for CGS during the year 2021, where only minor deficiencies were identified. These were immediately addressed by MDB to enhance the governance and controls surrounding CGS. Furthermore, NAO was informed that two similar internal audits relating to the eligibility criteria for CGS were planned for the years 2022 and 2023.

Systems overview and walkthrough tests of CGS and CIRSS were conducted to assess the internal controls in place and the risks involved. Documentation relating to all the transactions selected in the walkthrough tests was requested and reviewed. Several queries were made to MDB officers, as necessary.

COVID-19 Guarantee Scheme

A walkthrough test was performed by NAO on one of the beneficiaries to ensure compliance with the eligibility criteria with respect to CGS, as identified in Schedule 4 of the Risk Sharing Agreement[5].

COVID-19 Interest Rate Subsidy Scheme

NAO recalculated the interest rate subsidies given to two private companies, holding loans with two different commercial banks, and ensured that MDB was following its established procedures, including the four eyes principle[6]. It was confirmed that all accredited commercial banks had sent their quarterly reports for the year 2021, and that MDB officers validated the data received by checking each subsidy claim. In case of discrepancies in the figures, it was confirmed that MDB took up the matter with the respective commercial bank and obtained the relative explanations. Proper segregation of duties was also noted in the process.

No shortcomings, major risks or issues were identified during audit testing. Also, considering the fact that internal audits were being carried out to ensure that the eligibility criteria was met, this Office decided that no further tests of control were deemed necessary.

General Comments

Documentation requested was always submitted in a timely manner and officers involved during meetings were very cooperative and knowledgeable on the respective area of work. NAO satisfactorily noted that the detailed standard operating procedures, covering the processes within MDB were followed. Moreover, regular internal audits were being undertaken. NAO considers this audit assignment as a fine example of good practice.

Management Comments

MFE and MDB invested a lot of time and effort to ensure that a robust governance and internal control system is in place to safeguard the integrity and effectiveness of CGS and CIRSS generally. MDB is very glad that these efforts have been duly acknowledged by NAO and that no internal control weaknesses or other concerns were identified.

4 Carried out by an outsourced audit firm.

5 Agreement entered into between MDB and the commercial banks regarding operations of CGS.

6 MDB requires that each transaction is to be approved by at least two officers. This controlling mechanism is used to facilitate delegation of authority and increase transparency.

2021-2022 (to date) Reports issued by NAO

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