

Follow-up Audits Report by the National Audit Office 2023

Volume I





Follow-up Audits Report 2023

Volume I

Report by the Auditor General
June 2023

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Foreword

The critical importance of timely and focused follow-up audit engagements is undisputed. This emanates from the requirement for national audit institutions to duly verify that the necessary corrective actions have been taken by the auditees to implement the recommendations made in our audit reports. Such follow-up audits essentially determine that the progress registered by the respective public sector entity, pursuant to an audit undertaken by our Office in the recent past, are effective in preventing, or at least minimising, the possibility of future recurrence. Only thus can our Office's principal objective, namely to enhance good governance across the public sector, be achieved.

In this 2023 NAO Follow-up Report Volume I, our Financial and Compliance team have reviewed and analysed the extent of implementation of our main recommendations as included in nine audit engagements which have been incorporated in the Report of the Auditor General on Public Accounts for the years 2018 and 2019.

As usual, the detailed implementation table highlighting the respective rate in respect of each different audit report selected, is inserted immediately after this Foreword.



Charles Deguara
Auditor General

June 2023

GUIDELINES FOR THE CLASSIFICATION OF THE IMPLEMENTATION OF RECOMMENDATIONS FOLLOWED UP BY THE NATIONAL AUDIT OFFICE

RATING	EXPLANATION
Fully Implemented	The action taken met the intent of the recommendation and issues were rectified. Structures and processes were in place to prevent a repetition of shortcomings. Sufficient evidence was provided to demonstrate action taken.
Partly Implemented	This category encompasses one or more of the following considerations: <ul style="list-style-type: none"> • Action taken was less extensive than recommended by the National Audit Office. Action either fell short of the intent of the recommendation, or only addressed some of the identified risks and/or issues. • The auditee may have established structures and processes but only within some parts of the organisation, although some achieved results were identified; however, plans exist for the full implementation of the recommendation. • The specific action noted in the recommendation was not complete at the time of the assessment. • The auditee may have commenced action to address a recommendation, but subsequent policy changes may have influenced how it might be implemented.
Significant Progress	The auditee demonstrated that it made all preparations for implementing a recommendation, including a clear path (plan) duly approved at the proper executive level. It also showed that it had a clear timeline for completion and closure of the issue.
Insignificant Progress	This category may include one or more of the following: <ul style="list-style-type: none"> • Action to address recommendation was very limited. • No supporting evidence that action has been undertaken. • Albeit unintentional, action taken does not address the recommendation. • Actions such as having meetings, discussions and generating informal plans, should be regarded as insignificant progress.
Not Implemented	No effort was made by the auditee to address the recommendation. <i>(This may also include those instances where the auditee did not provide any evidence suggesting efforts to implement the recommendation.)</i>
No Longer Applicable	In instances when the recommendation ceased to apply.
Not Accepted	The auditee did not accept the recommendation in the first instance.

TABLE OF IMPLEMENTATION FOR EACH INDIVIDUAL FOLLOW-UP AUDIT

Title of Follow-up	Developments							Totals	Implemented in Full or in Part or Significant Progress registered
	Fully Implemented	Partly Implemented	Significant Progress	Insignificant Progress	Not Implemented	No Longer Applicable	Not Accepted		
Refunds from the European Union Health Scheme	4			1				5	80%
Manoel Theatre	1	1	1	5	4			12	25%
Age Pension	2	1	4	1			1	9	78%
Local Enforcement System Agency	4	6	1	3	1	1		16	69%
Agency for the Welfare of Asylum Seekers	4	1						5	100%
Malta Tourism Authority	5	1		1				7	86%
Malta Financial Services Authority	9							9	100%
Malta College of Arts, Science and Technology	6	1	2	4				13	69%
Planning Authority	2	1						3	100%
Totals	37	12	8	15	5	1	1	79	72%
Totals in Percentages	46.84%	15.19%	10.13%	18.99%	6.33%	1.27%	1.27%	100%	72.16%

List of Abbreviations

AP	Age Pension
AWAS	Agency for the Welfare of Asylum Seekers
CEO	Chief Executive Officer
DSS	Department of Social Security
FAR	Fixed Asset Register
GGH	Gozo General Hospital
LES	Local Enforcement System
LESA	Local Enforcement System Agency
LSE	Learning Support Educator
MCAST	Malta College of Arts, Science and Technology
MCH	Mount Carmel Hospital
MDH	Mater Dei Hospital
MFSA	Malta Financial Services Authority
MTA	Malta Tourism Authority
MUT	Malta Union of Teachers
NAO	National Audit Office
PHC	Primary Health Care
PPR	Public Procurement Regulations
SABS	Sistema għall-Amministrazzjoni tal-Benefiċċji Soċjali
SOP	Standard Operating Procedure
TMS	Traffic Management System
VAT	Value Added Tax
WRA	Work Resources Allowance

Ministry for Health

Refunds from the European Union Health Scheme



Refunds from the European Union Health Scheme

Background

Audit findings relating to the free medical treatment or hospitalisation in public hospitals and health centres, as well as free medicine to those individuals hailing from the European Union and those from countries forming part of the European Free Trade Association, were published by the National Audit Office (NAO) in its Annual Audit Report for 2018.

The aim of the audit was to verify the adequacy of the procedures in place for the collection of revenue from the respective Member States, in reimbursement for free health care given by the various local health care service providers¹ to foreign patients in the Maltese islands. Testing was also carried out to ascertain whether fees, which were not listed in Healthcare (Fees) Regulations (S.L. 35.28), were backed up by an approved official price list. Additionally, NAO had assessed whether adequate internal controls were in place to ensure that information related to revenue is complete and reliable, enabling reconciliations with source records.

Key Issues

Records at the Primary Health Care Directorate not always kept

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

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

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

¹ Namely, Gozo General Hospital, Karin Grech Rehabilitation Hospital, Mental Health Services (Mount Carmel Hospital), Mater Dei Hospital, Primary Health Care Directorate, Pharmacy of Your Choice Unit and Sir Anthony Mamo Oncology Centre (Sir Paul Boffa Hospital).

Developments: Fully Implemented²

Health centres are being manned by contracted clerks for the billing function during all hours of operation. However, Management contended that this procedure costs PHC Directorate about €175,000³ in a 12-month period, covering a clerk working night shifts⁴ at each of the three health centres, namely Floriana, Mosta and Paola, which operate on a 24/7 basis.

Discussions were held with the respective Union in order to lift the foregoing directive and eliminate the cost of contracted staff. However, the Union maintained that the collection and handling of cash do not fall within the job description of health care workers who carry out reception duties. In the circumstances, NAO recommends a cost-benefit analysis to be carried out to establish whether such approach defeats the purpose and scope for the efficient and cost-effective collection of refunds, in which case an alternate solution is to be found. In the meantime, PHC Management is compiling data through the Electronic Patient Record system to monitor the foreign patient walk-ins during the night to take a decision on the most cost-effective way forward.

Furthermore, with the full collaboration of the Entitlement Unit, training sessions on how to register patients and become familiar with what documentation is required, were organised for all reception staff within the health centres, covering employees in the health caring stream with PHC Directorate as well as contractual staff.

Evidence of Eligibility not obtained by Mount Carmel Hospital

Although a provisional replacement certificate⁵ can be requested from the respective Member State in order to verify that the patient is eligible for free health care, during the year under review, such certificate was never requested by Mount Carmel Hospital (MCH). Moreover, it transpired that the officer in charge was being informed of discharge of foreign patients long after their departure and, as a result, the service fees remained unclaimed. Furthermore, these cases were not reported as debtors at year-end, and therefore, no action could be taken to recoup the costs involved.

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

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

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

Developments: Fully Implemented

In the case of a long hospital stay or for medical treatment of high value cost, the health care service providers are to request a provisional certificate through an information technology system. This system, giving access

² Fully implemented with reservations.

³ This is considered substantial when compared to the total income received in year 2022, amounting to €77,033. From this total, €31,025 was with respect to refunds from other Member States raised and the rest cash collected, as the patients were not entitled for free health care.

⁴ Night, night, off, off, from 19:30 to 07:30.

⁵ *This document replaces the European Health Insurance Card if this is lost or forgotten, or if the respective insurance institution is unable to issue the applicant with such document prior to departure. The Health Care Funding Directorate is required to confirm the patient's eligibility with the competent institution in the relative Member State before issuing this document.*

to all public health care service providers⁶, was installed by the Health Care Funding Directorate in November 2019, i.e., a couple of months following conclusion of the original audit.

The Admission Ward within the Mental Health Services sends a list of patients admitted daily to the Finance Office, with the latter entering the basic details into the system. A provisional certificate is effectively issued by the respective Member State to confirm that the costs of the services provided in the Maltese islands will be refunded, following a request by the Entitlement Unit. On the other hand, it was confirmed that the officer in charge was being timely informed of discharged foreign patients. Furthermore, a debtors' list is being held by the Mental Health Services.

Control Issues

Debtors' Lists lacking essential Detail

Most addresses listed in the debtors' lists submitted by Mater Dei Hospital (MDH) and Gozo General Hospital (GGH), which amounted to €147,644 and €35,882 respectively, were local ones. This raised serious concerns on whether any action was effectively taken to recoup the pending amounts, besides rendering the recovery of costs incurred extremely difficult.

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

Developments: Fully Implemented

When a patient coming from another Member State does not present any supporting documentation, the general rule is to request payment for the service provided. Otherwise, a claim is raised and the patient is considered as a debtor, from whom further details are requested, such as email addresses and mobile numbers, both by MDH and GGH. However, this Office acknowledges that there may be exceptional instances when it is difficult to obtain proper details due to the patient's state.

Internal procedures are now in place, so that any dues are collected prior to the patient leaving the hospital and, if unsuccessful, MDH is doing its utmost to chase outstanding claims. On its part, GGH confirmed that besides ensuring that foreign patients' return sheets are processed timely, debtors are being chased on a monthly basis by the Billing Office.

Low Treatment Costs

As highlighted in the Report published by NAO in 2018, Healthcare (Fees) Regulations (S.L. 35.28) was enacted in 2004⁷, but the stipulated fees therein were not revised. In its response, Management had stated that medical fees were being revised and new ones, as compared to private sector charges, were proposed. A Cabinet paper was being prepared for the approval of the proposed changes, including the updating of the respective legal notice in so far as amendments to applicable tariffs were concerned.

During the audit, NAO noted that such costs were in the process of being updated. Following a meeting, it was also satisfactorily noted that instructions were given by the Chief Executive Officer, Sir Anthony Mamo Oncology

⁶ Whilst all health care service providers have access, users' access is limited to the area of competence, i.e., rights vary from one person to another.

⁷ Although this legislation was updated in 2007, the fees were not updated, since the respective legal notice was only issued due to the conversion to Euro.

Centre, to claim the full costs of chemotherapy sessions if the amounts in question were higher than that prescribed by the underlying legislation.

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

Developments: Insignificant Progress

Notwithstanding that the respective Management comments submitted following the audit carried out in year 2019, stated that the Ministry was considering the updating of the legislation through new regulations, revised costings were still underway, since the ones established in 2019 were obsolete. Consequently, the pertinent legislation remained unchanged. As per letter dated mid-August 2022, the Ministry for Health set up the Legal Framework Review Board and the Permanent Secretary appointed its members to update the legislation regulating the health care fees; however, no progress was officially registered. According to Management, the exercise undertaken for the eventual revision of the healthcare fees was to be finalised in June 2023.

Recouping unclaimed Costs

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

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

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

Developments: Fully Implemented

MDH continued with the exercise to recover unclaimed costs for the previous years. This is evident in the significant increase of claims raised. The remaining health care entities are also requesting payment or else ask for supporting documents to confirm eligibility beforehand. Furthermore, claims are uploaded frequently on the Entitlement system, hence there is no back log of claims to process.

Conclusion

NAO satisfactorily noted that overall, there were very positive developments, especially through the introduction of the new information technology system and training provided. A number of standard operating procedures were introduced and full contact details of patients are being obtained so that they can eventually be traced. The cost benefit analysis that will be carried out will eventually determine the best option for a billing system at health centres opening 24/7. The Ministry is to pursue its plans to address the issue of low treatment costs and to eventually update the pertinent legislation with the revised applicable charges.

The image shows the interior of the Manoel Theatre, focusing on its magnificent ceiling. The ceiling is a complex, multi-tiered dome. The lower sections consist of a grid of square panels, each containing a central, ornate, star-shaped or floral medallion. Above this grid is a large, circular, openwork lantern or skylight, which allows light to filter through its intricate metalwork. The overall design is highly detailed and characteristic of 18th-century Baroque architecture. A decorative crest or coat of arms is visible on the wall below the ceiling.

MINISTRY FOR THE NATIONAL HERITAGE, THE ARTS AND LOCAL GOVERNMENT

Manoel Theatre

Manoel Theatre

Background

The Annual Audit Report of 2018 published by the National Audit Office (NAO) included the outcome of an audit on the capital expenditure incurred by the Manoel Theatre. The audit scope and objectives were to determine the level of internal controls over the procurement and use of items of a capital nature, to assess the reliability and adequacy of information available to the Management Committee for decision-making purposes, and to ascertain that resources were being used judiciously.

Key Issues

Audited Financial Statements not prepared

For the last five years¹, audited financial statements were not prepared, with the last set available being that covering financial year ending 31 August 2013. This is in breach of Article 29 of the Arts Council Malta Act (Cap. 542) stipulating that the auditors' report together with the annual activities report are to be submitted to the Minister by not later than six weeks after the end of each financial year.

Audited financial statements are an indispensable tool to provide unbiased and objective assessment of whether public resources are managed responsibly and effectively. Thus, for the sake of good governance, Management is expected to comply immediately with the reporting mechanism, by preparing the respective financial statements and formally submit a request for them to be audited.

Developments: Significant Progress

The latest audited financial statements submitted covered financial year between 1 September 2020 and 31 August 2021. However, as at end February 2023 when audit testing was concluded, the financial statements of the subsequent year were not yet finalised. According to the highlighted Article, the audited statements of accounts had to be submitted to the Minister not later than mid-October 2022.

Committee Meetings not held at Regular Intervals

Copies of minutes provided indicated that only four Committee meetings were held during financial year ended 31 August 2018 and these were not held at regular intervals. NAO was not provided with information as to the number of Committee meetings held in the previous year.

Management is to acknowledge the importance of holding Board meetings on a more regular basis as this creates the opportunity for both executive and non-executive directors to articulate ideas on the entity's strategy, whilst allowing for problem solving in a timely manner. Moreover, minutes are to be duly kept and appropriately filed.

¹ September 2013 to August 2018.

Developments: Insignificant Progress

Notwithstanding that as per said Act, the Board shall meet at least once every two months, only five Board meetings were held during the financial year ending August 2022.

Board of Directors not provided with adequate and timely Management Accounts

On 17 January 2019, NAO requested a copy of the last management accounts approved by the Management Committee. However, only a snapshot of the Profit and Loss Account covering September 2017 to April 2018 was provided. Furthermore, it was noted that budgets were not properly compiled but were based on previous year's actual cost, with the latter taken as a benchmark. Consequently, variances as disclosed in the aforementioned statement were meaningless. This also implied that Management was not provided with a proper set of management accounts to analyse the variances in a timely manner to be able to plan the implementation of future projects.

It is pertinent that the Management Committee is presented with adequate and timely accounting information that not only assists in the day-to-day operations of the entity, but also in the creation of policies through which targeted goals are achieved.

Developments: Insignificant Progress

The management accounts covering the six-month period between September 2021 and February 2022 were presented to the Board on 3 June 2022, which is considered late to take corrective action if deemed necessary. Moreover, the subsequent quarterly reports were not yet presented by end of 2022.

NAO was provided with the management accounts and budgets² covering the financial year ending August 2022. However, instead of the budgeted figures, these management accounts made reference to previous year's actual figures; thus, the actual variance to what was budgeted could not be established.

Non-adherence to Public Procurement Regulations

From a sample of invoices reviewed, it transpired that the Public Procurement Regulations (PPR) were not always followed. Also, with the exception of one case, no formal service agreements were entered into with the service providers in the audit sample. Furthermore, hourly records were not maintained by the Manoel Theatre, with respect to professional services acquired; thus, number of hours invoiced could also not be verified.

PPR are to be invariably complied with. Any needs for goods and services are to be determined at an early stage, allowing enough time to follow the appropriate procurement procedures.

Developments: Not Implemented

This Office was provided with a procurement standard operating procedure, as well as a procurement plan for the year 2022. However, the following concerns were noted:

- a. In eight instances, during 2022, purchases exceeding the €10,000 excluding Value Added Tax (VAT) threshold, amounting to an aggregate of €250,874 (VAT excl.), were procured directly from the open market. However, four of these direct orders, with a total value of €59,887 (VAT excl.) were not duly approved by the Ministry for Finance and Employment. In one particular instance, the purchase of cabling was split in three parts within the same month.

² Provided separately.

- b. NAO noted several instances where the respective award of contract was not published in the Government Gazette, amongst which was a contract for finishes, joinery, lighting and sanitary works, whose value exceeded €1.7 million (VAT excl.) and which was signed in May 2021.

Fixed Asset Register not in place

According to the workings provided by the respective Finance Manager, as at end August 2018, the Manoel Theatre had property, plant and equipment with a net book value of €5,159,454. However, a Fixed Asset Register (FAR) to substantiate this amount was not in place.

Government property is to be adequately safeguarded. To this effect, adherence to inventory control regulations is recommended. This entails the compilation of a reliable and complete database, identifying all assets falling under the Manoel Theatre's remit, as stipulated in MF Circular No. 14/99 – 'Government Accrual Accounting: Revised Inventory Control Regulations'. It is pertinent that such exercise is carried out without further delay.

Developments: Insignificant Progress

Although the FAR was presented for audit purposes, this was considered incomplete. The following observations were noted:

- a. Improvements to premises, as well as several other tangible assets, were reported in the management accounts for August 2022, with a total value of €3,848,916, but were not included in FAR. On the other hand, items such as restoration and structural works were marked as intangible assets in the register, with the officer in charge claiming that they did not know how to report such expenditure.
- b. The total amounts of electrical installation and lighting equipment, computer hardware and software and furniture, fixtures, and fittings reported in FAR, did not reconcile with the amounts reported in the management accounts for August 2022.
- c. Finishes, joinery, lighting and sanitary works, amounting €88,857, were not included with the tangible assets. It was claimed that no itemised bill of quantities was provided by the supplier to identify what these finishing costs comprise to categorise them accordingly.
- d. Various computer equipment and other furniture and fixtures recorded in FAR, amounting in total to €5,656, could not be physically located.
- e. Other assets entered in FAR, having an aggregate value of €22,893, were not substantiated. Therefore, due to the lack of information, the respective physical assets could not be identified.
- f. Although various furniture, fixtures and information technology equipment, amounting to over €10,374, were disposed of, the necessary approval was lacking since a Board was not set up to authorise these write-offs.
- g. Fixed assets owned by the Manoel Theatre were not being depreciated as required by international accounting standards; thus, the financial statements did not show a true and fair view in this respect.

The Manoel Theatre was urged to compile a more reliable and complete database, to keep track of the value

of assets, as well as their location. An element of depreciation was also to be taken into account on a regular basis in line with international accounting standards.

Control Issues

Procurement

Variations not duly approved and not supported by Architect's Certificate

Out of €73,635 paid to one of the service providers with respect to construction works, the amount of €38,648 constituted variations. Besides that approvals in line with Article 111(1) of PPR were not provided for audit purposes, architect's statement certifying the respective variations was not traced.

In line with pertinent regulations, variations are to be duly authorised from the right level of authority. Payments are only to be processed following submission of certification of the works performed.

Developments: Partly Implemented

The total variations pertaining to the contract³ selected for verification, amounting to €11,932, were duly authorised by the Department of Contracts. However, although all payments were supported by a signed architect's certificate, the respective certified bills of quantities were not traced.

Invoices not certified correct prior to the issuing of Payments

Notwithstanding that the General Financial Regulations stipulate that payments are not to be issued prior to invoices being certified correct, 19 instances, i.e., over 20% of the transactions tested, bearing a total value of €88,563 (VAT excl.), were encountered whereby such endorsement was not evident, but the respective payment was still effected.

Strong internal controls are to be adopted and implemented so as to ensure that invoices are thoroughly checked and certified correct prior to the issuance of payments.

Developments: Insignificant Progress

From the sample selected, evidence provided indicated that there was still no mechanism to ensure that only certified invoices are processed for payment, since 7 out of 24 invoices⁴, with a total value of €30,841, were still not endorsed prior to being paid.

Lack of Adequate Planning

Compiled estimates were very often understated and the respective capital expenditure was made following a call for quotations when this merited a call for tenders. Moreover, in a number of instances, Management missed out on the possibility of tapping on European Union funding and the respective expenditure was entirely financed through local funds.

Estimates compiled are to incorporate all material and services necessary for the full execution of the project. In the event that variations to projects are unavoidable, prior approval is to be requested and duly obtained from

³ Contract for finishes, joinery, lighting and sanitary works at Priory of Navarre in Manoel Theatre using environmentally friendly materials.

⁴ Mostly pertaining to invoices issued in 2021 and settled in 2022.

the appropriate level of authority, before works are executed. Moreover, utilisation of European Union funds at the entity's disposition is to be maximised.

Developments: Not Implemented

Management confirmed that a budget for capital expenditure was still not compiled. Instead, the business plan submitted to the Ministry for Finance and Employment was provided for audit purposes. In addition, despite the number of ongoing capital projects, European Union funds which were available were not utilised to finance capital projects.

Accounting Issues

Depreciation Rates not in line with Accounting Standards

A number of assets, namely equipment at backstage, improvements to façade, standby generator, climate control, as well as improvement of new offices, which were acquired during the last eight years, were not depreciated although this was a requirement in terms of International Accounting Standards. On the other hand, motor vehicles which were usually depreciated over approximately five years were written down over a ten-year period.

The application of a reasonable depreciation rate is important, so as to reflect a true and fair picture of the value of the assets in line with Accounting Standards.

Developments: Insignificant Progress

According to the latest available audited Financial Statements, covering financial year ending 31 August 2021, as well as the management accounts for year ending August 2022, assets were not being depreciated in line with the rate stated in the notes to the accounts⁵. Furthermore, the rate adopted for motor vehicles was that of 10% per annum, rather than over a five-year period.

Depreciation at 15%, amounting to €4,466, was provided on the assets that were not yet brought into use. This was even inconsistent with the respective notes to the management accounts.

Capitalisation of Assets upon Payment of Deposit

A number of sampled items were capitalised in 2018 under fire equipment upon the payment of deposit although these were either not in operation or not installed. This was not in line with International Accounting Standard 16 – Property, Plant and Equipment.

In line with Accounting Standards, fixed assets are only to be capitalised when the respective item is actually received and in a usable condition.

Developments: Not Implemented

FAR included a 30% deposit payment of €10,902 for a panoramic passenger lift which as at time of audit fieldwork, i.e., November 2022, was still in the process of being commissioned.

Moreover, electrical installation and lighting equipment, amounting to €18,872, were also capitalised, notwithstanding that this equipment was not yet installed.

⁵ For example, instruments were being depreciated at 10%, wherein in the notes to the accounts reported as depreciated at 25%. The majority of furniture was being depreciated at 15% while in the notes to the accounts reported as depreciated at 10%.

Data Fragmentation

Data was not maintained in line with best practice, but rather fragmented, thus hindering audit trail. Quotations sought and related invoices were kept in separate files, making it difficult to trace a transaction from its inception up to final payment. Consequently, NAO Officers had to request specific documentation, which was forwarded by the auditee in a staggered manner. Such practice did not make it possible to ensure that information in hand was complete.

For the sake of transparency and efficiency, documentation is to be maintained in an organised and systematic manner so as to ensure completeness and audit trail.

Developments: Not Implemented

Documentation pertaining to the sampled contract, which had a value of €1,759,386 (VAT excl.), was not organised in a separate file. Information provided for audit purposes did not include the respective evaluation report, documentation related to procurement and evidence of publication in Government Gazette. Moreover, the respective payments were not supported by a bill of quantity.

Compliance Issue

Non-compliance with Fiscal Legislation

Being registered in terms of the provisions of Article 10 of the VAT Act, it was expected that supplies provided to the Manoel Theatre by VAT registered suppliers were covered by a tax invoice in line with the same Article. However, from the selected sample reviewed, it transpired that a proper tax invoice as set out in the Twelfth Schedule to the VAT Act, for an aggregate amount of €330,525, was not submitted to the Manoel Theatre.

Officer in charge of accounts is to ensure that all suppliers who have received payments, or part thereof, for goods and services provided, adhere to the VAT regulations by providing a proper tax invoice. In the absence of such submission, defaulters are to be reported to the VAT Department.

Developments: Fully Implemented

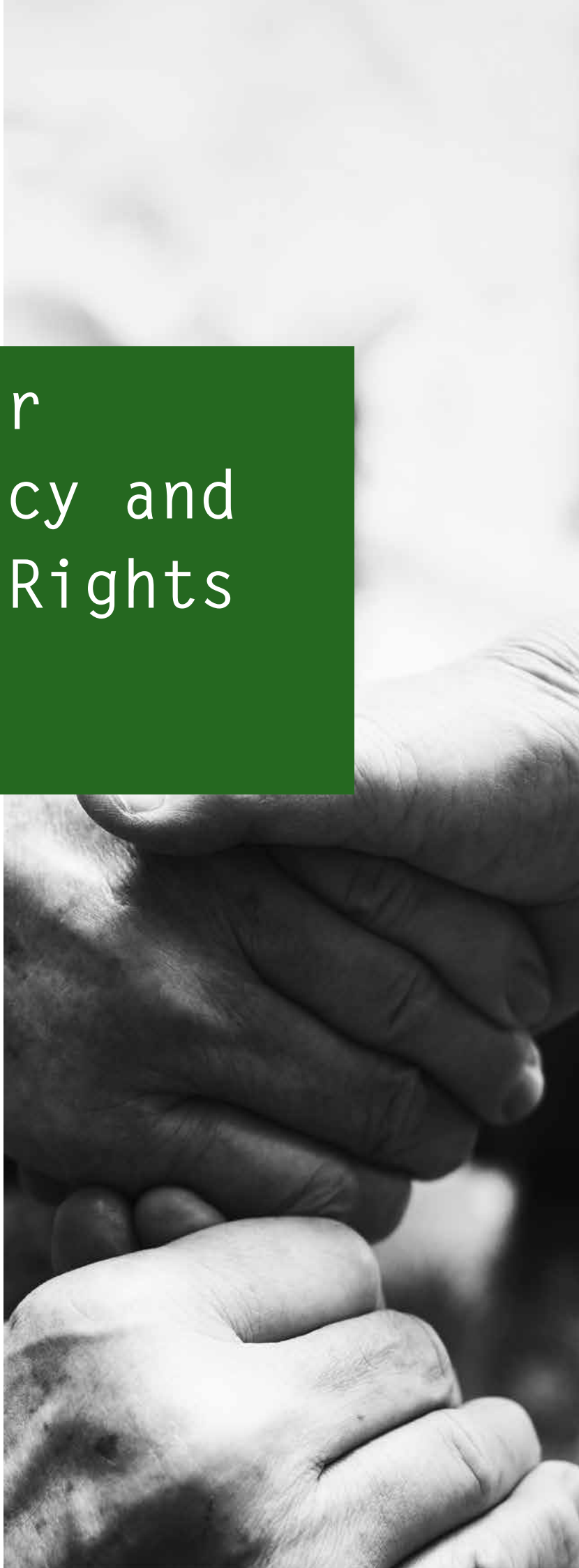
The contractor of the agreement selected for review complied with the requirement of submitting the required tax invoices. Moreover, payments issued to two randomly selected service providers were also supported by adequate fiscal documentation.

Conclusion

This follow-up exercise revealed that, overall, insignificant progress was registered and considerable effort was still required to address the remaining observations especially, but not limited, to compile a reliable and complete FAR, as well as to adopt proper accounting treatment of capital expenditure in line with the applicable accounting policies and standards. Management is also expected to ascertain consistent adherence to PPR.

Ministry for Social Policy and Children's Rights

Age Pension



Age Pension

Background

The Annual Audit Report of 2018 published by the National Audit Office (NAO) included an audit report that focused on the Age Pension (AP), which falls under non-contributory benefits. AP is awarded to persons upon reaching 60 years of age and is paid at the applicable weekly rates in line with the Social Security Act 1987 (Cap. 318)¹, upon being means tested for income and capital resources. The audit analysed the internal control procedures embedded in the AP administration system, from the assessment of eligibility up to the respective payment process. Furthermore, it assessed whether these benefits were made in an accurate and timely manner, in accordance with the provisions laid out in the Act.

The audit revealed several shortcomings, including issues relating to the insufficient prevention of abuse, as well as those pertaining to the valuation of land and property owned by the beneficiaries. In addition, it identified areas of improvement to reduce overpayments.

Control Issues

Absence of Deterrents to prevent Abuse

Due to incorrect declarations by the applicants or failure to report changes in circumstances, substantial overpayments were regularly created. However, no penalties were usually imposed in such instances.

Testing revealed that the largest overpayment in AP registered by the Department of Social Security (DSS) during the period under review, amounted to €78,087. This related to a beneficiary who did not declare the assets and continued to benefit from said pension for a total period of 14 years. Very often, these overpayments were difficult to recoup.

The Department was encouraged to take the necessary action leading to the enforcement of suitable penalties to mitigate and deter abuse.

Developments: Significant Progress

A tax profile was being obtained from the Commissioner for Revenue for all new applicants and for beneficiaries' files brought up for review to reduce the possibility that the pension is unduly awarded. As a result, the number of AP beneficiaries decreased substantially in recent years. However, no penalties were introduced as a deterrent to prevent abuse.

Refund of Overpayments not requested

Claimants who were overpaid were usually informed by DSS that the overpaid amount was to be deducted from current and future DSS benefit payments. However, the notification letter, which was sent by post, did not specifically request a refund for the amount overpaid.

¹ The Department of Social Security within the Ministry for Social Policy and Children's Rights is responsible for the administration of the provisions of the Social Security Act, referred to in this audit report as the Act.

NAO also noted that the notification letter for overpayments, created after a beneficiary passes away, was still addressed to the deceased person who was notified that deductions were to be made from future DSS payments to which the individual may become entitled.

DSS was encouraged to adopt a more proactive approach towards the recovery of overpayments. Thus, a request was to be made to overpaid claimants to settle the respective amounts. Although this approach may not always be successful, it would make claimants aware that overpaid amounts are indeed expected to be repaid within a reasonable timeframe.

The anomaly with respect to notification letters sent to deceased beneficiaries was also to be rectified, by addressing these letters directly to the heirs of the individual.

Developments: Fully Implemented

Following a review of a sample of AP overpayments created during 2022, NAO satisfactorily noted considerable improvement with respect to action taken for the recovery of debtors. Pensioners were requested to effect additional monthly repayments, by entering into a settlement agreement, or for the outright repayment of the total amount, as applicable, depending on the individual circumstances. Furthermore, when an overpayment was created upon the passing of a pensioner, a process for the searches of wills was triggered and a notification letter requesting a refund was eventually sent to the heirs.

Case Reassessment Delays

There was no formal procedure to periodically review the personal files of all beneficiaries. DSS confirmed that the last full-blown review of all personal files in relation to AP was conducted in 2009.

The effectiveness of such reviews was also questioned. For example, in a particular instance, the marital status of a beneficiary was updated more than 16 years following the passing away of the respective spouse. As a result, during this period, the capital threshold was not reduced accordingly. In another case, the respective file of a beneficiary, who was also entitled to a foreign pension as from a given date, was only brought up for review 18 months later. At times, such delays triggered substantial overpayments.

Case reviews are to be more frequent and effective. This would enable inconsistencies to be captured at an early stage, thus minimising the risk of overpayments and the respective administrative burden to recoup the amounts in question.

Developments: Fully Implemented

Through documentation made available, NAO confirmed that reviews of AP beneficiaries, which also involved the concurrent assessment of tax profiles, were being satisfactorily performed.

Insufficient Information on the Receipt of Foreign Pensions

NAO was informed that DSS was provided with uploaded information pertaining to Australian and United Kingdom State Pension received in Malta. However, it relied on the integrity of claimants for the declaration of the foreign pensions received from other countries.

The list of AP overpayments included eight cases which were created due to the receipt of a foreign pension. In aggregate, the respective overpayments amounted to €31,830. The highest overpayment of €12,594 was created when the beneficiary reported the matter 28 months later. This will eventually take 17 years to be recouped (at the current pension rate).

The Department was to consider establishing agreements with other countries to facilitate the exchange of information and thus minimising overpayments.

Developments: Insignificant Progress

The Department's efforts to enter into a data sharing agreement with its Canadian counterpart proved futile due to data protection concerns. On the other hand, a mutual agreement² was already in place between the member states of the European Union whereby social security officers share information on a case-by-case basis.

Unrealistic Land and Property Valuation

DSS confirmed that, although it carried out occasional case reassessments, it was not the Department's practice to carry out revaluation on land or property originally declared by the beneficiary at application stage. As long as there was no interruption of the benefit in question, the value of land and/or property remained unchanged.

Considering the upward trend in the price of land and building, particularly in the last decade, it was very likely that the value of property owned by the claimants was understated. Furthermore, the policy document establishing the value of agricultural land, which contained type-written amounts denominated in Maltese Lira, cents and mils, was definitely outdated; this could have easily been over 30 years old.

The Department was encouraged to revise outdated land and property valuations declared by the beneficiaries to fair value following a comprehensive reassessment exercise. Furthermore, the policy used by the Department in valuing agricultural land was expected to reflect more realistic rates.

Developments: Not Accepted

The policy document establishing the value of agricultural land was no longer in use. It is the practice that DSS requests an architects' valuation whenever agricultural land features in the tax profile of a new applicant. However, it was claimed that, in the case of existing AP beneficiaries, DSS cannot change the assessment based on the appreciation of the property value over the years unless such property is sold. Yet, if the respective tax profile reveals a transaction involving land and property, the claimant's entitlement to AP is queried immediately and the pension is revised if deemed necessary.

Ageing Balances of Overpayments

The amount of arrears of €2,047,444 relating to AP was analysed as follows:

Amounts outstanding for less than one year (2018)	619,607
Amounts outstanding for over one but less than two years (2017)	392,035
Amounts outstanding for over two but less than five years (2014 – 2016)	587,524
Amounts outstanding for over five but less than ten years (2009 – 2013)	316,276
Amounts outstanding for over ten years (1995 – 2008)	<u>132,002</u>
Total arrears as at 31 December 2018	2,047,444

Considering that the beneficiary starts receiving AP at the age of 60 and certain amounts had been long overdue from the respective claimants, one questions the possibility of their recovery. It was pertinent to point out that these arrears also contained debtors, amounting to €255,561, created between 2002 and 2018, in relation of which no repayment was ever made.

² Such arrangement has been in place since Malta's European Union accession.

Whilst every effort was to be made to prevent overpayments, DSS was to ensure that ongoing monitoring of the amounts due was carried out in order to maximise recovery. Particular attention was to be given to amounts that had been long outstanding, as well as dormant debts.

Developments: Partly Implemented

NAO is aware that more frequent and efficient case reviews which were subsequently carried out by the Department have revealed significant overpayments. An analysis of the resulting AP arrears figure, which more than doubled in the last four years since the original audit was carried out, stood at €4,964,195 as at end 2022. Details provided hereunder:

Amounts outstanding for less than one year (2022)	1,052,616
Amounts outstanding for over one but less than two years (2021)	2,170,717
Amounts outstanding for over two but less than five years (2018 – 2020)	990,396
Amounts outstanding for over five but less than ten years (2013 – 2017)	497,746
Amounts outstanding for over ten but less than fifteen years (2008 – 2012)	161,586
Amounts outstanding for over fifteen years (1995 – 2007)	<u>91,134</u>
Total arrears as at 31 December 2022	4,964,195

These arrears also contained debtors amounting to €479,480, created between 2002 and 2022, in relation to which no repayment was ever registered. Whilst NAO acknowledges DSS efforts to identify overpayments, it is to be ensured that the necessary resources are allocated to maximise recovery of these dues.

Insufficient Management Information

DSS officers creating overpayments within the Sistema għall-Amministrazzjoni tal-Benefiċċji Soċjali (SABS) are required to input the reason that triggered the error. Although the listed explanations may not be considered as exhaustive, NAO was informed that there is a dropdown menu with pre-established reasons. However, most assessors used the free text to remark on the specific case; this resulted in inconsistent details. Moreover, in some instances, the reason for the creation of the overpayment was simply entered as not due. In the circumstances, this makes the necessary analysis cumbersome and time consuming for the Department.

DSS was recommended to enhance the pre-established list to make it more comprehensive and limiting, as much as possible, resorting to the free text. This function would have provided better management information for the analysis of overpayments, to identify suitable action and control recurrence.

Developments: Significant Progress

The pre-established list in the dropdown menu was updated on SABS. However, the list of AP overpayments created from January until end October 2022 showed instances where the same cause for the creation of overpayments, such as when the person passed away, was still described in at least four different ways by users. NAO officers also noted a similar situation with respect to descriptions entered on SABS when overpayments were created as a result of admissions to state-financed residential care. Although the reasons given for the creation of overpayments were no longer indicated as not due, there is still room for improvement to enhance consistency in this respect.

Unnecessary Creation of Overpayments

Instead of the Retirement Pension, a beneficiary from the audit sample was erroneously given an AP for a period of 19 weeks. To rectify this error, DSS paid a lump sum of €2,771, representing the Retirement Pension in arrears and created an AP overpayment of €2,096, which amount was being recouped at the rate of 10%. This overpayment could have easily been avoided.

In such circumstances, one would expect that the beneficiary was given the difference between the two amounts in order to prevent overpayments, thus avoiding the related risks and unnecessary complications.

Developments: Significant Progress

According to DSS, the creation of an overpayment simultaneously with a payment of a lump sum to the same individual are exceptional instances. These are now kept to a minimum due to improved communication between the contributory and non-contributory pensions sections.

Contributions due to State-financed Residential Services

Upon being admitted to a home or hospital offering state-financed residential services, residents are obliged to contribute a fee in accordance with the applicable legislation. The responsibility for calculating this contribution and subsequent revisions is vested within the Director (Elderly and Community Care) who, on the other hand, may issue the deduction rate only after the beneficiary submits the income declaration. NAO was informed that, in order to control the creation of high overpayments, an appropriate deduction was effected by DSS upon being notified of any admission until the actual contribution rate was confirmed.

Overpayments relating to AP beneficiaries receiving state-financed residential services from January up to November 2018 collectively amounted to €71,590. An analysis revealed that, on average, overpayments in this regard covered periods of thirteen weeks, although in a particular instance, the respective overpayment related to a nine-month period.

Considering the fact that most of these claimants are elderly citizens, the time taken to identify an adjustment bears a crucial effect on the amount of the overpayment and thus on its recovery. Although NAO acknowledged that an improvement was registered in this area over the last years, further discussions with the Director (Elderly and Community Care) may help to continue reducing overpaid amounts.

Developments: Significant Progress

A standard operating procedure was drawn up to improve the coordination between DSS and Active Ageing and Community Care with the intention of reducing the materiality of overpayments created with respect to state-financed residential services. It was also confirmed that once DSS was provided with a tax profile of AP beneficiaries, no further enquiries were necessary to determine the contribution due by the resident in this regard.

Although the period for which the overpayments created still³ ranged between one week and thirteen months, NAO satisfactorily noted that the average period covered was reduced to ten weeks. DSS is expected to explore the possibility of introducing additional measures with the aim of registering further improvement in this respect.

Conclusion

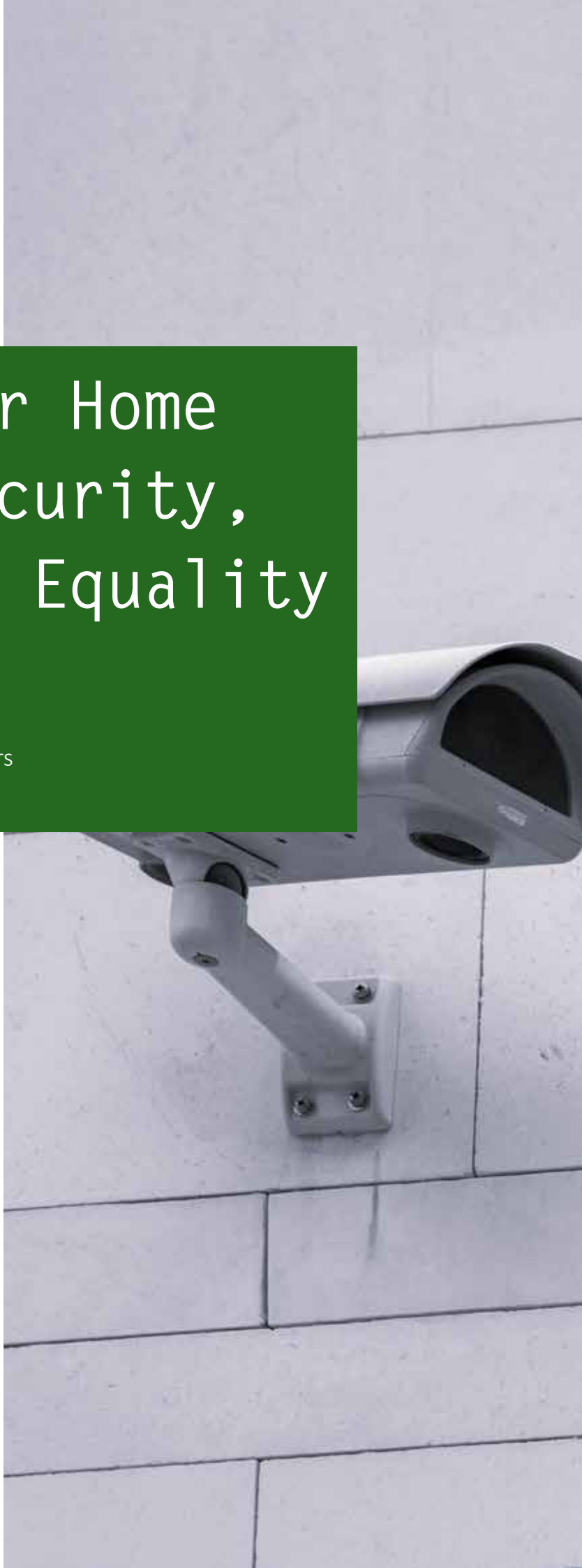
NAO acknowledges that the introduction of the tax profile brought about significant improvement in the assessment of pensioners, due to the likelihood that inaccurate declarations would be detected at application stage. DSS is encouraged to channel the necessary resources to maximise recovery of the substantial debtors as a result of overpayments.

³ Created by DSS from January to October 2022.

Ministry for Home Affairs, Security, Reforms and Equality

Local Enforcement System Agency

Agency for the Welfare of Asylum Seekers



Local Enforcement System Agency

Background

The Annual Audit Report of 2019 published by the National Audit Office (NAO) included the outcome of an audit on the revenue generated by the Local Enforcement System Agency (LESA). The audit objective was to assess:

- a. the adequacy of the procedures in place for the collection of outstanding balances;
- b. whether fines imposed were being honoured within the prescribed timeframe; and
- c. that income received was duly recorded in the books of account.

The audit revealed a number of shortcomings, including difficulties in the collection of pending fines. In fact, as at end of December 2019, outstanding debtors totalled more than €9 million. Internal control weaknesses hampering the Agency's operations were also noted.

Limitations on Scope of Audit

Traffic Management Services

Client's requests for traffic management services rendered during the sampled period, i.e., March 2019, were not always traced. In a number of instances, hours invoiced by LESA were also understated when compared to the respective requests. Though clarifications to this effect were sought by NAO, a reply on the subject matter was not received.

Developments: Partly Implemented

Necessary steps were taken to address this matter, primarily through the elimination of manual applications for the respective services. In fact, effective as from 1 January 2022, the Agency issued a Standard Operating Procedure (SOP)¹ aimed at standardising the Traffic Management Services (TMS) booking process, including related payments and refunds. As a result, all requests for services are to be raised only through the TMS online portal. This was confirmed by NAO's walkthrough exercise of the pertinent online booking system.

According to the Chief Executive Officer (CEO), this procedure also enhanced the reconciliation processes, as well as the handling of deposits. Upon completion of the end of day process, the value for services paid at each Local Council is recorded in the accounting system, whereby an invoice with the amount due from each respective Council is generated, which is then offset once the money is deposited in LESA's bank account.

However, the TMS booking system was still being enhanced to include certain services, such as those requested by Government departments, entities and agencies, as well as during national and sport events to enable a full audit trail.

¹ The SOP is dated 16 February 2022.

Cancelled Contraventions

During 2019, contraventions totalling €73,354 were cancelled. Testing on this area was likewise hindered since the respective requests and authorisations were only retained scattered in various email threads on personal computers, rather than duly filed for future reference.

Developments: Partly Implemented

Between January and November 2022, more than €1.9 million of contraventions were cancelled, as explained hereunder.

In view that debt due on contraventions is not inherited by heirs, a procedure with respect to contraventions due from offenders who had passed away was introduced by the Agency in May 2022, to ensure that such contraventions were struck off. This is a hybrid process, which is either carried out upon a request from a customer against the presentation of the death certificate of the respective individual, or through a yearly exercise carried out by the system's service provider. The first exercise, carried out in 2022, covered the cancellation of dues, amounting to around €1.5 million, from persons who passed away since the inception of the Local Enforcement System (LES) in 2000 up till 31 December 2020. This exercise was carried out based on information available on the Common Database as at March 2022.

Apart from deceased offenders, cancellation of tickets can also be due to a mistake of a community officer or in case of continuous offences relating to the same contravention. Once a contravention ticket is issued, the community officer is not able to amend or withdraw a contravention but it has to be cancelled in line with the applicable SOP.

Thus, in April 2021, the Agency also issued an official SOP concerning the withdrawal of contraventions when an error is made. The procedure entails the compilation of a form prepared by the community officer, seconded by the regional enforcement officer and eventually approved by the Agency's Director of Operations. Following the latter's approval, the respective community officer is to take an oath at the Local Tribunal or before the Commissioner of Oaths. Copy of the original contravention is eventually to be attached to the form.

With regard to the cancellation of continuous offences, a SOP was issued on 3 June 2020. This states that, following the endorsement of an agreement for the payment of long outstanding contraventions, an evaluation exercise is carried out by LESA, whereby repetitive contraventions issued for the same offence are withdrawn should the defaulter fully abide by the agreed terms of the agreement.

However, sample testing carried out revealed that, while the process entailing the waiving of contraventions is segregated, with appropriate levels of authority granting the required approval, at times, supporting documentation as maintained was not sufficient to enable an external party to determine the reason for cancellation. Moreover, it could not be affirmed whether contraventions lifted as a result of a debt collection agreement were reinstated when the pertinent debtor did not honour the respective obligations.

Key Issues

Difficulty in collecting Long Outstanding Contraventions

From the ageing of debtors which accumulated over the years, it was evident that LESA was experiencing difficulties in the collection of pending fines, over which up to a certain extent has limited control. An analysis of the violations booked during the four-year period since LESA's inception on 1 October 2015 revealed that, as at end December 2019, out of €56,223,956 worth of contraventions issued, more than €6 million of pending fines had been outstanding for more than one year.

Management was encouraged to assess the situation and take necessary action by initiating discussions at Ministerial level to devise stricter enforcement mechanism for the collection of pending fines, especially where there is no possibility of further penalty enforced for non-compliance.

Developments: Insignificant Progress

In June 2020, the Agency introduced a SOP with respect to debt collection contracts. In line with this SOP, contracts for payments by instalments are spread over a maximum period of 12 months; hence, pending dues on a vehicle should be settled by the time the respective road licence is due for renewal. However, the SOP further stipulates that, once the first instalment is honoured by the debtor, the restriction on the vehicle is lifted by LESA, in order for the offender to be able to renew the licence and insurance policy.

The collection process has also been remodelled to give precedence to recoup older fines rather than those which were recently issued. Through such remodelling, up to November 2022, the Agency managed to collect €100,008 from the fines which had been outstanding for a number of years.

Notwithstanding this, sample testing carried out on 16 debt collection agreements revealed that, the Agency was still quite lenient with defaulters as no concrete action was taken against those who failed to abide by the agreed terms. Unsettled balances, even those falling beyond the lapse of 12 months covered by the agreement, were not always followed up. Moreover, at times, final payment notices were not forwarded to the correct address, thus it was highly likely that the defaulter was not in receipt of this ultimate reminder. If not adequately addressed, the amounts in question will remain uncollected

No Details on the Information Technology Audit of Local Enforcement System

The revenue and receivables in the accounting records of LESA are primarily based on reports generated from the information technology system of the LES, which software application was devised and therefrom operated by an external service provider.

Notwithstanding Article 7.16 of the Special Conditions of the contract², NAO was only provided with a report giving an overview of the information technology work carried out in support of the financial audit performed by the auditors of the respective company between June 2012 to June 2015³. Hence, due to the lack of evidence provided, showing that a stand-alone information technology audit of the respective system was never carried out, it could not be ensured that figures relating to income received or receivable from contraventions as reported by LESA were accurate and reliable.

Without further delays, LESA was expected to request an information technology audit of the system as per the cited article, which would review data, processes and controls of the system post 2015.

Developments: Fully Implemented

Following NAO's recommendation, the Agency made an official request for the audit in question to be carried out in line with the requirements of the applicable agreement, which audit was concluded in 2021. As confirmed by the CEO, no particular issues which directly affect LESA's operations emanated from the audit.

Moreover, as a means of achieving independent comfort on the data as extracted from the LES, staff within the Agency's Accounts Section randomly perform checks on paid tickets, to ensure their proper movement and to

² This stipulates that the contractor is obliged to task information technology audits related to the system as instructed by the contracting authority and implement any recommendations as tasked by the contracting authority.

³ During this period the LES fell within the remit of the Regional Councils, previously known as Regional Committees.

confirm that these were no longer included as pending contraventions within the system when the respective payment was made. According to the CEO, monthly reconciliations were also carried out, both by the Agency as well as by the service provider.

Shortcomings in the issue of Manual Traffic Offence Tickets

At time of audit, there were two ways of issuing fines. In contrast with the electronic system used by local community officers, as well as Transport Malta enforcement officers, police officers still maintained a manual system, whereby fines were recorded in a ticket book. Thereafter a traffic offence ticket was raised by the latter and submitted to the private entity hosting the LES to be recorded accordingly. Besides not deriving the full benefits that an electronic system can provide, this manual procedure increased the risk of errors and also the risk of abuse, as certain tickets could be withdrawn without a proper justification, before being inputted in the system. The following was also disclosed by LESA.

- a. Despite that the ticket books used by the police were pre-numbered, this did not necessarily mean that ticket numbers were unique, as at one point, numbers were started all over again.*
- b. In view that police officers tend to give multiple charges to the same offender on the same ticket, one particular number may relate to multiple contraventions.*
- c. No checking was carried out by LESA on the traffic offence tickets received from the Malta Police Force, to confirm that there were no omitted numbers.*
- d. At times, offence tickets were received by the company hosting the system, after several months from the date of the contravention, and thus no action against defaulters could be taken since there was a prescription period of 90 days.*

Management at LESA was to escalate this issue in order to abolish the current manual system. This will ensure that a consistent approach is adopted by all stakeholders, whereby tickets are issued electronically. This would also provide an enhanced level of internal control.

Developments: Partly Implemented

On 12 October 2021, a memorandum of understanding was entered into between LESA, the Malta Police Force, and the contracting authority, whereby it was agreed that police officers were to be provided with handheld devices to issue traffic offence tickets. This memorandum also provided that income derived from tickets issued by police officers would be retained by the Agency to partly⁴ finance the cost of the respective devices. However, the latter is to reimburse the Malta Police Force for ongoing connectivity costs.

Notwithstanding, according to the CEO LESA, the distribution of handheld devices to the Malta Police Force was still in progress. Hence, manual tickets continued to be issued. It was envisaged that the changeover would be fully completed by mid-2023.

Between the period 1 January to 30 November 2022, a total of 72,958 tickets⁵ were issued by police officers, 20,977 of which were issued manually. The remaining balance of 51,981 tickets, i.e., over 70%, were raised through the newly distributed handheld devices.

It also transpired that a further 2,020 tickets issued by police officers were not accounted, for since they were either delivered late by the foregoing to the company hosting the system or returned late after being sent by the company back to the police for any necessary corrections.

⁴ The cost of the handheld devices was to be shared equally between LESA and the contracting authority supplying the respective devices.

⁵ Tickets recorded in the LES as on 15 December 2022.

Control Issues

Insufficient Human Resource Capacity

Whilst LESA was continuously striving to improve its service, its Accounts Department was rather overloaded, mainly due to human resource constraints. Although the administrative workforce at the Agency in 2019 amounted to an average of forty employees, merely two officers, namely the financial controller and an accounts clerk working on reduced hours, manned the Accounts Department during the first three quarters of the year.

Four posts in the grade of senior officers were only filled in during the last quarter of 2019. The position of two accounts clerks in the Debt Office, as well as a customer care clerk and the professional legal officer, were also filled in towards the end of 2019, but only through a contract for service on a temporary basis. Meanwhile, seven other posts, namely that of Deputy CEO, communication officer, senior officer training, senior officer in accounts and three accounts clerk, were still vacant.

Strengthening the human resource capacity, especially the Accounts Department, will improve the internal control setup, as well as assist in reducing the inherent risk, whilst providing a vital step towards the growth of the Agency.

Developments: Partly Implemented

Since the end of 2019, LESA recruited a communication and training officer, as well as five accounts clerks, two of which worked on the area of debt collection. Nevertheless, despite LESA's efforts aimed at reaching the maximum human resource complement, difficulties were still being encountered in the area of recruitment, across various sections within the Agency. In fact, according to the 2022 human resource plan, which was still not approved by higher authorities up till mid-December 2022, when this follow-up was in progress, the Agency had a total of 15 vacant posts.

Disparity between Outstanding Balances and Agreements in place for the Respective Repayments

On average, only 3.25% of outstanding traffic contraventions were supported by an agreement to settle the respective balances by instalments. Whilst pending amounts as at 31 December 2019 added up to €7,929,291 (including late payment fees and penalties), agreements in place on the same date solely covered approximately €257,375 of the related dues.

Given that motor vehicle licences are expected not to be renewed unless outstanding fines have been lifted once an agreement to pay by instalments is in place, a plausible explanation for the substantial unpaid balance is yet to be given.

Furthermore, LESA and Transport Malta are to jointly address the concern of contravention tickets which remain pending, to ensure the timely collection of fines.

Developments: Insignificant Progress

The CEO admitted that this issue will not be resolved as it was neither feasible nor possible to sign an agreement with every defaulter and, in fact, only a slight improvement in this area was registered. By 23 November 2022 the Agency had 446 open contracts with the aim of recouping €1,032,485⁶ from the pending balances.

Moreover, the fact that emphasis is being made on the collection of the oldest fines first, is highly commendable as these could also include cases of loitering and drug possession, and not just licences.

⁶ The total pending balance as at 31 October 2022 amounted to €18,103,595, €15,399,144 of which related to the value of the actual contravention and €2,704,451 covered fees charged thereon.

Agreed Payment Terms not honoured

A review of a sample of ten agreements to pay by instalments, drawn up to enable the renewal of motor vehicle licence pertaining to nine individuals, highlighted the following concerns:

- a. Following the renewal of the related licence, defaulters tend to fail from continuing to honour the respective payment terms.*
- b. LESA was quite lenient with those who repeatedly failed to adhere to the related terms of the agreement, as neither chasing of debts was carried out nor action was taken against such individuals, even though the respective agreements stipulated a number of sanctions that could be implemented.*

Agreements are expected to be periodically followed up to ensure that these are being honoured. A stricter stance is to be taken against those failing to comply.

Developments: Insignificant Progress

With the exception of one instance, payment terms agreed by the 16 sampled defaulters were not adhered to. Thirteen of these agreements were dated in 2021 or before, thus expected to be fully honoured by end of 2022.

It was further noted that, 12 of the aforementioned sampled agreements were followed by payment notices, indicating the initiation of legal action if the respective pending balances were not honoured by the prescribed date. Yet, despite that payments remained pending, no corrective action was taken. It was confirmed that legal action was only initiated against top offenders.

Issues with respect to Deposits in the Agency's Bank Account

Testing carried out revealed that monies received from the payment of contraventions were not being deposited in the Agency's bank account in a timely manner.

- a. Monies in respect of contraventions paid through the LES were deposited in a specific bank account held in the name of the Local Councils Association. The net amount, after the deduction of bank charges and management fees, was remitted to LESA two months later. This timeframe was considered too long, especially given that money in respect of contraventions settled at Local Councils' premises was transferred to the Agency at least twice a week and very often substantial amounts were involved.*
- b. Cash and cheques received at the Agency's office were deposited to bank once a week. By way of example, proceeds collected between 5 and 11 December 2019 were deposited by the security service company on 12 December 2019. As an indication of the cash in hand, receipts collected specifically on 5 December 2019, totalled €8,359. Furthermore, although the Agency implemented high security measures, including restricted and limited access to safes, as well as a camera system in all offices, it was noted that an insurance coverage was not yet in place.*

Being the Agency set up to specifically regulate the payment of fines for contraventions, LESA was encouraged to initiate discussions with higher authorities so that online payments were to be received directly in its bank account. In the meantime, Management was expected to negotiate more favourable terms so that the aforementioned timeframe was decreased to a minimum in order for LESA to enhance its cashflow position.

Developments: *Partly Implemented*

Monies derived from both the online payment of fines and contraventions paid at Transport Malta were still deposited in the bank account held in the name of the Local Councils Association. The Agency's bank statements indicated that remittances concerning online payments were being effected following an average lapse of six weeks from each month-end. By way of example, funds pertaining to contraventions paid during the month of June 2022 were remitted to LESA on 12 August 2022. On the other hand, amounts concerning contraventions paid at Transport Malta were forwarded to LESA approximately on a monthly basis.

In order to decrease the daily level of cash in hand, the Agency has introduced the electronic point-of-sale system for the settlement of offences at its premises. Through email dated 15 April 2021, the then Permanent Secretary approved an increase in the amount of cash that can be held on premises from €100 as per Article 35 of the General Financial Regulations to €1,200. However, the new Permanent Secretary was not informed of this arrangement.

The Agency has also increased the frequency of cash and cheque deposits from a weekly to a daily basis, thus reducing the related risk.

Documentation not readily available

Through a negotiated procedure, a private limited liability company was awarded the contract covering all aspects of the LES operations, as well as the end user support for all information technology activities related to the LES within the Local Councils, Regions, Regional Tribunals and LESA. The agreement, with an estimated value of €7,650,548 (VAT excl.) for a period of five years⁷, was entered into with LESA on 15 March 2018. The following requirements refer:

- a. Article 8 of the cited agreement requires the respective company to compile an inventory of movable items currently in use for the operation of the LES and which upon the termination of the agreement becomes LESA's property.*
- b. Article 6.5.1 of the terms of reference also obliges the service provider to contribute €700,000, over the contract period, towards equipment, ongoing service and maintenance costs, as part of the contract renewal, based on the office equipment and control room schedules.*

However, during the course of the audit, i.e., in November 2019, the documentation on the respective inventory was not available at LESA. Furthermore, the Agency had no evidence that part of the applicable contribution started being paid. Eventually, the service provider was asked to forward a copy of the related information following queries raised by NAO.

It is in the Agency's interest to ensure that the contribution by the contractor is provided as agreed in the negotiated procedure. It is also important to keep an updated record of the respective inventory so that in the event that the contract is not renewed for further periods, it could be in a position to claim back the assets that it has title to.

Developments: *Partly Implemented*

Following NAO's recommendation, the contractor in question compiled a record of the inventory of movable items in use by LESA for the operation of the LES. As per records forwarded for audit purposes, the contractor had already provided the Agency with assets bearing the value of €699,234 up till end October 2022, whilst another €33,797 worth of items were planned to be delivered till the end of the contract. Each unit of information

⁷ *The contract could be extended for a further two years on the same terms.*

technology equipment was listed individually together with the related details, including brand, model, serial number and purchase date. However, from scrutiny of the respective inventory, it transpired that, while a number of fields were blank, twenty-one tablets and their respective cases were listed therein as one entry, with no details as to their brand, model and serial numbers. Moreover, the cost of the respective assets was also not included in the register.

No Audit Trail for Cancelled Collision Reports

Sample testing carried out on monthly reports illustrating call-logs in case of traffic collisions revealed that the report identification numbers, which were automatically generated by the system, were not consecutive. According to LESA, those missing represented reports that were cancelled, either due to the police taking over the report, such as in cases where people suffered injuries, or related to instances where, despite reporting the collision, drivers reached an amicable settlement, without involving insurance agencies. However, no audit trail of such cancellations was maintained.

LESA was expected to request an enhancement to the system to include an application that enabled audit trail from origin. Besides internal control, this would offer a number of other benefits, including transparency, integrity and the protection of the system from misuse.

Developments: Fully Implemented

During 2022, the Agency invested in a new electronic collision software, namely the Traffic Accident Reports System, which was launched on 1 August 2022. Through this new software, all collision reports are referenced with a unique identification number and a log of the entire collision process is maintained; i.e., from when the call reaches the control room up to when the report is issued to the insurance companies. The software also maintains a log of those collisions which are initiated in the system but eventually cancelled due to specific reasons, such as in cases of injury, collisions taken over by the police, or in case parties involved in the accident reach an amicable solution.

This procedure was confirmed by NAO by means of a walkthrough exercise of the new collision software, as well as through review of the collisions report as extracted from the same software.

Delays in raising Invoices

The contract for the provision of community officers to third parties stipulated that invoices for the compilation of collision reports were to be issued by LESA every four weeks. However, substantial delays in this respect were noted. By way of example, fees covering services provided between April and September 2019 were grouped in a single invoice dated 30 October 2019, for a total amount receivable of €112,607.

LESA was to recognise the importance of raising invoices on time, as time lags can have a negative impact on its cashflow.

Developments: No Longer Applicable

Upon the expiration of the contract agreement in December 2019, a number of extensions were drawn up with the service provider for the service to be continued uninterrupted up to 31 July 2022. Thereafter, the full process was being managed by LESA through the newly introduced collision software, as explained in the previous observation.

Unsubstantiated Payments hindering Reconciliation

In line with pertinent legislation, residents engaging in activities necessitating road closures were required to book and pay for the provision of traffic management at the respective Local Council. The latter were then invoiced for services rendered by LESA at the end of each month. From their side, Councils settled invoices by direct deposit in a specific bank account owned by LESA. However, due to the lack of details available, payments effected could not be traced back to the related invoice; thus, no reconciliation could be performed, with the risk that any unpaid balances were likely to go by unnoticed by LESA.

For a complete audit trail, the Agency was to request Local Councils to start forwarding a detailed breakdown supporting the respective payments.

Developments: Fully Implemented

Since the elimination of manual applications for traffic management, the daily value for services paid at each Local Council is being recorded in the accounting system with full audit trail, following the completion of the end of day process. Invoices with the amount due from each respective Council are generated and then set off once funds are received in the Agency's bank account.

Invoices issued manually

In view that the accounting package used by LESA lacked the facility of issuing invoices⁸, these were being raised manually through a template on a spreadsheet. Besides the fact that this system did not provide an electronic audit trail, it was highly prone to error, due to complete human input.

In order to enhance efficiency, accuracy, as well as maintaining complete accounting records, Management was to consider adopting an electronic based invoicing system which would be integrated with the accounting package.

Developments: Fully Implemented

Following a public call for tenders, in August 2021, the Ministry on behalf of LESA entered into an agreement with the cheapest bidder for the provision of an accounting software, including maintenance and support for a period of four years.

Compliance Issues

Financial Statements not prepared

The only set of audited financial statements made available by the Agency covered the first 15-month period of operations falling between 1 October 2015 and 31 December 2016. It was stated that the financial statements for 2017 onwards were not yet finalised as the Agency was still awaiting direction from higher authorities in relation to the reimbursement of administrative expenses claimed by the Regional Councils. By virtue of Directive No. 3/2016 – 'Arrangamenti Finanzjarji bejn il-LESA, il-Kumitati Reġjonali u l-Kunsilli Lokali' issued by the Department of Local Government in 2016, Regional Councils may request LESA to reimburse the fee paid to the President of the Region, the salary of its Executive Secretary and the respective employees, as well as administrative expenses. Yet, the procedure to be applied for the disbursements of administrative expenses, which had to be devised by LESA and the said Department, was not yet established.

⁸ Invoices are raised by LESA for traffic management services and collision reports drawn up.

Moreover, no management accounts were compiled for financial years 2018 and 2019.

The submission of timely audited financial statements is a statutory obligation of the Agency. It is also pertinent that management accounts are compiled in a timely manner as these are necessary to assist Management in the day-to-day operations of the Agency.

Developments: Not Implemented

No progress was registered in this area. By the time this follow-up was concluded, i.e., February 2023, the Agency had fallen back six years covering financial years 2017 to 2022. This is totally unacceptable as it denotes lack of good governance, accountability, and transparency.

The CEO acknowledged the lack of improvement in this area. Though a full-time financial controller was to be engaged, this had not yet materialised. An external call for such post was published by the Agency in March 2023.

Agency Agreement not formulated

At time of audit, LESA had already been established for over four years; however, a formal agreement between the Agency and the respective Permanent Secretary, defining the former's operational structure, was not yet in place. NAO Officers were informed that a draft one-year agreement, covering 1 June 2019 to 31 May 2019⁹ [sic], was prepared in May of the said year but remained unsigned.

It is in the interest of the Agency to ensure that the agreement in question is concluded and endorsed by the responsible parties without further delay. This will set the applicable rights, obligations and procedures to be followed, whilst reducing potential future dispute.

Developments: Significant Progress

A one-year agreement, outlining the Agency's major functions and targets aimed to be attained between 1 January and 31 December 2022, was provided. Yet the date of endorsement of the said agreement by both the then Permanent Secretary and LESA's CEO was not disclosed.

Conclusion

NAO positively acknowledges that considerable effort was made by LESA to take on board a number of recommendations put forward in the 2019 Audit Report. Such improvement was also acknowledged during the follow-up exercise carried out by the Office of the Principal Permanent Secretary and reported upon in the Governance Action report dated October 2021.

However, a concrete strategy in relation to the collection of pending debts is required. This can also be achieved through enhanced collaboration with other relevant stakeholders in the area. If this concern is not immediately addressed, the Agency risks losing revenue due to Government. Moreover, LESA is expected to regularise its position and get its financial affairs in order as soon as a financial controller is appointed.

⁹ Extract from the Agency performance agreement: this Agency Performance Agreement (herein after referred to as the "agreement") has been drawn up in May 2019. This agreement governs the operations and programmes of Local Enforcement and Systems Agency (LESA) (herein after referred to as the "agency") for the one-year term beginning 1st June 2019 and ending 31st May 2019 [sic].

Agency for the Welfare of Asylum Seekers

Background

The findings of the expenditure audit at the Agency for the Welfare of Asylum Seekers (AWAS) were published by the National Audit Office (NAO) in the Annual Audit Report for 2019. The main objectives of this audit were to verify whether the purchasing procedures adopted by AWAS were in compliance with the Public Procurement Regulations (PPR), as well as the Agency's standing internal policies. The audit also sought to assess the level of existing internal controls over payments effected in 2019.

Amongst the shortcomings noted was the extension to the contracts for security services, which was not in line with the regulations, as well as the lack of documentation supporting the procurement of medical services. The audit also revealed instances where, due to claimed urgency, procurement regulations were bypassed.

Key Issue

Extension to the Contracts for Security Services not in line with the Regulations

The agreements with the three companies providing security services at AWAS expired in January 2018. The Agency further extended the agreement with one of the contractors until July 2018. From August until end of 2018, security services were provided by all three companies. However, this was neither covered by an approval from the Department of Contracts nor formalised. In 2018, AWAS paid the three service providers in question an aggregate of €898,262.

Since the new tender was not yet awarded, in 2019 AWAS obtained approvals from the Department of Contracts to enter into a negotiated procedure with the same three security services companies for an aggregate estimated cost of €2,139,877 excluding Value Added Tax (VAT). The amount invoiced by these companies, for security services rendered during the year under review, totalled €3,062,514; thus, a total of €537,459 was again not covered by approval from the Department of Contracts. Moreover, notwithstanding the substantial amounts involved, no agreements were in place covering the provision of security services during 2019.

The absence of agreements and approvals from the Department of Contracts for the provision of security services prevailed even in the first half of the subsequent year, until the awarding of a tender in June 2020.

The tendering process is to commence well ahead of the expiry of contracts, so as to avoid extending agreements for an indeterminate period of time. If, due to unforeseen exceptional circumstances, the Agency needs to continue making use of service providers after the expiry of a particular contract, the necessary Finance or Department of Contracts approval is to be obtained, as applicable, covering the full amount involved. Moreover, the respective agreement is to be formally extended.

Developments: Fully Implemented

AWAS published an internal procurement policy in March 2021, clearly outlining the procedures to be undertaken and approvals that need to be obtained for every procurement. This policy specifically stated that the Agency was to adhere to the provisions of the PPR.

The security services contract in force during the follow-up was awarded after the issue of a tender. The contract, effective from 30 April 2020 and for a value of €7,933,686 (VAT excl.), was for a period of 24 months, extendable for a further year in periods of 6 months each. After obtaining approval from the Department of Contracts, an addendum was signed in October 2020 to cover a variation of €2,062,217 (VAT excl.).

Following expiry of the contract period, the services were extended from 1 June till end 2022¹, by means of an addendum². According to AWAS, this extension was necessary since the new tender was still being drafted. The new tender document was forwarded to the Department of Contracts for vetting on 15 September 2022 and the tender was eventually published on 23 December 2022³.

As recommended by NAO, AWAS has been seeking the necessary approvals from the Department of Contracts throughout the whole procurement process since 2020. The agreement was also extended formally through an addendum.

No Documentation on the Procurement of Medical Services

During 2019, a company was paid €107,300 for the provision of medical services to AWAS. A further €32,632 was invoiced for services rendered in the previous year; however, no records could be found regarding the company's engagement. Thus, NAO could not verify whether the Agency complied with standing procurement regulations. Furthermore, it was unclear how AWAS could ascertain accuracy of the respective invoices, given that an agreement was also not in place.

Procurement regulations are to be invariably followed. AWAS is also to ensure that the provision of services of a substantial value are covered by an agreement signed by both parties, clearly stipulating the applicable rates and other relevant terms and conditions. All pertinent documentation is to be retained and adequately filed for future reference.

Developments: Fully Implemented

AWAS issued two separate tenders, covering medical services provided by doctors and nurses respectively. As regards the former, the contract, for a value of €131,080 (VAT excl.) was signed on 11 February 2021 and covered a period of two years, extendable for a further year in periods of three months each. The commencement date of the agreement was 8 April 2021.

The contract for nursing services was signed on 30 July 2020, for a value of €171,272 (VAT excl.), and covered a period of one year, extendable for a further year in periods of three months each. The contract period commenced from 4 January 2021. In line with the agreement, the services were extended until 2 January 2023, by means of four addenda of three months each⁴. In the meantime, a new tender was issued and the contract was signed in January 2023.

Control Issues

Weaknesses in the Administration of Petty Cash

According to the nominal ledger, expenditure incurred out of petty cash in 2019 totalled €21,832. Goods purchased included pharmaceutical items, groceries, baby food and gas cylinders. The Agency's procedures stipulated that petty cash was to be used for everyday emergency necessities.

¹ Services rendered during May 2022 were overlooked.

² Signed retroactively by the Department of Contracts on 8 June 2022.

³ At the time of publication of this Report, the tender had not yet been awarded.

⁴ Although the term extended through the third addendum had expired on 3 October 2022, the subsequent extension, after being approved by the Permanent Secretary, was sent to the service provider and signed retroactively on 25 October 2022.

A review of the system in place revealed a number of shortcomings:

- a. *Petty cash purchases from pharmacies in 2019 totalled €8,300; the vast majority (over €7,000) related to the Initial Reception Centre. This included medicines which were available from the Government Pharmacy at no cost to AWAS, notwithstanding the procedures clearly stipulating that petty cash was only to be utilised to purchase medicine when this could not be obtained from the Government Pharmacy.*
- b. *No record was kept by AWAS as to who was the ultimate receiver of the items purchased through petty cash, even though the respective procedures required that both the description of items purchased and purpose were to be indicated. Thus, NAO could not determine whether all purchases were justified or regular. In the absence of sufficient information, adequate monitoring over purchases also could not be carried out by AWAS itself.*
- c. *Spot checks on the actual petty cash in hand, to confirm the accuracy of the recorded balance at each centre, were not carried out by the Agency during the year under review.*

The petty cash procedure is to be revised to reduce the types of goods which can be purchased, whilst the respective records are to clearly distinguish between expenses made by or on behalf of residents and those pertaining to the centre itself.

Ideally, the petty cash float is to be kept at a minimum, to reduce the risk of misappropriation of funds, whilst maintaining control over purchasing. AWAS is expected to monitor such purchases to ensure that all goods bought are legitimate and that there is no wastage. Reconciliation of the balance as recorded in the petty cash sheets and the physical cash balance is to be performed regularly and duly endorsed.

Furthermore, the Agency is to consider alternative ways to meet the residents' daily needs rather than through petty cash. Items having a long shelf life, and which are frequently required, can be purchased centrally and distributed as needed. While exercising more control over purchasing, AWAS is also likely to benefit from discounted rates.

Expenditure on medicine and pharmaceuticals from private pharmacies is also to be kept to a minimum, especially when these can be acquired from the Government Pharmacy. Based on past experience, AWAS can identify which over-the-counter medicine is usually required by asylum seekers and try to obtain these at wholesale prices.

Developments: Fully Implemented

The Agency distributed an internal petty cash policy in December 2020 which, amongst others, made reference to the types of goods which could be purchased from petty cash. It also required that a distinction is made between expenses made on behalf of residents and those pertaining to the respective centre. Furthermore, an exercise was conducted, whereby most petty cash floats were reduced, while others were combined, resulting in a total of eight petty cash floats instead of ten.

NAO reviewed two petty cash information sheets that were selected at random⁵. It was ascertained that the expenditure claimed was in line with the petty cash policy and that the sheets were being correctly filled in and endorsed.

For 2022, AWAS drew up a tentative plan of spot checks on the various petty cash floats maintained, to be carried out during the year. NAO noted that these checks were being done regularly and, in most cases, on

⁵ Sheets pertaining to the Hal Far Tent Village for February 2022 and Maintenance for June 2022.

the day originally planned. Three spot checks were randomly selected from the tentative plan⁶ and, from the documentation made available, the necessary checks were found to be adequate and the required endorsements were duly made. In cases where minor discrepancies were found during these checks, AWAS investigated and took the necessary action.

AWAS indicated that, where possible, the Agency was engaging in bulk buying on a quarterly basis, so that procurement was done in the most economical manner. There was also the intention to issue a framework agreement to cover such purchases. Additionally, doctors were requested to prescribe medicines that could be obtained from the Pharmacy of Your Choice scheme, so as to reduce the medicinal items purchased from private chemists through petty cash.

Bypassing of Procurement Regulations for Urgent Purchasing

During 2019, expenditure relating to the purchase of bedding and mattresses totalled €138,884. Audit testing on the sampled transactions revealed the following:

- a. AWAS purchased 350 mattresses from a local supplier, for the aggregate cost of €49,000. The acquisition was made by means of two purchase orders, both through a direct order, claiming urgency. Approval from the then Ministry for Finance to purchase directly from the open market was not sought.*
- b. The Agency paid €25,495 to another supplier for bed linen and blankets. The purchasing was done in five batches; three of which after obtaining a total of three quotations for each batch and selecting the cheapest one. However, no information was forthcoming on the other two batches.*

Since bedding and mattresses are needed on a regular basis, the Agency is encouraged to issue a tender for the provision of such items and enter into an agreement with the successful bidder, including call off clauses as necessary. This should ensure constant pricing, whilst avoiding resorting to direct orders.

Developments: Fully Implemented

AWAS confirmed that no beds and mattresses were purchased since the 2019 audit. A tender for the procurement of these goods was issued in 2021 but had to be cancelled in March 2022, since both the selected bidder and the supplier who ranked second, could not honour their commitment in line with the original submissions due to reasons beyond their control.

During 2022, the Agency procured 500 single bed quilts and 900 bedsheet sets, costing €11,461 and €7,257 respectively. A total of four calls for quotations⁷ were issued in this respect in line with PPR and at least three quotations were received for each call. Purchases were effected from the suppliers offering the cheapest bids⁸.

Insufficient Verification over Mobile Bills

The Agency incurred mobile phone expenses of €24,177 during the year under review. AWAS stated that, occasionally, the monthly itemised bills were thoroughly checked by Management; however, none of the 12 sampled bills reviewed by NAO evidenced such verification. Furthermore, audit testing revealed two instances whereby AWAS was charged for calls already covered by the respective mobile phone's monthly tariff plan. Although the amount in question was not material, it sheds doubt on the effectiveness of verifications being carried out.

⁶ Spot checks made with respect to Dar il-Liedna (24 May 2022), Hal Far Open Centre (26 July 2022) and Head Office (30 August 2022).

⁷ Two calls were issued for each item.

⁸ Each purchase costs less than €5,000 (VAT excl.).

Proper verification is to be performed, particularly to detect cases where AWAS is billed for amounts higher than the contracted monthly rates.

Developments: *Partly Implemented*

A sample of 10 mobile phone bills for September 2022 were obtained for audit purposes. While eight were endorsed⁹ by a reviewing officer, the other two bills, which apart from the monthly charge included charges for usage¹⁰, were not. All bills were paid in full, six days after they were issued.

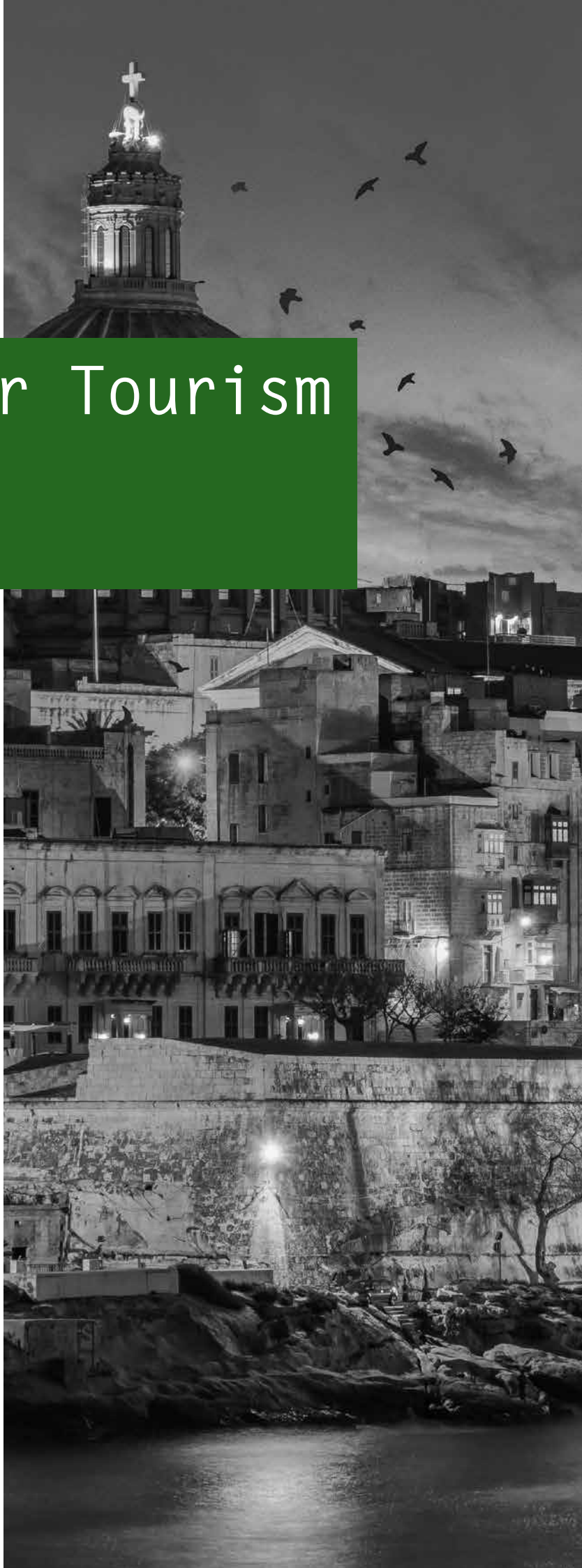
Although the two bills were already settled, requests for approval from the Senior Manager (Services) for the extra charges incurred due to excess usage by AWAS officers, were raised on 4 November 2022, i.e., during the follow-up audit. Approval was not granted, and the users who were still employed with AWAS were asked to refund the additional costs incurred. Thus, NAO could not conclude that verification of these bills, if any, was duly performed. Management is expected to go through all bills to identify similar instances of excess usage during other months and request a refund.

Conclusion

NAO acknowledges that significant efforts were made by Management to take on board the recommendations put forward in the 2019 Annual Audit Report. However, there is still room for improvement in the verification carried out on mobile phone bills.

⁹ Dates of endorsement were not indicated. Therefore, NAO was not in a position to confirm whether the verification was made before the bills were paid or if these were endorsed during the audit.

¹⁰ Since the users had exceeded AWAS' mobile plan.



Ministry for Tourism

Malta Tourism Authority

Malta Tourism Authority

Background

The outcome of an audit at the Malta Tourism Authority (MTA) was published by the National Audit Office (NAO) in its Annual Audit Report for 2018. This covered the level of existing internal controls over the recurrent expenditure. The audit also aimed to ascertain the prudent use of Government resources and efficient use of public funds.

Key Issue

Route Development Payments

Background

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

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

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

Agreements with Airline Companies

The audit revealed the following concerns with respect to agreements with airline companies:

- a. MTA's core operation includes domestic and international marketing of Malta as a tourist and business destination. Thus, it invests significantly in local and international advertising, through both individual and joint marketing campaigns, with the objective of creating opportunities in specific tourism sectors which are commercially viable and leave the desired financial return. According to MTA, a very effective means of achieving this is through advertising on airline and travel-related websites, as well as on other aviation-related media. In fact, MTA regularly enters into agreements with airline companies as deemed most opportune, depending on market trends, availability of aircraft, research and past experience. More so, given that MTA's objectives are heavily dependent on the operation of the routes between Malta and other airports, it is considered beneficial to incentivise air transport between Malta and various destinations. To this effect, MTA enters into agreements with certain air services operators to increase passenger flows to and from Malta, in line with Government's policy of enhancing connectivity and market diversification. These contracts, with expenditure that varies according to different business plans, were assessed for compliance. However, NAO was not in a position to fully confirm the bases on which the amounts disbursed were determined.*

- b. *The Authority maintained that, due to the nature of the service given by the airlines, the expected benefits can only be provided by particular economic operators in possession of exclusive intellectual property rights. Thus, in such cases, once competition is not possible, it resorts to the use of negotiated procedure, without prior publication, with selected airline companies. Although the Office appreciates the extremely sensitive commercial context within which MTA operates, NAO noted that the required authorisation from the Director Contracts to resort to this procedure, as per Article 150 of the Public Procurement Regulations, was not obtained.*

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

Developments: Partly Implemented

Amounts disbursed to airlines for route development are still based on direct negotiations with the respective airlines, taking into consideration Malta's strategic objectives. However, following the original audit, MTA initiated discussions in this regard with the Department of Contracts.

Contracts signed retrospectively

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

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

Developments: Insignificant Progress

NAO was informed that negotiations started prior to the lapse of the three reviewed contracts and an addendum, in order to ensure that the new agreements were signed in a timely manner. However, despite MTA's commitment and submission of draft contracts, the respective parties still took a long time to sign the agreements. As a result, two out of the three agreements with airline companies, as well as the addendum that were reviewed, were again signed retrospectively by the respective company. It was confirmed that no payments were effected prior to the signing of the agreements.

One of the other agreements reviewed consisted of an addendum reflecting changes to standing fees which were necessary as a result of the COVID-19 pandemic and its effect on the rights and obligations of the parties. However, while the addendum was signed on 19 November 2021, revised rates were applicable from summer 2021. No overall financial impact was noted.

Although a specific date was not indicated, a clause in the other agreement implied that the signature took place after the contract came into effect, with the gap covered with a verbal agreement. Comments provided by MTA indicated that such a verbal agreement was necessary in view of high-level discussions ongoing at the time with the airline.

Payments in excess to Agreement

During 2018, the total amount paid to a service provider with respect to tourism-related marketing services exceeded the pre-established amount. Upon enquiry, MTA claimed that the working relationship with this particular service provider was based on a growth model, which encouraged seat capacity to and from Malta

through a combination of extended seasons, additional frequencies on existing routes and the introduction of new routes. However, no documentation was provided by MTA to support this additional payment, except for statistical data backing up the increase in passengers during the year under review.

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

Developments: Fully Implemented

Reviewed payments were in line with agreed rates. Furthermore, all adjustments to rates, as well as invoices, were duly documented and approved.

Approval of Marketing Activity not evidenced

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

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

Developments: Fully Implemented

In the three applicable agreements reviewed, the respective marketing plan was incorporated therein, hence endorsed by MTA. Moreover, payments were based on invoices and end-of-campaign reports, including documental and visual proof of activities undertaken as per the approved marketing plan.

Passenger Target Concerns

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

The contract referred to a passenger not tourist target. Upon enquiry, MTA claimed that the company could not distinguish between the different categories, so it was assumed that the single largest component of these passengers comprised tourism flows to Malta.

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

Developments: Fully Implemented

Marketing support¹ provided through the agreements that MTA entered into with the ferry services company during 2021 and 2022 respectively was tied to tourist targets. The Authority requested sales statistics indicating the number of tourists coming to the Maltese islands.

¹ Financial support for marketing and promotion of the Maltese islands in Sicily during 2021 and 2022.

Control Issues

Annual Summer Concert

MTA entered into an agreement with an event company to make a contribution towards an annual summer concert. NAO was verbally informed that this concert was held for the last 11 years and in 2018 the Authority managed to reduce MTA's annual contribution to this event by around €450,000. The following concerns relate:

- a. *Prior event budget forecast and documentation regarding sponsorship arrangements were not made available to NAO for audit purposes.*
- b. *The contract specified that destination marketing strategies were to be devised and implemented by the company in conjunction with MTA; however, a copy of the strategy and plan, which were to be concluded at least two months before the event, were also not made available.*
- c. *Although one of the signatures on the contract bore a date of eight days before the event, the formal contract was entered into retrospectively. No explanation to this effect was forthcoming.*

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

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

Developments: Fully Implemented

The annual summer concert is still being held. In 2022, the contract came into effect on 17 May 2022, so well over two months before the date of the actual event, which was that held on 26 July 2022. MTA's contribution, as per this agreement amounted to €350,000 (VAT excl.)

Documentation related to sponsorship arrangements and prior event budget forecast were provided.

Evidence of marketing undertaken was also provided whilst the marketing strategy and plan was concluded two months before the event, as per agreement.

Budgeted Expenditure and Organisational Obligations

An agreement was entered into on 25 April 2018, between MTA and an international radio station, for the latter to host the International Radio Festival from Malta. MTA contributed the amount of €394,000 and bound itself to cover other related costs estimated at €214,250. However, the actual total financial outlay for the event amounted to €609,177.

Furthermore, MTA was bound to pay local hotel accommodation costs for 80 guests, in accordance with the respective agreement. However, the Authority confirmed that it had also accepted to pay for the extra 24 rooms², notwithstanding that the organiser was to bear the additional costs.

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

² Approximate cost was €14,000. Exact cost could not be established due to lack of details.

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

NAO acknowledges that it is extremely difficult for MTA to have full control over entertainment related events; however, as far as possible, precautions are expected to be taken in order to duly safeguard public funds. Article 2(d) of the agreement specified that the final contribution payment was subject to the outcome of a post-mortem. Thus, for future similar events, it is advisable to stipulate that the established amount may be subject to deductions, if any expenditure is deemed unnecessary or is not justified. Additionally, in order to enhance accountability, details of no shows are to be held in an organised manner and be readily available for audit purposes.

Developments: Fully Implemented

The International Radio Festival was not included in the 2022 list of events provided for audit purposes. Consequently, another event, namely Summer Daze Festival, was selected for testing purposes.

An agreement was entered into on 11 August 2022, between MTA and a local organiser, covering the organisation, management and promotion of the foregoing event, which was to be undertaken by the latter. Budget for this event was set at €2.692 million (VAT excl.) and payments effected were in line with this amount. Moreover, all organisational obligations and related expenses were transferred to the contracted event organiser.

Conclusion

NAO positively notes that commitment was being made by MTA to address various concerns identified in past audit reports. However, more efforts are to be invested to ensure that the remaining pending issues are resolved in the shortest time possible.



Ministry for Finance and Employment

Malta Financial Services Authority

Malta Financial Services Authority

Background

The National Audit Office (NAO) published the outcome of an audit on expenditure entitled, 'Malta Financial Services Authority', in its Report by the Auditor General – Public Accounts 2019. The main scope of the audit was to verify whether procurement procedures adopted by the Malta Financial Services Authority (MFSA) complied with the Public Procurement Regulations (PPR), to determine the level of existing internal controls over travel related expenditure and donations, as well as to provide recommendations to use Government funds prudently and in a judicious manner, where warranted.

The main concern encountered during the initial audit was related to procurement, since several instances of direct orders without the necessary approvals were noted. Services not supported by agreements were also encountered. Governance issues were identified in so far as donations to various beneficiaries were concerned.

Key Issue

Resorting to Direct Orders without the necessary Approvals

Procurement procedures within MFSA were not entirely in line with PPR, since a number of sampled services, totalling €962,370, were procured directly from the open market without the necessary approvals.

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

Developments: Fully Implemented

In November 2019, MFSA introduced new procurement procedures in line with PPR to enhance controls for better governance. From the four direct orders which were selected based on materiality and their nature for the purpose of this follow-up, it was confirmed that the necessary approvals were sought from the Direct Orders Office within the Ministry for Finance and Employment.

Control Issues

No Agreements in place for Services provided

No agreements were found to be in place to regulate the provision of four separate information technology related services, which amount totalled €327,342. According to MFSA, the relative quotations and purchase orders were used as a reference to regulate the services; however, these did not include the related terms and conditions.

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

Developments: Fully Implemented

Two negotiated procedures together with the four direct orders mentioned above were checked to ensure that a service agreement was in place. It was confirmed that all six were supported by a formal agreement.

Procurement through Expired Contracts

In 2019, MFSA made arrangements with a service provider to engage two individuals in managerial grade for a period of six months. However, MFSA continued to receive services based on the related agreements, even though these had expired. Although the service provider eventually had to be paid, the Direct Orders Office within the then Ministry for Finance informed the Authority that it was not in a position to grant retrospective direct order approval; the respective invoices amounted to €69,179.

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

Developments: Fully Implemented

On 22 February 2023, MFSA issued a tender for the acquisition of a procurement system involving an add on module interfacing with the accounting system. This new system will include contract management. Deadline for participating in this tender was 24 March 2023. Until this new system is in place, the Authority will be managing its contracts through a spreadsheet, with a conditional formatted expiry field that highlight the expiry of a contract four months before.

Performance Guarantee not in place

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

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

Developments: Fully Implemented

MFSA compiled a database to monitor performance guarantees, in order to be in a position to take timely action, if and when a performance guarantee requires renewal.

Donations by the Authority

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

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

Developments: Fully Implemented

The Authority confirmed that following MFSA's Board decision in 2020, donations and sponsorships were no longer permissible. A copy of the Board's decision and the 2022 management accounts were forwarded for verification purposes during this follow-up exercise. No donations were traced in the Statement of Income and Expenditure for the period ending 31 December 2022.

Shortcomings related to Expenditure on Travel

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

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

Developments: Fully Implemented

MFSA revised the existing travel policy and procedures to be in line with the Manual on Transport and Travel Policies and Procedures. A review of a sample of two visits abroad relating to year 2022 confirmed that travelling subsistence allowance granted was compliant to the per diem rates issued by the Ministry for Finance.

Compliance Issue

Fiscal Receipts obtained during the Audit

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

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

Developments: Fully Implemented

Fiscal receipts were obtained for all the five invoices that were selected for testing purposes.

List of Defaulters not compiled

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

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

Developments: Fully Implemented

It was confirmed that quarterly defaulters returns for the year under review were submitted to the Office of the Commissioner for Revenue.

Awarded Contracts not published in the Government Gazette

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

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

Developments: Fully Implemented

All awarded agreements in relation to the direct orders and negotiated procedures reviewed for this follow-up were published in the respective Government Gazettes. Moreover, a number of variations were also noted to have been published by the Authority in the same publications.

Conclusion

NAO acknowledges the considerable efforts made by the Authority to regularise its position and has taken on board all the recommendations put forward in the 2019 Report.

Ministry for Education, Sport, Youth, Research and Innovation

Malta College of Arts, Science and Technology



Malta College of Arts, Science and Technology

Background

In its Annual Audit Report for 2019, the National Audit Office (NAO) published a report entitled 'Malta College of Arts, Science and Technology'. The main scope of the audit was to determine the level of internal controls in relation to the calculation and payment of personal emoluments to employees covered by the collective agreement that was reached between the Malta College of Arts, Science and Technology (MCAST) and the Malta Union of Teachers (MUT) in 2018. Verifications were also made to confirm whether the applicable regulations and the provisions in the respective collective agreement were being followed, mainly with regard to the payments of allowances and for extra hours worked.

Key Issues

Discrepancies and Undocumented Changes in Basic Salary Payments

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

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

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

Developments: Fully Implemented

A clarification to the collective agreement with regard to progressions and the payment of salaries was signed by the highest officials of MCAST and MUT on 23 June 2021. This was done during a meeting presided by the Industrial Relations Unit within the Office of the Prime Minister. This document clarified that any increment shall be awarded to the employee on the respective anniversary of employment, promotion or progression, as applicable, provided that the maximum of the salary scale is not exceeded. Furthermore, the document with the colour coded salary progressions was amended accordingly for Senior Lecturers II, Senior Lecturers I and Assistant Lecturers, showing sequential progression from one pay point to the next.

According to MCAST, negotiations for the new collective agreement were being carried out, with a number of meetings already held.

Work Resources Allowance not adequately managed

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

Audit testing revealed various shortcomings with regard to the allowance in question; amongst others these included, key requirements not indicated in the policy, limited control over utilisation of funds and submission of reports, as well as incorrect amount allocated as WRA.

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

Developments: Significant Progress

According to Management, a new policy for WRA was drafted; however, MUT had not yet approved the changes as proposed by the WRA Committee.

Meanwhile, a standard operating procedure was drawn up and included in the Finance Procedure Manual, detailing the process in place to ensure adequate verifications using a sample-based approach.

According to the publication titled Governance Action on the NAO's Annual Report for 2019 and 2020, commissioned by the Office of the Principle Permanent Secretary, an electronic system was to be implemented by December 2021, whereby receipts for eligible expenditure were to be uploaded directly by the lecturers. However, even though quotations were collected from software companies, Management did not consider these sustainable; consequently, it was decided to maintain the present system. Subsequently, during 2021, work was initiated on a new Human Resources and Payments System. This was in its final stages at the end of the year 2022 when this follow-up audit was in progress and a first run of the system was carried out in January 2023. Final tests were to be carried out during the second quarter of 2023, with the target date of implementation being September 2023. In the meantime, most of the existing system data was checked to make sure the correct figures will eventually be uploaded to the new system.

NAO obtained a list of all lecturers and LSEs who received a WRA in 2021 and 2022. The accuracy of WRA, given to a sample of 19 lecturers and LSEs randomly selected, was verified and found that it was in line with the collective agreement.

Payment of Information Technology related Allowance not duly substantiated

During 2019, 41 employees received the aggregate amount of €306,040¹ as a top up allowance. This allowance is paid to individuals lecturing the subject on information, communications and technology, to compensate them for the difference in salaries paid within the information technology industry. Eventually, the respective amounts are invoiced by MCAST to the Ministry for Education and Employment for reimbursement.

Documentation on this allowance available at MCAST was a cabinet memo dated in year 2006 and other related correspondence, recommending the introduction of such allowance to make up for the drop in the engagement

¹ Allowance of €8,160 annually, i.e., €680 monthly or pro-rata.

of respective lecturers. However, the documentation made available did not specify the amount to be paid. Since an agreement to this effect was also not in place, the amount in question could not be validated.

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

Developments: Insignificant Progress

MCAST officials confirmed that the information technology related allowance was still being paid as in previous years. In fact, a total of €308,610 was paid between January and December 2022 to 42 employees in this regard. According to MCAST, discussions on the matter were still ongoing.

Control Issues

Limited Control over Work Resources Allowance

Allocations in advance

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

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

Developments: Insignificant Progress

As per collective agreement, WRA is still being paid by means of a debit card system. However, amounts claimed by a sample of 25% of eligible staff is being verified on a regular basis by external auditors and, in fact, a number of irregularities were detected. Notwithstanding, these verifications are still not acting as a deterrent to mitigate abuse which may go undetected.

Key Requirements not included in the Policy

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

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

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

Developments: Partly Implemented

Following the recommendations made by NAO during the initial audit, the WRA Committee within MCAST issued an internal circular to the respective employees. Amongst other things, this stated that purchasing multiple devices of the same nature within the same calendar year has to be accompanied by a justification. The WRA Committee will then evaluate such justification and issue a decision on its eligibility. However, the respective policy is still to be approved by MUT.

Inadequate monitoring to check timely submission of Reports

As per WRA policy, when the respective employee is retiring or terminating employment with MCAST, one is to submit the final expenditure report and return the card to the Finance Department at least four weeks prior to termination. Any overspent funds are to be refunded to MCAST. However, this requirement was not being adhered to. In fact, two out of three employees², one who resigned and the other one retired, both on 31 August 2019, were in default; the former submitted the necessary paperwork and paid back a trivial amount following audit queries, whilst the latter did not submit the report at least by end July 2020 when the audit was in progress.

Employees who fail to file the necessary report or submit it late and/or overspend funds should be requested to return their allocation to MCAST.

Developments: Fully Implemented

Management confirmed that, in line with the pertinent standard operating procedure, email instructions are sent to the respective bank to block the debit card for officers who resign or retire. In such cases, entitlement is on a pro-rata basis. In cases where the employee exceeds the entitled amount as at the last day of employment, a refund is requested before the last payroll payment is settled. Adjustment to the debit card balance is also made when an employee switches to reduced hours or takes special unpaid leave.

As a follow-up, NAO confirmed that the entitlement of two random employees who terminated their employment was not exceeded; in one instance, the amount was within the limit while, in the other case, the excess was deducted accordingly from the last payroll. The final expenditure reports for both employees were also forwarded to MCAST prior to termination of employment.

Incorrect Allocation of Funds

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

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

² A total of three employees received an allocation in this regard and terminated their employment during 2019.

Developments: Fully Implemented

Testing showed that, the amount deposited to the account of 15 sampled LSEs was correct.

Lack of Segregation of Duties

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

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

Developments: Fully Implemented

Management confirmed that employees' salaries are computed by three payroll officers, within the Human Resources Office. The management of payroll, on the other hand, falls directly under the responsibility of the Financial Controller within the Finance Office.

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

The collective agreement stipulates that lecturers are to be present at the place of work during the core hours from 10:00 to 15:00. Meanwhile, clause 11.6 gives the possibility to employees to request a two-hour flexitime window, as long as this is settled on the same day. From a general observation of the manual attendance sheets maintained by different lecturers within different Institutes, it was evident that there was a number of lecturers who did not always stick to the core hours. However, the relevant approval was not being sought by the individuals concerned. NAO is of the opinion that this system hinders MCAST from being able to keep control over the lecturers' working hours.

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

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

Developments: Insignificant Progress

The Institute confirmed that no proper time and attendance mechanism was introduced to ensure that the stipulated core hours were adhered to and that actual flexibility was within the parameters established in the collective agreement. According to MCAST, academics are still adhering to the applicable provisions of the collective agreement by signing in and out on their weekly attendance sheet.

No Reconciliations between missed and replaced Hours

In view of the possibility of MCAST or MCAST Gateway to Industry organising additional courses specifically for industry or due to high demand for that particular course, lecturers may be required to carry out additional training courses during their core hours, at an extra payment of €26 per hour. However, NAO could not check whether any missed lectures were being replaced³, in order for MCAST to fulfil its obligations to its day-time students.

³ Records of when lectures were missed and ultimately replaced were not maintained.

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

Developments: Significant Progress

According to an MCAST administration official, the Institute's Director is monitoring that such lectures are replaced accordingly. During the audit, MCAST was discussing the new collective agreement with MUT, therefore this issue was on the agenda to further ensure compliance with one's duty of providing lecturing hours.

Documentation was obtained for a particular lecturer who claimed the highest amount of extra time in 2022, amounting to 1,030 hours, for an aggregate payment of €28,340. These hours were verified against the employee's timetable and it was confirmed that they were performed outside the working timetable and thus there was no need to replace any lectures. MCAST in fact confirmed that there were no instances of replacements.

No inbuilt verification in the Payroll System

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

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

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

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

Developments: Insignificant Progress

An exercise, carried out on the payroll system, to identify and incorporate a functionable data validation procedure, was still during testing stages at the time of the follow-up. In the meantime, Management is checking a random sample of 5% of the payroll on a monthly basis prior to the release of the respective payroll file for payment. This is covered by a formal written procedure.

However, from a sample of three employees chosen by NAO for detailed testing, based on material pre-tax allowances, it was noted that one employee who received a pre-tax allowance of €9,724 in pay period 3, relating to the progression from Assistant Lecturer to Senior Lecturer I, was overpaid since the employee received a yearly increment to which the foregoing was not entitled until one satisfies the teaching qualification obligation. This overpayment was confirmed by MCAST officials. Another employee had to refund a net amount of €7,232 for salaries received in the first three pay periods of 2022, which were erroneously paid while on parental leave. This amount was duly refunded by the officer when this error was detected by MCAST at a later stage.

Such instances reconfirm that certain mistakes are still being made in the computation of salaries. This implies that thorough checking is not being done before each payroll run. Management plans to have the inbuilt verification payroll system set up by September 2023.

No Policy for Travel Expenses

From year 2009⁴ up to February 2020, an aggregate amount of €29,059 was paid to Gozo Channel Company Limited to purchase 73 frequent traveller cards, in order to distribute to employees residing in Malta who were required to travel on a daily basis to lecture in Gozo. Cases of fuel reimbursement when lecturing in Gozo were also noted. However, MCAST did not have an official documented policy regulating such expense. Besides the foregoing amount, MCAST confirmed that reimbursements in this regard were also made directly through payroll.

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

Developments: Fully Implemented

Management confirmed that travel expenses are regulated by Chapter 6: Travel and Expenses Procedure within the MCAST Manual of Administrative Procedures, issued in 2021, which document is available for all staff members.

From the payroll list provided by MCAST, NAO requested the transport payment vouchers for the employee who had the highest ferry reimbursement. The dates and the different reimbursements on the vouchers were agreed to those on the ferry tickets.

Compliance Issue

Different Rate of Reimbursement when using Personal Cars for Official Duties

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

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

Developments: Fully Implemented

The Manual of Administrative Procedures was revised to indicate that all staff claiming fuel allowance were to be paid at the revised applicable rate of €0.32 per kilometre as a post-tax payment. NAO confirmed that the employee who received the highest fuel reimbursement was paid at the established rate per kilometre.

Conclusion

NAO acknowledges the effort made by MCAST to take on board a number of recommendations put forward following the initial audit. However, a number of concerns where significant progress is required still prevail.

⁴ According to MCAST, the first time when employees were informed that they had to work in Gozo was in 2009.



Ministry for Public Works and Planning

Planning Authority

Planning Authority

Background

The findings of audit on Cash Management at the Planning Authority were published by the National Audit Office (NAO) in the Annual Audit Report for 2019. The main objective of this assignment was to assess in detail the controls in place over the collection process of revenue in cash and cheques within the Authority.

During this audit, NAO noted that internal controls on cash management were weak. Substantial cash was being handled by one person and not reconciled to bank deposits; thus, there was no assurance that revenue collected was deposited in full.

Key Issues

Weak Controls on Cash and Cheque Deposits

From an analysis of the 2019 deposits provided by the Planning Authority, it transpired that during the year, a total of 88 bank deposits were made, amounting to €37.79 million. Further testing revealed the following concerns which did not give the comfort of completeness of revenue:

- a. A general lack of segregation of duties was noted, where one accounting officer was often responsible for collecting cash and cheques, issued the respective receipts, put these takings in the safe, deposited them at the bank and finally made the necessary postings in the accounting system.*
- b. Several cheques, received on the same day, were deposited on different dates. This inconsistency hindered the Authority from a proper daily reconciliation to ensure that all takings were deposited in their entirety.*

NAO recommended the Authority to set up a robust system of internal controls to address the lack of segregation of duties in the cash handling process. Furthermore, the contents of daily reports were to be reconciled with the respective deposit sheets to ensure that the amounts collected were banked in their entirety.

Developments: Partly Implemented

As recommended by NAO, Management has set up adequate internal controls that included segregation of duties and supervision, which are embedded in the procedures relating to the receipt and deposit of revenue. Cash handling guidelines have also been drawn up, detailing the process for the collection of revenue, as well as the reconciliation process, reflecting most of the provisions of the General Financial Regulations, however, failing to demand daily deposits if amounts collected were above an established threshold.

The procedure for issuing receipts was streamlined. The Planning Authority confirmed that revenue received was being deposited after ensuring daily reconciliations were performed, between receipts collected and respective daily report issued, by an independent officer. Another reconciliation exercise was being performed on a fortnightly basis to identify any discrepancies in the actual deposits and the number of days taken to effect a deposit from receipt issue date. Both the variances and delays are flagged to the accounts officer concerned to ensure compliance.

In March 2021, the Planning Authority extended its agreement for over-the-counter payments at MaltaPost branches, to reduce the volume of payments handled at the Authority's cash offices. Management has promoted more the use of internet banking payments to mitigate risks associated with the handling of cash. For the period January to September 2022, total collections amounted to €38.7 million, out of which only €7,754 was received in cash while over €13 million were cheque payments. The remaining 66% of receipts were made through different electronic channels.

Training on the new processes has also been provided to the employees concerned. Front desk officers were briefed on procedures relating to the issuance of receipts, while accounts officers were trained to ensure completeness of revenue being deposited.

At end of day, cheques and cash are handed over by front desk officers to the accounts officer on duty and checked against the daily collections report for each cashier. Monies are placed in the safe for the eventual deposit.

Although banking was not being done on a daily basis, a marked decrease in deposit days was noted. A total of 2,613¹ cash transactions took place during the period January to October 2022. During this period, 3% (72 transactions) of the total transactions effected in Malta took over 10 days to be deposited, whilst 48% (228 transactions) effected in Gozo exceeded the 10-day threshold. In view of this, Management will be deciding on the feasibility of continuing to accept over-the-counter payments, especially at Gozo offices. However, although improvement in this regard by the Planning Authority was evident, effort was still required, for the sake of good practice, to deposit on a daily basis, when cash exceeded an established threshold. In this respect, the Authority intends to expedite processing of any deposit backlog in Gozo and continue promoting existing alternative payment solutions.

Receipts not reconciled to Entries in the Accounting System

The receipts issued from the billing system were not being reconciled to the entries in the accounting system by the Authority. For the year 2019, a reconciliation was only carried out following a request for this information by NAO.

In the absence of a proper reconciliation, amounts which fail to make it into the accounting system will remain untraced.

A reconciling exercise is to be carried out at the end of each day to ensure that amounts collected are deposited in their entirety.

Developments: Fully Implemented

A reconciliation is being carried out, every two weeks, between the receipts issued and the accounting system. Reports have been created to include a unique reference, identification (I.D.), for each revenue component showing on a billing receipt. This has made the reconciliations possible. Discrepancies, if any, are being adequately investigated to determine the cause, and any necessary action is being taken.

Concerns on the Collection of Amounts in Excess of the Established Threshold

The Authority issued instructions to its front desk officers, stating that bills must be settled in full, with the exception of those instances where a credit agreement is in force. Furthermore, cash in excess of €10,000 cannot be accepted.

¹ Whilst 2,139 transactions were effected in Malta, 474 transactions were carried out in Gozo.

However, the general public was not informed of this, thus making it more difficult for the Authority's officers to enforce such instructions.

The relevant policies are to be made public so as to ensure that the amount of cash payments do not exceed the stipulated threshold which is also to be lowered to mitigate relevant risks.

Developments: Fully Implemented

Front desk cashiers are only accepting cash payments up to €200. In fact, a notice to this effect was affixed at a central point in the reception area of the Authority. In the case of payments of more than €200 but less than €10,000, these were to be made directly to the respective accounts officer at the Planning Authority. On the other hand, payments over €10,000 were only accepted by cheque or bank draft. This information was also included on the Authority's website. The applicable threshold of €10,000 is in line with the limit introduced in Use of Cash (Restriction) Regulations, 2021 (L.N. 81 of 2021), for similar types of transactions.

Conclusion

Except for the delays in respect of certain deposits, especially at the Gozo office, NAO satisfactorily acknowledged the progress made by the Authority in its cash management by taking the respective recommendations on board.

2022-2023 (to date) Reports issued by NAO

NAO Annual Report and Financial Statements

July 2022 National Audit Office Annual Report and Financial Statements 2021

NAO Audit Reports

June 2022 An evaluation of performance audits in the public sector: Common audit findings (2017 – 2020)

June 2022 Follow-up Audits Report by the National Audit Office Volume I 2022

July 2022 Performance Audit: Procuring the Public Transportation Service

October 2022 Performance Audit: The COVID-19 pandemic - Business continuity within the public administration

October 2022 Performance Audit: A Follow-up on the 2018 Strategic Overview of Mount Carmel Hospital

November 2022 Follow-up Audits Report by the National Audit Office Volume II 2022

November 2022 Report by the Auditor General on the workings of Local Government for the year 2021

November 2022 Performance Audit: Care for the Elderly in Gozo

December 2022 Information Technology Audit: Online Malta Census of Population and Housing 2021

December 2022 Report by the Auditor General on the Public Accounts 2021

February 2023 IT Audit: Active Ageing and Community Care – Ministry for Active Ageing

April 2023 Performance Audit: An assessment of capital projects at the University of Malta

April 2023 Performance Audit: Ensuring fair Non-Contributory Social Benefits and safeguarding against related fraud

May 2023 An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 3 | Steward Health Care assumes control of the concession

May 2023 An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 3 | Steward Health Care assumes control of the concession [Abridged]