



Fixed Assets and Stocks

Report by the Auditor General
October 2023

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List of Abbreviations

CFMS	Corporate Financial Management Solution
CIO	Chief Information Officer
CPSU	Central Procurement and Supplies Unit
IPSAS	International Public Sector Accounting Standard
IT	Information Technology
LVA	Low Value Asset
MDH	Mater Dei Hospital
MFE	Ministry for Finance and Employment
MITA	Malta Information Technology Agency
MPWP	Ministry for Public Works and Planning
NAO	National Audit Office
NBV	Net Book Value
PHC	Primary Health Care
POYC	Pharmacy of Your Choice
PP&E	Property, Plant and Equipment

Foreword

Government is accountable for the efficient management and stewardship of public assets. In this regard, proper accounting is of fundamental importance since it essentially ensures compliance with accounting standards, regulations, and reporting requirements, promoting transparency and accountability in the use and management of Government resources.

In fact, the Ministry for Finance and Employment is committed to follow the provisions of the Public Finance Management Act, which seeks to ensure the effective and efficient management of all assets and liabilities, cash flow, and revenue and expenditure of the Government. In line with this, the Ministry will eventually report the Government of Malta's Financial Statements on an accrual accounting basis rather than cash, as at present. Subsequently, over the last few years, all the Ministries started using a new accounting system, namely the Corporate Financial Management Solution, which phased out the Departmental Accounting System. The process of implementing the new system involved the rolling-over of the relevant balances, and once these were in place, daily transactions were posted accordingly.

Over the past years, the National Audit Office carried out various audits with the scope of assessing the level of preparation of Ministries and departments with regard to accrual accounting. These included the verification of the existence and completeness of debtors' and creditors' balances, as well as the correctness of reported figures of prepayments and accruals. Subsequently, this Office felt it necessary to review all the Ministries' accounting for fixed assets and stocks. These reviews, whose salient results feature in this Report, also focused on whether the newly implemented system was functioning properly.

A well-functioning accounting system ensures that Government has the necessary tools for sound financial management purposes, as well as for helping to create accurate, timely, and transparent financial reports. Since land and property typically constitute significant components of a Government's overall wealth, properly kept information enables the Ministry for Finance and Employment to make informed decisions regarding resource allocation. This will also assist in deciding whether to retain, sell, or lease properties, and how to best utilise these assets for the benefit of the Government and the citizens. With the help of the system, Management should also have better visibility, which would enable it to exert better control over the Government's stock levels, reducing significantly any risk of abuse or misuse thereof.



Charles Deguara
Auditor General
October 2023

Chapter 1 | Introduction

1.1 Structure of the Report

The Report is divided into a number of chapters. The introduction includes explanations on nomenclature, a disclaimer and a list of documents referred to during the reviews. The next chapter contains general information about the 19 Ministries featuring in the 2023 Financial Estimates. A background on fixed assets, the results of the reviews, specific recommendations proposed by the National Audit Office (NAO) and the relevant Management comments received are included in the ensuing two chapters. Similar information but relating to stocks is reported on in the following two chapters. Common findings relating both to fixed assets and stocks feature in the subsequent chapter. A summary of the written feedback received from Treasury features as a conclusion to this Report.

1.2 Nomenclature

Throughout this Report, the term Ministries is used to refer to the Ministry itself, as well as any Department, Directorate, Authority, Agency, Unit, Mission¹ abroad etc. within its remit. Government entities, which received funds by way of contribution as per Financial Estimates, were not included within the scope of these reviews. Furthermore, in order to avoid any possible misunderstandings, although within Government the term inventory was very often used to refer to fixed assets, throughout this Report, the terms fixed assets and stocks will be used as applicable since, in accounting terms, inventory typically refers to stocks.

1.3 Disclaimer

The aim of these reviews was to obtain an understanding of the systems in place and methods adopted with regard to both fixed assets and stocks; thus, procedures performed were limited to clarifications sought and discussions with responsible officers, analysis and reviews of relevant documents and general observations. Accordingly, no specific audit tests were carried out on the figures provided to NAO, as these fell beyond the scope of these reviews. Nevertheless, the evidence obtained by this Office throughout this assignment provides a reasonable basis for the results which feature in this Report.

Considering that the procurement of Property, Plant and Equipment (PP&E) generally involves the disbursement of significant amounts from the annual budget allocation, it is expected that these fixed assets constitute a considerable percentage of the assets which will be recognised by the Ministries in the eventual preparation of accrual-based financial statements. Therefore, all 19 Ministries were

¹ This includes Embassies, High Commissions, Consulates and Permanent Representations in various countries.

reviewed in this regard. On the other hand, in six Ministries², store items were not deemed material and therefore these were not reviewed. As shown in Figure 1, a total of 24 Management Letters were sent to 19 Ministries.

Figure 1: Subject Matter of the Management Letters



This Report portrays consolidated results of the reviews and the problems encountered. Therefore, the results reported upon do not necessarily relate to each Ministry. In fact, the results and recommendations included in the 24 Management Letters sent were thoroughly summarised as deemed necessary. Similarly, not all the Management comments submitted to NAO featured in this Report.

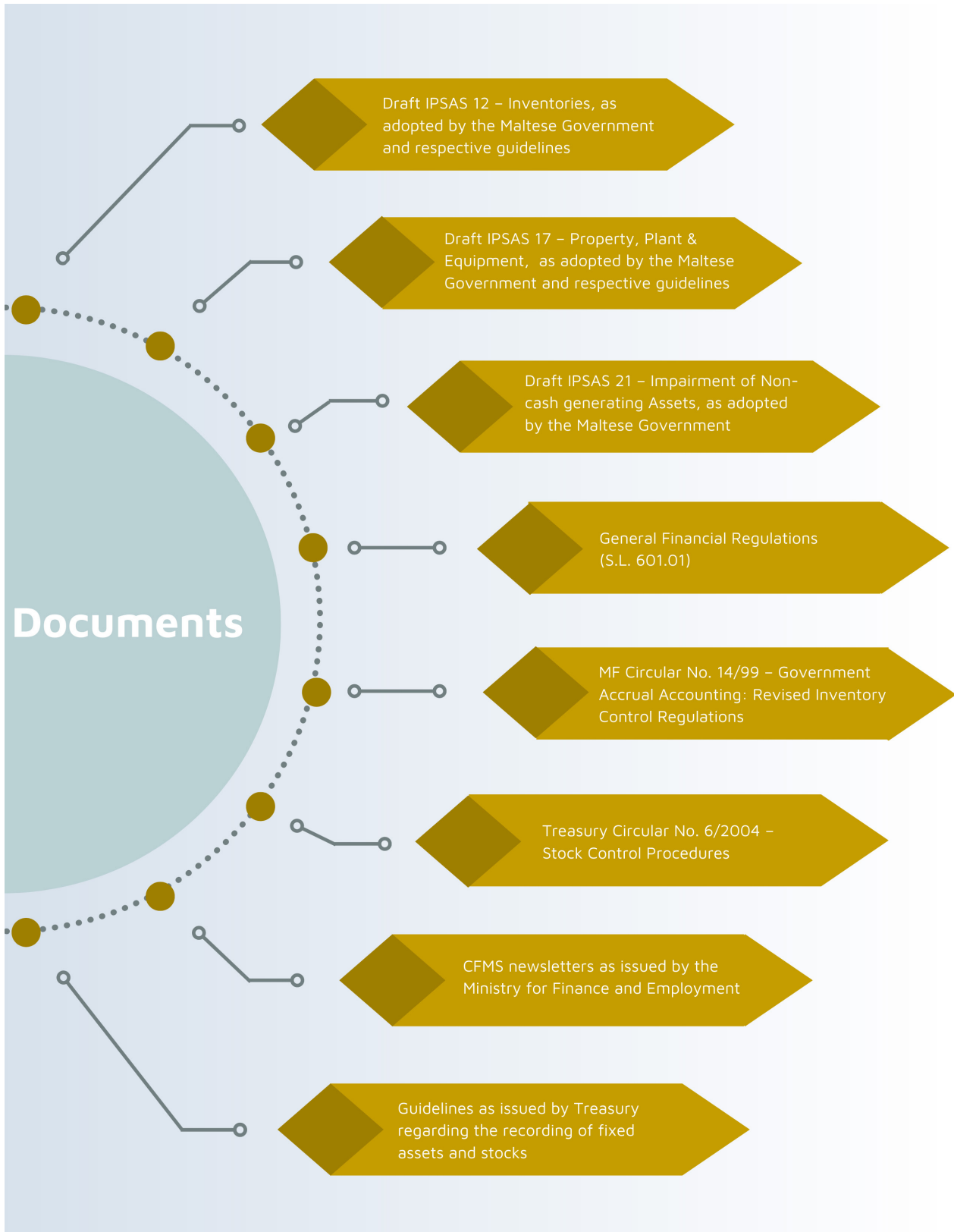
It is also pertinent to note that NAO’s principal objective for these reviews was to assess the Government’s procedures with regard to fixed assets and stocks as a whole, rather than to single out any shortcomings in specific Ministries. Nevertheless, in certain instances, the nature of the relevant results necessitated the explicit mention of the respective outcomes, or the naming of the Ministry in question, in order to make this Report more informative.

1.4 Documents referred to during the Reviews

During the reviews, reference was made to the draft International Public Sector Accounting Standards (IPSASs) as adopted by the Maltese Government and respective guidelines, Corporate Financial Management Solution (CFMS) newsletters, as well as regulations, procedures, circulars and related annexes. Figure 2 refers.

² These were the Ministry for National Heritage, the Arts and Local Government, Ministry for Social Policy and Children’s Rights, Ministry for Social and Affordable Accommodation, Ministry for the Economy, European Funds and Lands, Ministry for Inclusion, Voluntary Organisations and Consumer Rights and Ministry for Transport, Infrastructure and Capital Projects.

Figure 2: Documents



Chapter 2 | Background on Ministries

This chapter presents a brief overview of the 19 Ministries, as featuring in the Financial Estimates 2023, which were assessed for the purpose of these reviews.

2.1 Office of the Prime Minister

The Office of the Prime Minister plays a central role in the country's decision-making and is also Government's administrative headquarters. Apart from the Ministry itself, this Office encompasses a number of different sections under its responsibility including, amongst others, the Information Management Unit, the Internal Audit and Investigations Department, the Policy Development and Programme Implementation Directorate, as well as European Union Funds. Furthermore, the Department of Information, the Government Printing Press, the Electoral Office, the Public Service Commission and the Department of Industrial and Employment Relations, also fall under the remit of the Office of the Prime Minister, each having a separate recurrent vote.

2.2 Ministry for Health

Being one of the largest and most important Ministries within the Government's portfolio, the Ministry for Health invests heavily and regularly in capital expenditure, mainly vis-à-vis the building or upgrading of hospitals, health centres and clinics. Various services are offered through Mater Dei Hospital (MDH), Sir Anthony Mamo Oncology Centre, Mount Carmel Hospital³ and Sir Paul Boffa Hospital. The Ministry also provides daily care at several Primary Health Care (PHC) centres located around Malta and Gozo, as well as allied health care and rehabilitation services. The provision of free medicinal products is also operated by this Ministry through the Pharmacy of Your Choice (POYC), while the Central Procurement and Supplies Unit (CPSU) manages stock associated with Governmental healthcare. This Unit furnishes hospitals, health centres and pharmacies with cost-effective and quality supplies, as well as works.

2.3 Ministry for the National Heritage, the Arts and Local Government

The Ministry for the National Heritage, the Arts and Local Government is involved in cultivating pride in Malta and strengthening identity through promoting the performing arts and aesthetics, safeguarding the national heritage and giving support to Local Councils to operate through the appropriate legal framework. The Restoration Directorate, the Culture Directorate and the Local Government Division fall under the remit of this Ministry.

³ Mount Carmel Hospital did not feature in this Report as the entity's financial statements are audited by a private audit firm.

2.4 Ministry for Foreign and European Affairs and Trade

The Ministry for Foreign and European Affairs and Trade is the diplomatic hub of Malta and, as such, it coordinates the Maltese Missions overseas. Its portfolio includes 46 cost centres, namely, the Ministry, Head Office, Permanent Secretary's Office and European Union Coordination, all located in Malta, and 42 Missions in various countries, including the Permanent Representation of Malta to the European Union. During the review, out of the 88⁴ properties pertaining to the 42 Missions, 72 were leased whilst the remaining 16 were Government-owned.

2.5 Ministry for Social Policy and Children's Rights

The Ministry for Social Policy and Children's Rights is committed to enhance the social well-being and life prospects of society, particularly that of vulnerable persons. It seeks to achieve this by continually improving the social security and social welfare provisions offered. Separate votes are allocated to Social Policy, Social Security Benefits and Pensions.

2.6 Ministry for Agriculture, Fisheries and Animal Rights

The Ministry for the Agriculture, Fisheries and Animal Rights aims to support farmers, fishermen and other stakeholders in these sectors, as well as promote rural development and the conservation of natural resources. Additionally, the Ministry works to develop and implement policies and regulations that protect animal welfare, promote responsible animal ownership, and prevent cruelty to animals. The Animal Health and Welfare Department, the Fisheries and Aquaculture Department, Public Abattoir and the Rural Affairs Department fall under this Ministry's remit. Through their diversified roles, these departments work together towards the conservation and sustainable use of local genetic resources.

2.7 Ministry for Social and Affordable Accommodation

The Ministry for Social and Affordable Accommodation seeks to ensure and provide adequate forms of housing solutions to all residents in Malta and Gozo. It is ultimately responsible for ensuring assistance and support to individuals requiring housing-related aid, along with the oversight of the rental market. This Ministry and the Ministry for Social Policy and Children's Rights have a common Permanent Secretary and make use of the same finance, procurement, administration and human resources sections.

2.8 Ministry for the Economy, European Funds and Lands

The promotion of synergies for innovation among Government, regulators, operators and all relevant stakeholders is a fundamental role of the Ministry for the Economy, European Funds and Lands. This approach aims to foster the development of new products and services that respond to international market requirements. Concurrently, the Ministry strives to minimise administrative bureaucratic obstacles

⁴ Mainly comprising chanceries and Ambassadors' residences.

that can hinder modernisation and creativity. The Commerce Department, having its own vote, falls under this Ministry.

2.9 Ministry for Inclusion, Voluntary Organisations and Consumer Rights

The Ministry for Inclusion, Voluntary Organisations and Consumer Rights strives to promote the interests of voluntary organisations, persons with disabilities, as well as consumer rights in Malta. Its vision is to encourage and motivate an inclusive social sphere where abilities are at the forefront. The Ministry also aims to strengthen a comprehensive society where every individual is challenged and nurtured.

2.10 Ministry for Transport, Infrastructure and Capital Projects

The Ministry for Transport, Infrastructure and Capital Projects is responsible for Malta’s connectivity, including the maritime and aviation industries, for both domestic and international travel. It prepares the country for modern challenges; from the way we travel to the infrastructure we rely upon.

2.11 Ministry for Gozo

The Ministry for Gozo’s vision is to secure economic and social prosperity for Gozo within the context of the island’s unique characteristics. This is done through the effective, efficient and economic implementation of the regional and national strategies and policies. The Ministry is made up of two distinct divisions, namely the Strategy and Support Division and the Operations Division, with each division having a number of directorates falling under its remit.

2.12 Ministry for Home Affairs, Security, Reforms and Equality

The Government’s foremost duty is to provide the country and its citizens with a safe and secure environment. The Ministry for Home Affairs, Security, Reforms and Equality plays a fundamental role in the security and well-being of the Maltese islands. This Ministry, which includes a Parliamentary Secretariat responsible for reforms and equality, gives political direction and launches initiatives in security and defence, immigration, law enforcement, citizenship, equality and reforms. Amongst others, its portfolio comprises the Academy for Disciplined Forces, Armed Forces of Malta, Aviation Security Department, Civil Protection Department, Defence Matters Directorate, Department of Probation and Parole, Human Rights Directorate and the Malta Police Force.

2.13 Ministry for Tourism

The Ministry for Tourism is responsible for establishing and executing a policy based on the principles of sustainable tourism development, to contribute to economic growth whilst respecting the heritage and environment of the Maltese islands. The Cleansing and Maintenance Division, falling under the remit of

the Parliamentary Secretary's Office for Consumer Protection and Public Cleansing within this Ministry, provides waste management services to Central Government and Local Councils.

2.14 Ministry for the Environment, Energy and Enterprise

The Ministry for the Environment, Energy and Enterprise leads Malta's commitment to a sustainable, climate-neutral future, for a better quality of life. By bringing together three critical sectors of the country's social and economic life, the Ministry endeavours to consolidate this drive towards sustainability at the top of the Maltese Government's agenda. This Ministry includes Ambjent Malta, having its own vote.

2.15 Ministry for Finance and Employment

The Ministry for Finance and Employment (MFE) aims to promote the implementation of policies and programs that support Malta's financial and fiscal well-being, and to contribute to the sustainability of such initiatives. The Office of the Commissioner for Revenue, Customs, Treasury, the Department of Contracts, the Economic Policy, as well as the Continental Shelf Department fall under this Ministry's remit.

2.16 Ministry for Education, Sport, Youth, Research and Innovation

The objective of the Ministry for Education, Sport, Youth, Research and Innovation is to provide present and future generations with the necessary skills and talents for citizenship and employability in the 21st century and beyond. In this respect, the Ministry has been investing heavily and regularly in capital expenditure, mainly related to the building or upgrading of schools and the acquisition of Information Technology (IT) items used in the delivery of service. This Ministry comprises the Education Department, the Exams Department and 121 educational establishments.

2.17 Ministry for Public Works and Planning

The Ministry for Public Works and Planning (MPWP) is responsible for public works, construction, planning, as well as the health and safety sectors. It embarks on projects which are sustainable and innovative, to be the leading example of good practices in the industry. This is done with the aim of improving standards in the construction industry, whilst promoting more holistic planning. The Public Works Department within this Ministry's portfolio holds three main stores located at Mrieħel, Kordin and Floriana (Belt is-Sebħ).

2.18 Ministry for Justice

Overseeing the administration of justice, upholding human rights and ensuring good governance in the country are entrusted to the Ministry for Justice. The Ministry's primary goal is to provide a fair and effective legal system in this regard for all Maltese citizens. It strives to protect and promote the principles of justice, while also ensuring that Malta's legal system aligns with international legal standards. The Department of Justice and the Office of the Notary to Government fall under its remit.

2.19 Ministry for Active Ageing

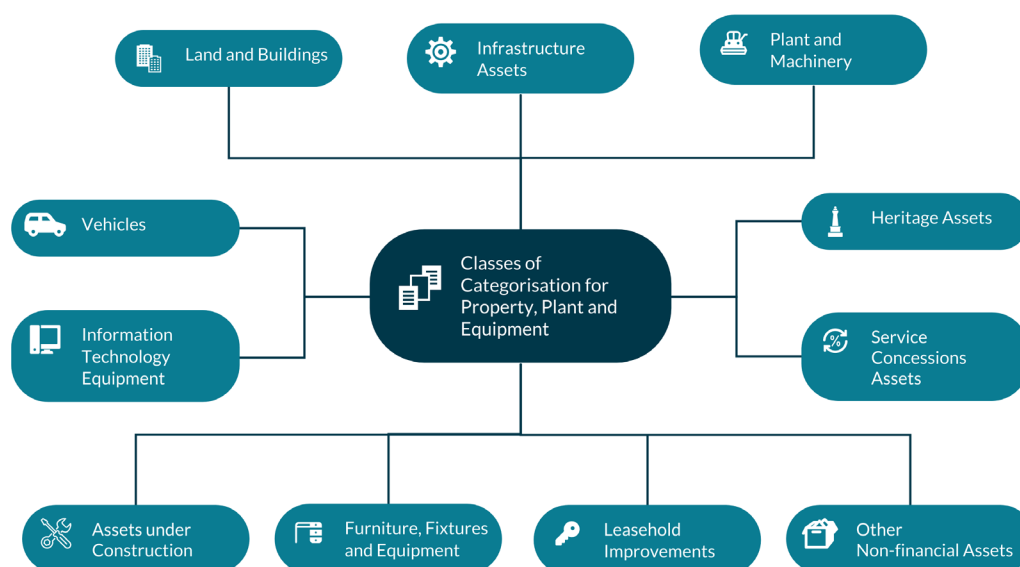
The Ministry for Active Ageing provides a wide array of community and residential services through a long-term care facility, as well as seven residential homes and various centres across Malta and Gozo. It runs two stores to support the operations of the Active Ageing and Community Care, whilst another seven stores are situated within the precincts of the long-term facility.

Chapter 3 | Fixed Assets

3.1 Background

Fixed assets are resources, such as PP&E, which have an expected life of more than one year. As defined in the draft guidelines to IPSAS 17⁵, PP&E are “... *physical assets controlled and used by a Ministry or a department for more than one reporting period, to achieve its goals and implement its objectives*”. PP&E comprise those resources whose nature can be categorised in one of the eleven classes shown in Figure 3.

Figure 3: Classes of Categorisation for Property, Plant and Equipment



The fundamental concepts in accounting for PP&E primarily relate to the recognition of assets as capital items, the determination of a useful life, as well as the calculation of depreciation charges and impairment losses recognised against the cost of the assets, thereby establishing their carrying values.

3.1.1 Initial Recognition of Property, Plant and Equipment

Normally, Ministries acquire PP&E through purchase, lease, self-construction or donation. According to IPSAS 17, an item of PP&E is to be recognised as an asset only if:

- a. it is probable that future economic benefits or service potential associated with the item will flow to the Ministry; and
- b. the cost or fair value of the item can be measured reliably.

Upon purchase, an item of PP&E that qualifies for recognition as an asset is measured at the cost of

⁵ As adopted by the Maltese Government.

acquisition, including any additional amounts incurred in bringing the item to its location and operating condition. For financial reporting purposes, the guidelines to draft IPSAS 17 as adopted by the Maltese Government set a capitalisation threshold of €350; thus, items acquired having a value equal to or below €350 are not be treated as PP&E, but expensed immediately⁶.

3.1.2 Measurement of Property, Plant and Equipment

Subsequent to its initial recognition, an item of PP&E is to be reported on the statement of financial position at its carrying amount, i.e., its cost less accumulated depreciation and any impairment losses.

In calculating the carrying amount, the Ministry is to initially determine the asset's useful life and depreciation rate. The useful life is the period over which the asset is expected to be available for use, translating into its depreciation rate. For example, if an asset's useful life is set at 5 years, the respective depreciation rate is 20%. Hence, depreciation is the gradual conversion of an asset's cost into an expense over the estimated useful life.

In specific circumstances, where an asset's fair value differs significantly from its carrying amount, the asset may be subject to a revaluation. Fair value is defined as the price that would be received when selling a particular asset in an orderly market transaction. This may either result in an increase or decline in the carrying amount of the asset. The latter scenario is described as an impairment loss. Following revaluation, the item of PP&E is then reported at its revalued amount less accumulated depreciation and impairment losses.

3.2 Financial Information

The 19 Ministries as listed in the 2023 Financial Estimates, comprised 57 departments, which were further subdivided into 190 cost centres. As at mid-June 2023⁷, assets⁸ recorded within CFMS incorporated 118,531 entries⁹ having an aggregate cost of €480,525,103, with a depreciation of €62,222,717, resulting in a Net Book Value (NBV) of €418,302,387. **Figure 4** illustrates the cost and NBV of the assets held by each Ministry, while **Figure 5** depicts the values according to the respective categories of fixed and intangible assets. It is pertinent to note that these amounts exclude Low Value Assets (LVAs), having an aggregate cost of €3,965,829 (NBV €209,619).

⁶ An exception to this rule applies in the case of furniture items. All such items are to be capitalised, irrespective of the value, as their exclusion would have a major reporting impact on the financial statements published by Government. Moreover, assets which were not categorised as furniture items, and which fall below the threshold and therefore expensed, are still to be identified on a fixed asset register strictly for monitoring and control purposes.

⁷ Cut-off date when the reports were extracted by Treasury and submitted to NAO.

⁸ Including intangible assets, i.e., economic resources that have no physical presence, such as copyrights and patents.

⁹ As reported in the subsequent chapter, this figure may include assets recorded under the wrong category or valued incorrectly.

Figure 4: Cost and Net Book Value of Assets held by each Ministry

Ministry	Cost €	Net Book Value €
 Ministry for Home Affairs, Security, Reforms and Equality	201,994,826	168,121,806
 Ministry for Transport, Infrastructure and Capital Projects	73,436,565	72,305,726
 Ministry for Health	55,720,290	46,608,124
 Ministry for Public Works and Planning	51,297,011	48,979,432
 Ministry for Gozo	27,648,817	25,700,008
 Ministry for Foreign and European Affairs and Trade	15,543,410	15,087,358
 Ministry for Agriculture, Fisheries and Animal Rights	12,144,457	10,094,167
 Office of the Prime Minister	11,202,242	7,569,969
 Ministry for Active Ageing	10,285,418	8,814,995
 Ministry for Finance and Employment	6,468,893	4,484,161
 Ministry for Education, Sport, Youth, Research and Innovation	3,785,436	2,571,004
 Ministry for Tourism	3,111,999	2,163,980
 Ministry for the Environment, Energy and Enterprise	2,965,584	2,088,928
 Ministry for Social Policy and Children's Rights	1,809,368	1,301,368
 Ministry for the Economy, European Funds and Lands	1,258,067	922,254
 Ministry for Justice	971,582	802,505
 Ministry for the National Heritage, the Arts and Local Government	787,116	610,203
 Ministry for Inclusion, Voluntary Organisations and Consumer Rights	61,121	48,762
 Ministry for Social and Affordable Accommodation	32,901	27,637
Totals	480,525,103	418,302,387

Figure 5: Classification by Asset Group

	Cost €	Net Book Value €
 Vehicles	188,864,021	155,401,531
 Infrastructure Assets	104,526,667	103,008,738
 Furniture, Fixtures and Equipment	58,055,146	46,490,973
 Plant and Machinery	43,555,007	37,063,169
 Other Non-financial Assets	35,581,931	33,186,592
 Land and Buildings	20,738,676	20,383,914
 Information Technology Equipment	12,985,667	7,883,643
 Leasehold Improvements	6,405,543	6,340,187
 Intangible Assets	4,880,031	3,623,612
 Assets under Construction	4,626,796	4,626,796
 Heritage Assets	305,618	293,232
Totals	480,525,103	418,302,387

3.3 Scope and Objectives

The main scope of these reviews was to gain an understanding of the current situation vis-à-vis fixed assets held by the various Ministries. NAO also aimed to establish the respective monetary value of such assets and determine the adequacy of internal controls over fixed assets.

The reviews sought to gather information with the intention of understanding current practices, detecting possible recurring issues and identifying potential improvements. Furthermore, NAO aimed to establish what software was being used for recording purposes by the different Ministries and how data was subsequently inputted on CFMS, as well as the relative problems encountered by the respective personnel.

3.4 Methodology

Introductory meetings, as well as interviews with key personnel, were held to gain insight on the state-of-affairs with respect to fixed assets, including the internal control environment and the maintenance of the respective data. Participating officers were given the opportunity to raise concerns on the area under review, especially vis-à-vis the preparation of accrual-based financial information.

During the reviewing periods, various correspondence and communication was exchanged with the pertinent officers in order to obtain general information and explanations on the fixed assets functions, as well as to provide an overview of the handling and maintenance of the respective records. These outlined recurring issues whilst provided a snapshot of areas of concern, mainly emanating from software technicalities or the lack of adequate accounting knowledge. Discussions were also held with Treasury personnel.

Furthermore, NAO ascertained the policies and procedures in place within each Ministry. Fixed assets' data as extracted from CFMS, as well as the fixed asset registers provided to this Office, were also analysed.

Chapter 4 | Results of Reviews on Fixed Assets

Foreword

4.1 No Official Procedure to identify Ownership of Land and Buildings

Chapter 1

An official procedure as to who should be responsible to account for Government-owned land and buildings¹⁰ situated across the Maltese islands, as well as abroad¹¹ is still lacking, especially in the case of property purchased by Central Government or entities and not transferred to the Lands Authority. This issue also extends to those premises which are considered as operational heritage assets. The absence of such a procedure has resulted in most land and buildings being excluded from CFMS, notwithstanding that normally constitute the major value of all fixed assets.

Chapter 2

Significant concerns on this matter were raised by a number of Ministries, especially since these were not aware of ownership rights, if any, over the land and buildings they occupy.

Chapter 3

Recommendations

Government is to take immediate action to formulate a policy to be adopted both for the existing land and buildings, as well as for those eventually acquired from third parties or constructed from the budget allocated to the respective Ministry. Proper transfer procedures are to be established, as applicable.

Chapter 4

Moreover, land and buildings in general, including operational heritage buildings, are to be valued and incorporated within the pertinent accounting records, in line with the applicable accounting standards. In the case of property transfers, Ministries are to ensure that such processes are finalised without undue delay.

Chapter 5

Management Comments

Ministries are awaiting direction possibly in the form of an official policy and way forward from the pertinent authority, i.e., either MFE or the Lands Authority. The timeframe for the implementation of NAO's recommendation depends on the direction given.

Chapter 6

4.2 Fixed Assets not yet recorded on the pertinent System

Chapter 7

As per instructions issued by Treasury, Ministries were to record fixed assets data on a spreadsheet, referred to as the fixed assets master file, which included the asset description, category, purchase price, capitalisation date and location. Once finalised, this master file was to be sent to Treasury, in order for the foregoing to handle the upload of the fixed assets in bulk onto CFMS. However, there were instances where:

Chapter 8

¹⁰ Applies also for buildings under construction.

¹¹ Mainly chanceries and residences pertaining to Missions.

- a. notwithstanding that CFMS was introduced for all Ministries, the fixed assets records were still being kept on a spreadsheet in line with MF Circular No. 14/99¹² or on an off-the-shelf accounting package;
- b. the master file containing information on assets already available prior to the introduction of CFMS was not compiled by all the Ministries and made available to Treasury for upload purposes; and
- c. in certain cases, the assets were not yet recorded on CFMS, as the established timeframe of the contractor commissioned with the upload of the master file had expired. Moreover, Treasury could not confirm whether the assets in question would eventually be uploaded on the system.

Recommendation

In order to ensure a smooth transition of data to CFMS, a feasible plan, achievable over a reasonable timeframe, is expected to be in place. This plan is to assist in providing a fairer picture of the Ministries' total value of assets, in line with the applicable accrual accounting standards, as also guided by Treasury, thereby enhancing the financial reporting process.

Management Comments

Information was submitted by certain Ministries to Treasury as instructed, for import onto CFMS. The rest of the Ministries will be following developments on this matter with Treasury to address this issue. Guidance from the latter will be sought as to how, and by whom, each and every individual asset is to be inserted onto CFMS, so that the assets register is updated as required. On the other hand, the pertinent Ministry is already looking into methods which can integrate the off-the-shelf accounting package to CFMS so that a solution will be devised to this problem. Meetings with relevant stakeholders are ongoing.

4.3 Inaccurate Fixed Assets Records

Although some Ministries submitted the required master file on time, NAO noted shortcomings with respect to fixed assets records, raising doubts on the completeness, accuracy and reliability of information held on CFMS, which data eventually will form the basis of accrual-based financial reporting. The following refer:

- a. Not all assets acquired following the compilation of the master file were being capitalised accordingly.
- b. Management at one of the Directorates claimed that no direction was given by Treasury to capitalise costs related to improvements to public property; thus, these were recorded as recurrent expenditure.

¹² A circular in order to control fixed assets held by Ministries by means of a spreadsheet template.

- c. Fixed asset records provided by some Ministries were only limited to room lists and hence lacked essential details such as asset values.
- d. Some records had not been updated in years and therefore did not reflect movements in fixed assets, such as additions and disposals.
- e. Fixed assets taken over from one of the Ministries were not yet entirely electronically transferred to the pertinent one. This process, according to the foregoing, was the responsibility of Treasury.
- f. A number of Ministries were instructed by Treasury to refrain from submitting any information in respect of assets where the exact procurement date was unknown and no documentation was available. Other Ministries recorded the respective assets at no cost or at the value of €1 (further details under section 4.4). It is still unclear whether the older assets would eventually be uploaded.

Furthermore, a reconciliation exercise between the data contained in the master file and that uploaded on CFMS was not performed. Thus, it could not be ascertained whether all items were duly uploaded. Additionally, items which were recorded on CFMS, but became obsolete or damaged, and thus were no longer in use, were not identified.

Recommendations

Accuracy, completeness and reliability of information on fixed assets held on CFMS, as well as correctness of depreciation charged thereon, are imperative in presenting an accurate fixed assets value in the statement of financial position. Whilst NAO acknowledges that numerous fixed assets are fully depreciated, the parties concerned are to follow-up with Treasury to address the pending issues, to eventually provide a complete picture of all fixed assets owned by Government and a reliable basis for accruals-based financial reporting. In addition, Ministries are to ensure that physical assets are reconciled against CFMS data on a regular basis to ensure completeness.

Management Comments

Depending on the success of Ministries in their recruitment drive, the intention is to address the human resources issues¹³ and employ personnel whose duties will, inter alia, include fixed assets management, which at times is very time consuming and challenging in view of other responsibilities. Procedures for the transfer of fixed assets from one Ministry to another, as applicable, has been finalised through Treasury. Furthermore, reconciliations of physical assets against CFMS data will be carried out, also with the intention to identify items that became obsolete following recording on CFMS.

¹³ Scant availability, as well as lack of competent and adequately skilled staff.

4.4 Numerous Assets without Supporting Documentation

Analysis carried out on the asset enquiry report, extracted from CFMS in mid-June 2023, showed that a number of assets, including furniture, fixtures and IT equipment, were inputted at a zero cost. Other assets were uploaded on CFMS at a cost of €1 as instructed by Treasury. Furthermore, a number of fixed assets were recorded on CFMS at a cost of €350¹⁴ or less. These instances, adding up to an aggregate of 38,386 fixed assets, equivalent to 32% of the total number of fixed assets recorded on CFMS (118,531), are depicted in the following table.

Table 1: Assets recorded on the System at less than the established Threshold

Asset Group	Assigned Cost			Total Number of Assets
	€0	€1	>€1 and ≤€350	
Furniture, Fixtures and Equipment	1,313	7,932	17,983 ¹⁵	27,228
Information Technology Equipment	146	3,564	2,894	6,604
Plant and Machinery	10	467	2,793	3,270
Other Non-financial Assets	11	257	102	370
Assets under Construction	6	328	-	334
Intangible Assets	43	110	116	269
Vehicles	53	102	34	189
Heritage Assets	4	72	-	76
Land and Buildings	2	5	37	44
Leasehold Improvements	1	-	1	2
Totals	1,589	12,837	23,960	38,386

This valuation was given to the majority of assets having no supporting documentation, such as corresponding invoices, and therefore whose cost could not be retrieved. This was due to the assets being purchased long ago or the assets were not procured by the respective Ministry but were already located in the premises when these were assigned to the foregoing. Furthermore, the table includes fixed assets assumed to be fully depreciated, even if the date of acquisition is unknown.

Recommendations

Ministries are to continue to liaise with Treasury in order to ensure that accurate data is recorded on CFMS, since valuation and completeness of fixed assets, as well as correctness of depreciation charged thereon are crucial for presenting accurate fixed assets' balances in the statement of financial position. Therefore, an achievable plan is expected to be implemented across the board in due time, to identify a realistic value of the existent fixed assets and duly update the respective information, including the depreciation elements, in line with accrual accounting principles. Furthermore, all furniture items acquired are to be capitalised, irrespective of the value, as per guidelines to IPSAS 17.

¹⁴ With the exception of furniture items, only assets worth more than €350 were to be accounted for.

¹⁵ This figure excludes furniture since all such items are to be included on CFMS irrespective of the cost.

Management Comments

Items of unknown value were recorded at a value of €1 since the system needed an asset value to proceed. The direction across board on this way forward was provided by a private audit firm on behalf of Treasury during the implementation of CFMS. Therefore, implementation is subject to Treasury’s clarifications and direction. Furthermore, if Treasury confirms that values are to be changed, one may consider valuing the items in question at the known price of similar items. Considering depreciation methods, one would also need to factor in the real value of each asset (and whether the asset is already fully depreciated).

This problem will not persist with present and future assets as these will be created on CFMS against invoices, hence the value will be known and duly inserted. The depreciation amounts are calculated via the depreciation run performed by Treasury. This run is automatically embedded within CFMS. The depreciation percentage rates are as per IPSAS 17. Furthermore, in line with the foregoing, all furniture items acquired shall be capitalised.

4.5 Heritage Assets recording Guidelines not comprehensive

According to the guidelines to IPSAS 17, non-operational heritage assets are not to be recognised. However, comprehensive guidelines to this effect were not available, with the result that whilst some movable heritage assets were recorded on CFMS with an estimated value, others were given a nominal value of €1. As at mid-June 2023, a total of 225 heritage assets were listed on CFMS at an aggregate cost of €305,618. The following table refers:

Table 2: Heritage Assets recorded on the System

Ministry	Number of Assets	Cost of Assets €
Ministry for Justice	113	253,819
Office of the Prime Minister	48	51,739 ¹⁶
Ministry for Health	56	56
Ministry for Active Ageing	2	2
Ministry for the Economy, European Funds and Lands	2	2
Ministry for the Environment, Energy and Enterprise	4	-
Totals	225	305,618

Recommendations

For the eventual preparation of financial statements, clear and comprehensive instructions for heritage assets, in line with the pertinent IPSASs, are necessary. These are to be applied across all Ministries.

¹⁶ Twelve of these assets were recorded at a cost of €1.

Management Comments

Following communication with Heritage Malta with regard to the valuation of heritage assets, the Ministry for Justice was informed that all items of cultural heritage are already registered in the national records as part of the collection managed by Heritage Malta in accordance with the provisions of the Cultural Heritage Act (Cap. 445). It was further explained that such heritage assets should not be inventoried as Ministry or office items and are not to be given any monetary value. The respective communication was forwarded to Treasury to inform that such items shall be removed from CFMS. In addition, a booklet containing information and photos of heritage items is being kept for record purposes.

4.6 Incorrect Classification of Fixed Assets

A number of assets were incorrectly classified on CFMS. For example, scanners and x-ray vans were classified as motor vehicles instead of equipment, as required by paragraph 1.4.3(h) of the guidelines to IPSAS 17. Incorrect classification affects the useful life and consequently the depreciation rate, thus impinging also on the NBV of the respective asset.

Recommendation

The responsible officers should be well-versed with the pertinent guidelines, to ensure that assets are appropriately classified.

Management Comments

Communication is being carried out with Treasury for the purpose of addressing this issue.

4.7 Assets not written off

The Ministry for Gozo confirmed that it was still in the process of identifying obsolete assets to be eventually written off. Management considered this exercise as quite rigorous, due to the limited information uploaded on the system. Furthermore, although certain fixed assets pertaining to other Ministries were approved for write-off, the respective asset codes still had to be identified and passed on to Treasury for the eventual removal from the system. On the other hand, a number of items were identified to be written off by another Ministry, but these were still not removed from CFMS. As a result, the value as recorded on the system was likely to be overstated.

Recommendations

Ministries are to comply with draft IPSAS 21, which requires the assessment of fixed assets at each reporting date. If there is an indication of impairment, Ministries are to estimate the recoverable service amount of the asset and adjust its records accordingly. Furthermore, the codes of fixed assets to be written off are to be identified, so that these are removed from the system.

Management Comments

The Ministry for Gozo is undergoing the retrofitting and refurbishment project, and officials within the Operations Division are checking these assets. If these are found to be obsolete, unserviceable or having severe wear and tear, note will be taken. A board of survey is being appointed to analyse such assets to be written off. This will help to have proper valuation of fixed assets.

The task of removal of items written off from the accounting system falls under the remit of Treasury. Ministries' officers were not given authorisation to remove items from the system. Nonetheless, Ministries will liaise with Treasury so that this task is carried out from the latter's end at the earliest.

4.8 Information Technology Assets not recognised and valued

At the Ministry for Education, Sport, Youth, Research and Innovation, IT is the second largest asset category after land and buildings. The vast majority of such assets are procured through the Malta Information Technology Agency (MITA) under various service level agreements. Notwithstanding that the expense is borne by the Ministry, the respective assets are not recorded by the foregoing but through MITA's Asset Management System, which is external to CFMS. Moreover, the details included on MITA's system are insufficient since they exclude, amongst others, the asset cost.

Recommendation

The foregoing Ministry is to embark on an immediate exercise to identify all IT assets, as well as their value, and record them accordingly, as required by the applicable accounting standards.

Management Comments

The Asset Management System supplied by MITA does not include any costs but records only the number of the assets and the location to whom they are supplied. MITA will not be upgrading this system as this was originally intended as a temporary solution for Ministries. The said Ministry is looking into other software to enhance the Asset Management System and add new features as required, such as cost of asset and depreciation, in line with NAO's recommendation. This enhancement will also enable the integration of this software with CFMS.

The Information Management Unit is aware of some difficulties encountered in the whole fixed asset system and is planning to engage experienced personnel on the respective system and procedures. Furthermore, the Department of Examinations will be liaising with the Ministry to facilitate the fixed assets process.

4.9 Issues concerning tagging of Fixed Assets

When a fixed asset is recorded on CFMS, a new asset identification number is generated by the system. This differs from the old asset code recorded on the manual spreadsheets, in accordance with MF Circular

No. 14/99. However, fixed assets were still not physically tagged with the new codes, not even when these were procured following the introduction of CFMS. In such circumstances, the identification of the respective assets through different sets of codes would be an elaborate task, especially since items may be moved without the prior notification of the officers in charge. This also renders the reconciliation of the two data sets cumbersome.

In other instances, fixed assets were either not physically tagged at all or the identification number used was neither that generated by CFMS nor in accordance with MF Circular No. 14/99. This hinders physical verifications, especially when recorded details are insufficient.

Recommendations

The adequate maintenance of fixed assets records and corresponding physical tagging is essential for the proper management and control of fixed assets, facilitating the identification of the individual assets and their location. This will also limit the incidence of theft or misappropriation. In this respect, the responsible officers are expected to update and maintain the records for all assets falling within their responsibility through CFMS and tag them accordingly, thereby enabling physical traceability. Once this exercise is complete, Ministries are encouraged to perform the required periodical exercise of reconciling physical assets with CFMS data and vice versa, also with the aim to identify any missing items.

Management Comments

A number of Ministries commented that the exercise of physical tagging and verification is an ongoing process.

4.10 Limited use of the Accounting System

NAO was informed that CFMS was only being used as a payment platform and not for accrual accounting and financial management purposes. In particular, assets which were purchased and brought into operation, but were still unpaid, were not capitalised and recorded as such on the system. On the other hand, items which were partly paid but were not yet in their intended usable condition, were recorded as assets.

Recommendations

Efforts are to be made to ensure that CFMS is used for accrual accounting purposes as originally intended, which will also support financial management; thus, upon acquisition, the officer in charge of fixed assets is to be informed in order to record the respective items accordingly. Adequate human resources, to enable the fulfilment of this function are to be allocated, especially considering that correct recording and classification of assets will have a direct impact on the reliability of the Government's financial reports. Furthermore, Ministries are to ascertain that the necessary training is also given to its employees to enable optimal use of CFMS.

Management Comments

The recommendation to make optimal use of CFMS is being worked upon and implemented by the Ministries, and once the required human resources are in place, new employees will be trained accordingly. However, one of the Ministries claimed that calls were being issued with unsuccessful recruitment.

4.11 Software Problems relating to Fixed Assets

During the course of these reviews, the following matters were highlighted to this Office:

- a. The Armed Forces of Malta claimed that upon inputting data, the system used to stop responding, often resulting in incomplete transactions or sometimes even double entries. Although some improvement has been registered, the problem was still unresolved.
- b. The service provider of the accounting system concluded that CFMS was not suitable to cater for the recording of fixed assets pertaining to the Malta Police Force. This is because every police officer is in possession of equipment on a 24/7 basis for the duration of the service and thus each individual is considered as a sub-location. However, any modifications required to this effect were not considered feasible since they would slow down CFMS for all users.
- c. The Information Management Unit within the Ministry for Home Affairs, Security, Reforms and Equality claimed that CFMS did not cater for all its requirements; thus, a subsidiary database, which incorporated additional fields, was created to be used accordingly. However, this database could not be integrated with CFMS.

Recommendation

The parties concerned are to continue liaising with Treasury and persevere to address the problems encountered.

Management Comments

The respective parties will keep liaising with Treasury so to address and improve these issues.

4.12 Fixed Assets not captured in the Asset Information Report

Newsletter No. 8 published by MFE highlights the importance of recording the location where the asset is situated. Amongst other benefits, this will enable the Asset Information Report¹⁷ to capture the respective asset. However, a good number of fixed assets were not shown in this report, since many Ministries failed to include any data (including location) under the respective tab, when inputting the fixed asset transaction on CFMS.

¹⁷ This report shows the assets' details together with the respective location.

Recommendation

To ensure proper control and full audit trail, it is crucial to record all the necessary data at the outset, in line with the fixed assets guidelines issued by Treasury. It is particularly important to include the location, as also emphasised in the abovementioned newsletter.

Management Comments

Ministries took note of this recommendation and will take the necessary steps to insert the location for fixed assets in the respective field on CFMS.

4.13 Unclear whether Fixed Assets Lists are still to be updated

Whilst the fixed assets lists¹⁸ were still being maintained separately by certain Ministries, following the recording of the opening balances of fixed assets on CFMS, some were not being updated accordingly. Therefore, it is unclear whether all Ministries are expected to keep the fixed assets lists updated concurrently with CFMS or if this additional task could be eliminated.

Recommendation

For uniformity across the board, guidelines to this effect are to be communicated to all Ministries, in particular whether the officers entrusted with fixed assets management are to update the fixed assets lists or otherwise.

Management Comments

One of the Ministries stated that it still updating the lists.

¹⁸ Mainly spreadsheets in the format stipulated in MF Circular No. 14/99.

Chapter 5 | Stocks

5.1 Background

In line with draft IPSAS 12, as adopted by the Maltese Government, stocks are assets which are in the form of materials or supplies:

- a. to be consumed in the production process; or
- b. held for sale or distribution in the ordinary course of operations or rendering of services; or
- c. in the process of production for sale or distribution.

The guidelines to the abovementioned standard specify that stocks are to be recognised as assets when the following criteria are met:

- a. are under the control of the entity;
- b. are results from a past event, such as acquisition, production or donation;
- c. it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- d. the cost or fair value of the stocks can be measured reliably.

Initial recognition occurs on the day when risks and rewards of ownership are transferred to the entity, typically being the delivery date of the stocks.

From the reviews carried out, the main stock categories were identified as shown in Figure 6.

Figure 6: Main Stock Categories

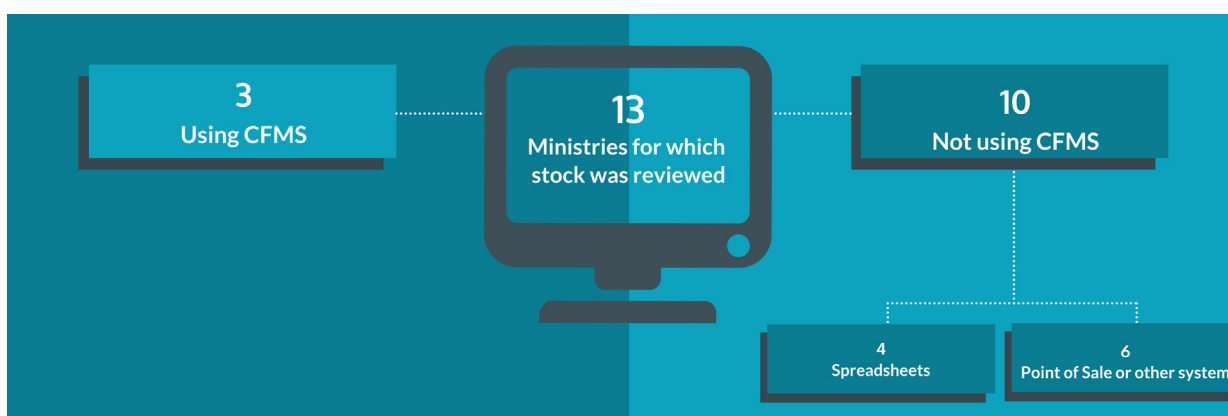


5.2 Financial Information

Out of the 19 Ministries whose fixed assets were assessed, 13 were also included in the reviews related to the maintenance of stocks. As already explained, no reviews were carried out at the six Ministries highlighted in the first chapter, due to the immateriality of stock items held.

Financial information regarding stocks was sporadic and not consistent across all reviewed Ministries. It was also noted that CFMS was not used uniformly by all Ministries¹⁹; only three²⁰ out of the thirteen reviewed were using this system for recording the initial purchase and stock movement, as further illustrated in Figure 7.

Figure 7: Systems used for recording Stock



In some cases, the value of stock was considerable, while in others, where the value was low, it was mostly made up of trivial items, such as stationery and similar supplies.

Most notable were the stock figures for the Ministry for Health which totalled €87 million. Amongst others, these included medical, maintenance, engineering, cleaning and food items, all required to support the operations of CPSU, MDH, PHC and POYC.

The Ministry for Active Ageing also held a considerable amount of stock items, which mainly comprised medical materials, food items, and pharmaceutical products; these were valued at €6.3 million.

Stocks of livestock, animal feed and other related items valued at around €1 million were reported by the Ministry for Agriculture, Fisheries and Animal Rights. Paper and cardboard worth €712,526 was in stock at the Government Printing Press, whilst other stocks within the Ministry for Education, Sport, Youth, Research and Innovation, amounting to €427,656²¹, were mainly made up of books and IT items.

¹⁹ Not used by the Office of the Prime Minister, Ministry for Health, Ministry for Foreign and European Affairs and Trade, Ministry for Agriculture, Fisheries and Animal Rights, Ministry for Home Affairs, Security, Reforms and Equality, Ministry for Tourism, Ministry for Education, Sport, Youth, Research and Innovation, Ministry for Public Works and Planning, Ministry for Justice and Ministry for Active Ageing.

²⁰ Ministry for Finance and Employment (€421,955), Ministry for Gozo (€362,338) and Ministry for the Environment, Energy and Enterprise (€168,328).

²¹ This amount was as recorded by the Ministry, but it is not exhaustive, since the cost for maintenance material was not indicated. Thus, this figure is for indicative purposes only.

5.3 Scope and Objectives

The scope of these reviews was to obtain an understanding of the procedures in place to support the financial reporting of stocks held by Ministries. In this respect, these reviews were intended to determine the extent of internal controls, as well as the applicable standard operating procedures, including the safeguards to prevent unauthorised access to respective stores. Adherence to the pertinent regulations were also verified, especially in the case of write-offs. Accounting processes and procedures were also assessed.

5.4 Methodology

In order to achieve the scope and objectives, introductory meetings were held with officials from the various Ministries, to obtain an overview of the state-of-affairs regarding stock records; thus, the respective records for 2022 were requested and analysed. During various meetings, the policies and procedures in place, as well as the key personnel entrusted with the administering of stock, were identified.

In some instances, NAO also performed walkthroughs of the systems in place, to better understand the procedures adopted for stock requisitions, storing, transfers, stocktaking, as well as the writing off of obsolete goods. As a result, this Office could obtain a better insight of the administrative processes, as well as the difficulties encountered. The internal controls in place to safeguard stores from unauthorised access were also reviewed.

Chapter 6 | Results of Reviews on Stocks

6.1 Stock Records not included on the pertinent System

Stock records pertaining to 10 out of the 13 Ministries reviewed were not included on CFMS. A series of spreadsheets and/or other stand-alone tailor-made IT systems were being used instead.

In some cases, stock purchases were recorded on CFMS for payment purposes only, whilst stock lists were held on alternate systems which were not or could not be integrated with CFMS. Thus, the latter was not being updated with the actual stock in hand, denoting no progress in preparation for the introduction of accrual-based reporting.

It was also claimed that, as an accounting system, CFMS was not user friendly to record stock movements. As a result, the Ministry for Foreign and European Affairs and Trade, as well as MPWP, decided to issue a tender for the procurement of a separate stock management system.

The Malta Police Force within the Ministry for Home Affairs, Security, Reforms and Equality, which had very specific stock requirements, held several meetings with the company responsible for the implementation of CFMS in the hope of finding a suitable software that could be adapted to its requirements, and which could eventually be integrated. However, it was concluded that this was impossible. Thus, a stand-alone new Point of Sale system had to be procured for stock management purposes.

Recommendations

Considering that CFMS has been implemented across all Ministries with the aim of introducing accrual accounting, the record keeping of stock is expected to be aligned accordingly. Thus, upon purchases of any stock items by the respective Ministry, accounting records in line with draft IPSAS 12 are to be maintained.

Furthermore, Ministries are to ensure that accurate and complete stock figures are recorded on CFMS. Ministries are also to continue liaising with Treasury to, as much as possible, address any technical challenges for efficient system utilisation, as well as to seek integration with existing systems. These will ultimately help in actively managing and controlling stock records.

Management Comments

Several Ministries are actively working towards better stock management. Discussions are ongoing with Treasury to establish proper recording procedures within CFMS. Some Ministries are manually inputting transactions into their own systems and exploring ways to synchronise with CFMS for efficiency. In various instances, efforts are being made to ensure accurate reporting by addressing technical issues or enhancing integration with other systems.

In the case of the Ministry for Health, Management also indicated that Treasury conducted a review of all the ancillary software packages that needed to be integrated within CFMS, via an upcoming integration module across Government. This was also to be used as a basis for further development of a robust CFMS, with applicability across the board. Nevertheless, the Ministry was not aware when the integration process will follow through. Management was informed that adequate developments needed to be planned, tried and tested, so as to ensure the reliable, accurate and timely periodical uploading of data from individual software systems onto CFMS.

Overall, Ministries are committed to enhancing stock management, including the recording and reporting processes, by collaborating with Treasury and utilising available systems for better control and efficiency.

6.2 Inaccurate and Incomplete Stock Records

Although three of the thirteen Ministries reviewed for stocks used CFMS for record purposes, the accuracy and completeness of such stock figures, which ultimately formed the basis of accrual-based financial reporting, was questionable. The following refer:

- a. Stock records on CFMS pertaining to the Ministry for Gozo showed overstated figures, since when issuing stores, the quantity was being deducted, but sometimes the corresponding value was not. This was attributed to issues with the system.
- b. Certain storekeepers at the highlighted Ministry were not knowledgeable on how to account for particular stock items or were finding system related problems when entering stock items on CFMS, so these were being omitted; the latter was done following advice from Treasury.

When stock records were not maintained on CFMS, in most cases, this Office was provided with manual records²², which at times were incomplete and lacking important details. The following refer:

- a. Records submitted only listed the type of items in stock without any indication of cost or total value.
- b. Details pertaining to each item in stock were also limited. In certain cases, the only details available related to the quantity of items in stock without any indication of the underlying cost.
- c. Information pertaining to certain stock items was rudimentary and at times did not even include important information such as expiry dates, where applicable.
- d. A lack of adequate audit trail was noted in instances where stock items had to be discarded. The respective value was also not always indicated. Such occurrences were disclosed by a simple sidenote on the stock records, without indicating the date and the underlying reason for disposal. In similar instances, an internal procedure to write off obsolete items was not in place; thus, stocks were being disposed of without the necessary approvals.

²² Mainly lists held on spreadsheets.

- e. Officials within the Ministry for Education, Sport, Youth, Research and Innovation were not aware of what stock records were held for the stores falling under their remit; thus, the related values were excluded from the lists forwarded to NAO.

Recommendations

For a full audit trail, accountability, record keeping and planning purposes, Management is to ascertain that accurate records are maintained, including the respective value and expiry date of the items, where applicable, and that these are updated regularly.

Management is also to ascertain that stock items are duly monitored and that the appropriate procedure is followed in the case of goods requiring disposal. This will enhance internal control and accountability.

Management Comments

In general, the Ministries concerned are working on addressing the highlighted issues. CFMS will be used instead of spreadsheets and, where applicable, the financial value will be recorded on the said system.

6.3 Inadequate Physical Controls on Stocks

The site visits and reviews revealed that the premises used for stock retention were not always fit for their intended purpose. The following relate:

- a. Access to stores was not always duly monitored and restricted. Security cameras were at times only installed outside the entrance of stores, with no additional cameras on the inside. Some stores did not have any video surveillance.
- b. Due to space constraints, at times, stock items had to be stored in various locations within the premises rather than in the areas specifically designated for stores.
- c. In other instances, store items had to be placed in containers outside the premises. This led to metal items becoming rusty whenever rainwater seeped through or the growth of mould.
- d. A store for medicinal items was situated in several small basement rooms. Due to the way these were stored, electric pellet trucks had to manoeuvre around narrow corridors while other equipment, which would facilitate the handling of stock, could not be used. Similar stocks were held in a corridor that led to the respective basement stores.
- e. NAO was informed that maintenance personnel were at times being given the keys to a particular store, under the remit of the Ministry for Health, in order to obtain the items required themselves, without being accompanied by the officer who was actually in charge of the respective store.

Recommendations

To minimise the risk of theft, stock items are to be stored in secure locations, with security cameras installed both outside and inside the premises. Thus, Management is to refrain from maintaining stock items in common areas. Entrance to stores should be limited to those persons having authorised access.

Furthermore, stock is to be stored in adequate premises which facilitate the employees' day-to-day work; thus, avoiding health and safety issues. This would also reduce the extent of future write-offs as the shelf life and quality of items would be preserved.

Management Comments

Management was aware of the exponential risks tied with the holding and securing of stocks and intended to keep sparing no effort to identify a suitable space which could be developed for the purpose. It also intended to relocate some of the stores visited to better and more suitable premises.

Whilst in most of the visited Ministries, security cameras and access controls were planned to be installed, the Ministry for Health claimed that attempts to contract security camera services in recent years proved futile, whilst funds to increase security levels were not available. On the other hand, the number of items that were being managed increased regularly and space available was getting relatively smaller. Management was doing its utmost to find enclosed areas; however, options were very limited.

6.4 Annual Stocktaking not conducted as per Regulations

Article 103 of the General Financial Regulations requires a stocktaking exercise to be performed during the first month of the financial year, regardless of any other additional exercises carried out. A stocktaking report outlining the results obtained is also required to be submitted to the respective Permanent Secretary and copied to the Auditor General. However, stocktakes in line with standing regulations were not always conducted.

MDH pharmacy and PHC stores claimed that the stocktake was being replaced with cyclic counting, whilst in the case of the Ministry for Agriculture, Fisheries and Animal Rights, the annual stocktake report solely comprised a list of the stock items in hand, and their relative quantities, but with no values. Moreover, the stocktake reports were not always being submitted to NAO in line with standing instructions.

Segregation of duties for the performance of stocktakes was at times overlooked. In fact, in the Ministry for Gozo, the latest stocktake at the central stores was carried out by the officer in charge of the same stores, with no involvement by Management to monitor the process. No discrepancies were reported; this raised doubts on the efficiency of the stocktake carried out and the accuracy of the results.

Recommendations

Stocktaking is an effective internal control measure that will ascertain the accuracy, existence, as well as completeness of the reported figures. Thus, an annual stocktake should be performed during the first month of the financial year as required in terms of standing regulations. NAO is to be informed in advance regarding the date of such stocktakes so that, depending on the materiality of the amount involved, the Office will be able to decide whether it is necessary to send one of its representatives to observe the process of the stock count. A report on the outcome of the stocktake is to be duly submitted to NAO in line with statutory requirements.

Management Comments

The majority of Ministries replied that following the review, NAO's recommendations to conduct stocktakes and involve Management accordingly were being taken on board.

Management at MDH within the Ministry for Health, stated that it makes use of a rolling stocktake model, whereby stocks can continue to be issued without impacting day-to-day operations. This method meets all substantive requirements of the financial regulations and is considered much more effective.

6.5 Different Systems administering Medical Stock

Medical stock was being managed by CPSU and POYC through specific software. Despite being responsible for the procurement of stocks for all the Units, CPSU only had visibility of stock records pertaining to POYC and was not aware of the levels of supply held elsewhere. The following also relate:

- a. The Pharmacy Department at MDH was being administered through a separate software. Thus, upon the receipt of stocks from CPSU, details and quantities of each item had to be inputted in order to update the records. In view of the materiality of stock turnover, this procedure was deemed to be time consuming, as it required considerable human resources. A similar situation prevailed in the case of supplies made from CPSU to the pharmacy within the Ministry for Active Ageing.
- b. Records of medical devices and consumables used within PHC were held by a centralised store and managed by means of bin cards and spreadsheets. These were not integrated within CFMS.
- c. Although POYC had an annual stock turnover of around €45 million, CPSU did not have visibility of stock levels held at community pharmacies to be distributed to patients free of charge. POYC could track such stocks through another program, but this information was not readily available to CPSU.

During the site visits, NAO was not aware of anyone responsible to coordinate common procedures between the Ministry and the store administrators in order to harmonise the accounting of stock for the complete implementation of accrual accounting.

Foreword

Recommendations

Management is to adopt adequate stock control procedures across the respective stores to attain a robust control environment. The integration of all medical stock held at different locations on a single software application should also enable better planning.

Chapter 1

The appointment of an officer who would be responsible to oversee the respective stores within the Ministry's remit is also to be considered. Coordination is to be stepped up and the use of common recordkeeping systems for similar stock is required to achieve better accountability.

Chapter 2

Management Comments

MDH commented that the integration of stock management will fall under the responsibility of the automated management of medical products concessionaire. The present system will be interfaced with the respective software such that stocks received from CPSU will be captured accordingly upon reaching MDH.

Chapter 3

PHC claimed that record of invoices and receipts of the stock delivered by CPSU to the centralised store was available at the store itself. Besides using bin cards, all stock despatched to PHC outlets was supplied against an issue note. The original copy was filed at the centralised store.

Chapter 4

Meanwhile, POYC asserted that it was communicating with the developer regarding the system testing for the integration of pharmacies. In-house meetings with staff and the various sections within POYC operations had also commenced.

Chapter 5

With reference to the post of an officer who would be responsible to oversee all the respective stores, CPSU confirmed that this had been vacant for a year following approval and publication of the respective call as no candidate was selected. The call for applications had to be republished with the next intake.

Chapter 6

Chapter 7

Chapter 8

Chapter 7 | Common Results of Reviews

7.1 Limitations to issue Backdated Reports

Backdated reports could not be issued from CFMS. As such, the data shown in the reports, both for fixed assets and stocks, was not provided as at the required reviews cut-off date. As also indicated in the post implementation instructions issued by MFE, the onus to issue reports on specific cut-off dates was on the respective users, who were expected to run such reports and save them for future use, as otherwise the necessary information would not be retrievable.

Recommendations

Any system related glitches are to be immediately brought to the attention of Treasury so that these are discussed with the service provider. In the interim, the responsible officers are to adhere to the pertinent instructions, ensuring that reports are run and saved on a quarterly basis or any other period deemed necessary, as specified in the Newsletter No. 8. Reports as at year-end are an absolute necessity as these substantiate the statement of financial position figures.

Management Comments

Any related issues encountered along the way have invariably been brought to the attention of Treasury. Reports will be generated as required, at least at the end of every year and saved accordingly to ensure that these are easily retrievable.

7.2 Insufficient Human Resources

During discussions held with key personnel, Ministries raised a number of concerns regarding the insufficiency of human resources to manage fixed assets and stocks, in particular, the input and maintenance of the respective records. Emphasis was also made that this is not just in terms of the quantity but also of the quality of staff, specifically the lack of qualified accountants. Whilst Ministries were doing their utmost to strengthen human resources, these attempts were mostly futile. Furthermore, two Ministries complained that training sessions provided by Treasury in this respect were not deemed sufficient.

Fixed Assets

Ministries with a vast range of fixed assets falling under their responsibility claimed that it was very difficult to keep track of the respective assets' locations. This issue was particularly encountered where the officers responsible for updating records were not notified of any change of location. Furthermore, Ministries considered it very time consuming to update all records vis-à-vis fixed assets within their

responsibility, especially since there was no dedicated team of officers who were able to handle the level of work involved. The sole responsible official at times was assisted by other officers who did not possess the required skills, knowledge and experience to work in the area in question.

Stocks

Stock maintenance was also sometimes rendered difficult due to staff shortages. In the absence of adequate human resources, segregation of duties was not always possible, thus impacting negatively on the control environment and hindering the possibility of conducting physical stocktakes. Consequently, in the case of CPSU, Management had to resort to outsourced clerks to assist with the running of the stores. Besides the fact that there was no proper handover and lack of ownership, subcontracted employees were not always adequately experienced and qualified.

In a separate instance, three out of the four Departments within the Ministry for Agriculture, Fisheries and Animal Rights admitted that due to limited personnel, coupled with the complexities entailed within CFMS (for which the foregoing also claimed that proper training was not provided), internal control procedures for the management of stores were lacking. Moreover, due to other duties, the accounting officers did not have the time to offer their assistance to officers in charge of stores. Consequently, only additions of the procured quantities were being recorded on CFMS, resulting in stock discrepancies which were never adjusted since the respective issues were not being accounted for.

Recommendations

Until additional staff is recruited, Ministries are to try and deploy officers to ensure proper management of fixed assets and stocks, as well as the accounting thereof. Meanwhile, requests for qualified human resources and the adequate assignment and securing of personnel, need to be given due importance, especially considering that these will directly impact the reliability of Government's financial management and reporting. Sufficient training to enable the fulfilment of these functions is equally essential.

Management Comments

Shortage of staff is indeed a reality for most employers. It was emphasised that Ministries were fully committed to continuously attempt to source skilled and competent staff for the purpose. To this effect, every effort will be made to fill the vacant positions and continue seeking assistance and training from Treasury with regard to CFMS. However, in the majority, attempts to recruit officers have proved unsuccessful. Furthermore, MPWP stated that the workload increased substantially due to the support that has been given to the Ministry for Transport, Infrastructure and Capital Projects. Additionally, Management commented that in various instances, labour market supply was not matching the demand following calls for applications.

7.3 Fragmented Guidelines and Procedures

This Office acknowledges that a number of newsletters, guidelines and procedures with regard to the management of fixed assets and stocks were issued both by MFE and Treasury. Certain Ministries had also prepared a related standard operating procedure and/or manual to this effect. However, a comprehensive manual or procedure, to formally streamline the Ministries' daily operations, incorporating CFMS procedures and the responsibilities attached thereto, was not in place.

Recommendations

Treasury is to formalise one comprehensive document with regard to fixed assets and stocks, incorporating CFMS procedures, thus eliminating the fragmented documentation currently in place. Ministries will then be required to further develop such procedures to suit their specific needs. Any procedures are to be circulated among the respective users for a harmonised approach.

Management Comments

The Ministries concerned agreed with NAO's recommendation and they are all willing to work on implementing a standard operating procedure. In those cases where a procedure was already in place but needed reviewing, such procedures will be reassessed and updated accordingly.

Procedures will cover inter alia the process to record new items in the fixed asset register, as well as any reporting obligations. Upon completion, such procedures shall be circulated among the respective users.

Chapter 8 | Feedback from Treasury

This Report on fixed assets and stocks was submitted to Treasury for its feedback. Pertinent comments are replicated hereunder.

8.1 Overall

The implementation of the fixed assets and stocks modules posed several challenges, mainly due to the staff competencies and skills working on these areas.

Treasury noted that most Ministries were not utilising the stocks module. Consequently, the reporting in this area was not showing true values since the opening balances which were uploaded remained the same. As from 2023, besides the training, Treasury held individual meetings at each Ministry. Several issues were being discussed and resolved. Amongst various issues, the fixed assets and stocks modules were being given priority.

8.2 Fixed Assets

Regarding fixed assets not yet recorded on CFMS, Treasury explained that it was bound with the stipulated deadlines in accordance with the project plan for the upload of opening balances. The data uploaded was provided by the Ministries, and needed to be transferred into the required format, including calculations to arrive at the NBV, as most data was initially provided at cost.

Since the go-live date, any missing assets were to be inputted manually by the Ministry through the asset master file. Assets purchased via CFMS have to follow the correct capitalisation procedure, to ensure that comprehensive asset details are maintained. Treasury is continuously providing support to the Ministries in terms of these guidelines and requests. It was also clarified that Ministries were being guided in accordance with capitalisation policy, which is embedded into CFMS.

Most of the assets for which data could not be obtained through the master file, related to assets for which even financial information could not be retrieved from the previous accounting system. A reconciliation of the assets uploaded was performed as part of the CFMS implementation project, by the audit firm entrusted with the quality assurance aspect of this project. The results were subsequently presented to the CFMS Implementation Board.

Treasury endorsed the comments related to the numerous assets lacking supporting documentation and the absence of comprehensive guidelines on how to record heritage assets. In contrast with what was declared by the Ministry for Justice, Treasury stated that no communication was received from the foregoing Ministry for the removal of heritage assets from CFMS.

Treasury explained that CFMS provides specific tabs for data entry, and if these are missing, it becomes difficult to have a complete set of data, particularly when it comes to asset location. Certain data fields are mandatory, and in their absence, the asset details cannot be posted, resulting in an error until the required information is provided.

Moreover, the disposal procedure on CFMS is quite rigorous, and it has to be done individually at each asset level. Recently, in mid-September 2023, new guidelines were issued through a newsletter, to update the original disposal guidelines. While this task does not fall completely under Treasury's remit, a portion of the disposal process falls within Treasury's responsibility, after which the Ministry is granted authorisation for the eventual disposal on CFMS. Given the volume of items to be disposed of across all Ministries, this may take some time to complete.

During the implementation stage, it was decided to retain the automated function for generating asset identification number on CFMS. This choice was made to minimise the amount of manual inputting required by the Ministries, thus reducing the likelihood of errors. Keeping the old format could result in duplicate asset identification numbers, causing more confusion. Additionally, reporting still includes details and/or sections related to the old asset identification numbers.

Regarding the software problems encountered, Treasury has clarified that when there is a system interruption, the user will be required to restart the process. Hence, this should not result in double posting or incomplete records. Furthermore, the system, as required by the Malta Police Force, was quite cumbersome compared to the function embedded on the CFMS module. The data requirements entailed more fields than those found in the module. Moreover, it is important to note that these requirements are governed by confidentiality and secrecy measures. On the other hand, the integration of other peripheral systems with CFMS is being managed by the Office of the Chief Information Officer (CIO) at MFE, with the Treasury supporting on the business side.

The ongoing update of fixed assets lists depends on whether Ministries are using the correct asset capitalisation procedure for LVAs. An asset identification number is generated for each asset capitalised and for LVAs, despite their complete depreciation. Any LVAs that the Ministries would like to monitor and control are included in the Asset Register on CFMS.

Maintaining a fixed asset list is not necessary since the system already contains the opening balances and assets subsequently purchased through CFMS. However, this exemption applies only if the opening balances of LVAs were correctly uploaded onto CFMS.

8.3 Stocks

With respect to stock records not included on CFMS, Treasury commented that several systems were reviewed as part of CFMS implementation contract. This was done by an external audit firm, together with the Office of the CIO at MFE and Treasury assisting on the business operational aspect. The technical part is being handled through the Office of the CIO. All reports presented by the audit firm were discussed at CFMS Implementation Board level.

Treasury also held several meetings with MPWP so that stock balances on CFMS are updated. The Procurement and Inventory Support Unit within the foregoing Ministry has updated the stock balances, whilst other Units under its remit have been given online assistance on how to record them.

The problems with the system at the Ministry for Gozo were attributed to a user error when attempting to process backdated stock transactions. This issue, which was raised around three years ago, has since been resolved.

8.4 Common Results of Reviews

There were various training sessions delivered by the contractor prior to the go-live date. Furthermore, Treasury itself gave a training session on the accounting aspect, vis-à-vis CFMS and IPSAS. Virtual hands-on sessions were also subsequently delivered in March 2021.

Most of the training is being done on an individual basis. However, in 2022, group sessions were held and as from September 2023 a training programme has been designed with the Institute for the Public Services and is being delivered monthly, covering the four main²³ areas.

Treasury has also prepared training manuals on fixed assets and stock control which are readily available on the online training portal and provide step-by-step instructions for each task that needs to be done on CFMS.

An online training portal is maintained, which contains all the newsletters that have been issued, together with up-to-date training material. The training portal provides comprehensive guidance, including step-by-step instructions for each process required for handling fixed assets within CFMS.

There is also a taskforce chaired by MFE, to align the guidelines with the pertinent circulars issued. When required, Treasury will also be giving its input.

In the case of stocks, Ministries are being instructed at micro level to update their records, to arrive at the current quantities and values. Regular follow-up meetings are held since hand holding is necessary for each step of the process.

²³ General principles and procurement, stocks, fixed assets and income manager and sales.

2022-2023 (to date) Reports issued by NAO

NAO Annual Report and Financial Statements

July 2022 National Audit Office Annual Report and Financial Statements 2022

NAO Audit Reports

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 IT 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]

June 2023 Follow-up Audits Report by the National Audit Office Volume I 2023

June 2023 IT Audit: Malta Food Agency

July 2023 A review of the implementation of Sustainable Development Goal 2: Addressing pre-obesity and obesity