



Report of the

Auditor General

Public Accounts 2001

OUR VISION

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

OUR MISSION

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

ACTIVITIES

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

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National Audit Office
Notre Dame Ravelin
Floriana

December 2002

Mr. Speaker,

As required by Sub-Section 108 (5) of the Constitution of Malta and para. 7 and sub-para. 5(ii) of the First Schedule of the Auditor General and National Audit Office Act, 1997, I submit my report on the accounts of the Government of Malta and the work and activities of the National Audit Office for the year ended 31 December 2001.

Yours sincerely,

J. G. Galea
Auditor General

The Hon. Speaker
House of Representatives
Valletta



Aerial view of the National Audit Office

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Guide to using this volume

This volume summarises the conclusions reached following our financial and compliance audits. We sought to spread our reviews across Government Departments and reviewed specific Departments based on an ongoing audit plan. We have attempted to make this volume as user friendly as possible and we have tried to adopt plain common language, albeit, this is not always possible due to the technicality of the issues raised.

Besides the Auditor's General Audit Opinion on the Public Accounts and other relative information this volume is divided into Ministerial Portfolios each containing one or more departments or sections, which, were the subject of our review. Each departmental or section comment has now a new structure and includes the following:

Background

This section includes a brief description of the activities, roles and operations of the respective department or section. Where applicable it may include also new legislation governing such entity. (*Source Annual Report of Government Departments 2001 and Financial Estimates 2001 and 2002*)

Key Issues

This section outlines any material findings or outcomes of our audit and any major developments impacting on the respective department or section.

Control Issues

This section outlines any shortcomings that came to our attention relating to the department's internal control and internal checking mechanisms. These controls should exist so as to serve as an effective safeguard of assets and resources.

Compliance Issues

The section summarises instances whereby the relative department or section lacked compliance with effective legislation and standing General Financial Regulations.

Recommendations

This section outlines our recommendations to the respective departments so as to mitigate the weaknesses that came to our attention. Normally, our recommendations are aimed at improvement of the internal control systems with an emphasis on prevention of errors or misuse.

Management Comments

Within this section we sought to include the Management's reaction to our comments and actions that they have taken or plan to take so as to rectify any shortcomings that came to our attention.

While some departments or sections in this volume will have all the headings outlined above, this will vary depending on the size of the departments or section and the findings of our audit. However, in all cases the structure moves in the order as outlined above.

Executive Summary of Findings

Executive Summary of Findings

This Part is intended to act as a quick reference to the Report by highlighting the main findings. It could thus facilitate the work of the main users of the Report, in particular, the Public Accounts Committee, Ministries and Departments concerned and other interested parties when referring to the contents of the Report.

Issues and Audit Concerns

The analysis of the **Financial Report 2001**, covering the Consolidated Fund and the Statement of Assets and Liabilities, highlights issues regarding variances in ordinary revenue and expenditure, outstanding advances, loan repayments, investments and public debt. The analysis also deals with issues relating to the implementation of accrual accounting. (page 49)

The Public Account held at the Central Bank of Malta has not been reconciled since June 1992. The **Bank Reconciliation System** went 'live' on the 14th October 2002 taking the opening balance of the Public Account as shown by the Central Bank of Malta. (page 78)

Arrears of Revenue, approximately amounting to Lm404 million as at 31 December 2001, is still an area where significant improvement could be registered, considering the inefficient procedures for the collection of debt, weak enforcement procedures for the settlement of fines imposed and lack of correct documentation for the settlement thereof. (page 89) No verification was carried out with regards to the figure of Arrears of Revenue at the Social Security Department. This was a result of clear evidence that the gross amount of arrears is unrealistic and unreliable. A number of other departments did not submit their return. (page 141)

Notwithstanding repeated mention in NAO reports and the issue of formal instructions by Ministry of Finance on regulations governing **advances for travel abroad**, the extent of compliance is far from satisfactory. (page 107)

Nine **Local Councils** recorded a negative working capital balance as at 31 March 2002 while audit reports of fifty-four local councils were qualified. The most widespread shortcomings reported during the year under review were already highlighted in the previous financial years. Other concerns of a serious nature occurred in a minority of councils. (page 399)

As a result of the audit findings, this Office concluded that there is widespread non observance by Ministries and Departments to the requirements as specified in the **Financial Rules and Regulations**.

The following were the most common concerns:

Expenditure

- Payment Vouchers not covered by a VAT fiscal receipt, even though this issue has been raised in the Report of the Auditor General – Public Accounts 2000. This may result in VAT collections not being passed on to the VAT Department.
- Expenses not charged to their respective account or sub-item number hindering an effective comparison of actual expenditure against budgeted.
- Purchase Orders issued after receipt of invoice which may result in the purchasing of goods and /or services without the necessary approval.

Revenue

- Due to lack of internal control and inadequate audit trail in various revenue generating departments, NAO was unable to confirm the completeness of records. Furthermore, there was revenue which was not receipted and funds not deposited. These irregularities may give rise to abuse.
- Delay in remitting receipts to the Public Account held at the Central Bank of Malta which affects the liquidity of Government, besides increasing the risk of abuse.

Log-Books

- Non-compliance with standing regulations, particularly inadequate record-keeping of general use cars' log-books. This is essential to enable certifying officers to exercise proper control over the issue of fuel and use of government owned vehicles.

Inventory

- General non-compliance to the provisions of inventory regulations as laid down in MF Circular 14/99 and Ministry of Finance letter dated 17th July 2000. The absence of an up-to-date Inventory Ledger

has a serious bearing on asset valuation under the accrual based accounting.

Although the following irregularities were not consistently encountered, their nature and effect warrant mention:

- **Cash Book or collection sheets and Petty Cash Books** not maintained hindering control over funds and actual cash balances could not be verified with cash book balances. There were also instances where bank reconciliations were not carried out.
- Funds for the financial year under review were used to pay for invoices carried forward from the previous financial year without **arrears charge approval** from Ministry of Finance.
- Interim and annual **stocktaking reports** were not made available. As a result, it would be difficult to identify slow moving, deteriorating or obsolete items as well as discrepancies occurring during the year. Furthermore, a lack of accountability and non-existence of the basic elements of **stock control** were also encountered.
- Payments issued upon **invoices** not specifically addressed to the Ministry or Department.
- As a result of weak internal controls, including lack of segregation of duties, **double payments** have been effected out of the Public Funds. Furthermore, various payments have also been effected without confirmation of actual receipt of goods and services.
- Infringement of the **multi-payment system**, which should only be used for reimbursements. This resulted in amounts undeclared in the hands of the taxpayer in respect of payments for overtime and services rendered both by government employees and third parties, together with the possible loss of revenue due under the VAT regime for multi-payments issued to VAT registered individuals.
- Notwithstanding the investment out of public funds in the installation of **ad hoc computerised facilities**, these systems are not fully utilised. This is leading to a situation where revenue collection is not effective.
- Four departments/sections failed to submit the **relevant information** to NAO with the result that planned audits had to be aborted. This is in breach of Section 108(5) of the Constitution of Malta.

Audit Opinion

Audit Opinion

Audit Opinion on the Public Accounts of the Government of Malta to the House of Representatives

Audit Mandate

I have examined the accounts of the Departments and Offices of the Government of Malta and the Financial Report of the Accountant General for the year ended 31 December 2001. Also examined were the accounts and/or activities of such other bodies administering, holding, or using funds belonging directly or indirectly to the Government of Malta, as decided by the undersigned or where prescribed by or under any law for the time being in force in Malta

Respective Responsibilities of the Accountant General, Accounting Officers and the Auditor General

As determined by the Financial Administration and Audit Act, 1962, the onus for the proper discharge of financial administration and the preparation of financial statements rests with the Accountant General and the Accounting Officers. It is the Auditor General's responsibility to form an independent opinion on these statements, based on the audits carried out by this Office, and to submit a report thereon to the House of Representatives, in terms of Section 108 subsection 5 of the Constitution and Section 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997.

Basis of Opinion

I have carried out the audit referred to above in accordance with the provisions of the Auditor General and National Audit Office Act, 1997. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the statements as well as a critical assessment thereof. The International Organisation of Supreme Audit Institutions' (INTOSAI) Auditing Standards were used as guidelines of procedures and practices to be followed in the conduct of the audits.

I have planned and performed audits so as to obtain as much information and explanations as necessary in order to provide me with relevant and reliable evidence to give reasonable assurance that financial statements are free from material misstatements, whether caused by fraud or other irregularity or error.

In terms of the Act, the National Audit Office is empowered to carry out audits, reviews and inspections so as to provide assurance that:

- (a) adequate safeguards exist for the collection of public moneys, and that the laws, directions or instructions relating to them have been duly observed;
- (b) expenditure is properly controlled, is made in accordance with standing rules and regulations, and has been properly authorised and made for the purposes for which the funds have been appropriated by the House of Representatives;
- (c) immovable and movable property are properly procured, recorded, controlled and appropriately disposed of;
- (d) public monies are expended economically, efficiently and effectively;
- (e) procedures exist for the proper measurement and recording of expenditure programmes; and
- (f) the figures contained in the annual Government of Malta Financial Report are correctly and properly stated.

Apart from the statutory Regularity audit, the Audit Report also includes reference to a number of inquiries and Value for Money reports carried out in terms of paragraphs 8 and 9 of the First Schedule of the Auditor General and National Audit Office Act, 1997.

The Audit Report covers only matters which have been examined to some extent by the National Audit Office. The opinion does not cover or draw conclusions upon matters not examined.

Opinion

In my opinion, proper application of internal controls and compliance with a number of regulations and procedures again need to be addressed by the government through its senior officers. In particular, consistency needs to be applied throughout government operations for the purpose of ensuring that financial statements are being properly presented. Management needs to instill

more discipline within internal controls and accounting operations and ensure full compliance with appropriate rules and regulations. This is necessary for financial control, financial management and budgetary purposes.

Audit examinations carried out have revealed the following issues of particular concern for 2001:

- large amount of arrears of revenue due to government;
- Government's Public Account still not formally reconciled with the Central Bank account since June 1992;
- departments generally lack clearly defined quantitative objectives and lack performance indicators to monitor control on their operations;
- revenue realised from airport taxes lack audit trail;
- deficiencies in the control of government transport;
- lack of adherence to regulations governing travel advances;
- large amounts of Advances made through the Treasury Clearance Fund have remained outstanding for several years;
- the non-inclusion of all government assets and liabilities in the Government Financial Report due to the government accounting system still being cash-based.
- Weak internal controls across government departments resulting in a lack of safeguards of revenue and assets.

Except for the above qualifications, I am of the opinion that the Government Financial Report and statements included therein present fairly, in all material respects, the financial position of the Government of Malta and the results of its operations for the year ended 31 December 2001.

In terms of paragraph 5(ii) of the First Schedule of the Act, I am to report that, subject to instances referred to in the findings of the Report, I received all the information and explanations required for the carrying out of my duties.

J. G. Galea
Auditor General

December 2002

Work and Activities of the NAO

Work and Activities of the NAO

Role of the National Audit Office (NAO)

This Part of the report is in compliance with the requirements of subparagraph 5(i) of the First Schedule of the Auditor General and National Audit Office Act (Act XVI of 1997) in terms of which the Auditor General has to report annually on the workings of the National Audit Office.

The Auditor General as head of the National Audit Office, is responsible for the external audit of central and local government on behalf of Parliament. He may also carry out audits of public entities and other bodies administering, using or holding public funds.

The external auditing function of public funds is exercised by the NAO. The Office, which is autonomous from the executive branch of government, was established with the coming into force on 25 July 1997 of Section 108 of the Constitution and the Auditor General and National Audit Office Act.

The independence of the Auditor General, which is entrenched in the Constitution, is a vital factor in the value and credibility that taxpayers can place on the Office's work.

The mandatory and primary objective of the Office, in terms of the Constitution and the Auditor General and National Audit Office Act, 1997 is to provide independent information, assurance and advice to Parliament on the way Treasury, government departments and certain non-central government entities (particularly Local Councils) account for and use public funds.

Another objective, in terms of the Act, is to establish whether public moneys have been expended economically, efficiently and effectively.

Extent of Audit Work

All direct and indirect public funds fall under the scrutiny of the NAO. Any funds received or administered by Government, from whatever source, are within the extent of the mandate of the Office. However, direct central government receipts and payments, as well as local government revenue and expenditure, constitute its core responsibility.

The operations of public bodies or bodies with government interest fall under the scrutiny of the NAO if deemed necessary by the Auditor General or

if requested by the Public Accounts Committee or by the Minister of Finance to carry out specific audits on such bodies. In terms of local company legislation (for companies with public interest) or statute (for entities set up by law) private sector auditors are engaged by the entities themselves to carry out regularity/certification audits.

The audit field for 2001 included:

- Total recurrent revenue of Lm668.6 million (against Lm617.7 million for 2000);
- Total extraordinary receipts and loans of Lm128.8 million (against Lm24.7 million for 2000);
- Total recurrent expenditure of Lm 614.6 million (against Lm549.8 million for 2000);
- Total public debt servicing of Lm71.4 million (against Lm67.8 million for 2000);
- Total capital expenditure of Lm 80.6 million (against Lm98.6 million for 2000).

Regularity Audits

These audits, also referred to as Financial and Compliance audits, are carried out in terms of Paras. 1 to 7 of the First Schedule of the Act. They aim at ensuring that the Government Financial Report, including the financial statements of ministries and departments, is being properly presented, that transactions comply with financial rules and regulations, and that proper internal controls are in place. Audits may also be made on corporate issues of a common concern, such as arrears of revenue due to government. Regularity audit provides independent assurance that government departments and other audited bodies properly account for the money that Parliament has approved and that such money has been spent as Parliament intended.

Value for Money Audits

These audits, carried out in terms of Paragraph 8(ii) of the First Schedule of the Act, are intended to address the economy, efficiency and effectiveness

of programmes and operations of ministries, departments or public sector entities.

During the current year the following Value for Money audit reports were published:

Licensing and Testing Department in February 2002. The main objectives of the audit were to establish whether the Department was:

- Employing resources and information technology in an optimal manner;
- Providing consistently services in accordance with the Department's Quality Service Charter;
- Taking adequate enforcement action to ensure the timely collection of revenue in respect of road license vehicles.

School Transport System – Education Division in September 2002. This audit was performed in order to ensure whether the Education Division:

- Adheres to the government policy and objectives of providing transport to school children;
- Is provided at the least cost;
- Operates efficiently and effectively.

School Information System – Education Division in December 2002. The objectives of the audit were to ensure whether Government policy is being upheld, namely:

- That the Education Division and all state schools are provided with a computerized system enabling the collation of educational data and statistics for improved administration of schools;
- That the computerized information system is providing the Education Division and Heads of Schools with timely and reliable information, i.e. the efficiency and effectiveness of the system;
- To compare actual costs incurred by the system setup and implementation (including training) to date to budgeted costs as per tender file, i.e. the economy of the system in place.

Audit of Non Central Government Organisations

The National Audit Office yearly carries out a compliance and financial audit of a number of non-central government organisations. The main purpose of such audits is to ensure that public funds donated by government are used for the specific purpose for which these funds are handed out to the various organisations.

The audit is also carried out to examine whether these organisations adhere to government legislation and regulations and that they keep proper records and control over their revenue, expenditure, assets and liabilities.

There is as yet no 'ad hoc' legislation to govern the establishment and regulation of non-government organisations. These bodies are set up under various forms such as foundations, church or private agencies and entities, voluntary associations, philanthropic institutions and societies.

These bodies have their own accounting systems and some of them submit audited accounts. Although they are directly or partly financed by Government through subsidies, grants or subventions, they are not bound to follow Government Financial Regulations.

The criteria, scope and extent concerning the examinations of their accounts by the Auditor General may depend upon the amount of subsidy or donation that the Central Government gives them annually.

Audits carried out did not reveal material errors or irregularities. Where shortcomings were detected these were brought to the attention of management of the bodies concerned, through management letters, and action was taken to rectify matters.

The accounts of the bodies listed below were examined and subjected to a limited financial and compliance audit (unless otherwise stated) for the period ending 31 December 2001:

House of Representatives

Ombudsman (Grant Lm166,000)

Education

Manoel Theatre (financial year 1/9/00-31/8/01) (Grant Lm130,000)
(Capital Vote III upgrading Lm25,000)

Society of Arts, Manufacture & Commerce (Grant Lm30,000)

St Patrick's School (Grant Lm304,196)

Marquis Scicluna Trust Fund

Captain O.F Gollcher Foundation

Malta Cultural Institute (Grant Lm500)

Social Policy

Co-Operatives Board (Grant Lm70,000)

Marriage Advisory Council - Cana Movement (Grant Lm30,500)

Conservatorio Vincenzo Bugeja (Grant Fejda – Lm80,000,
Jeanne Antide Lm31,000, Instituto Feminile Lm15,000)

Agriculture and Fisheries

Agrarian Society (Grant Lm1,500)

Horticulture Society (Grant Lm300) (financial year 1/12/00-30/11/01)

Gozo Agricultural, Industrial & Cultural Society (accounts not received)
(Grant Lm1000 Agric & Fisheries/Grant Lm350 Ministry for Gozo)

SPCA (Grant Lm10,710)

Malta Rabbit Club (Grant Lm300) (accounts not received)

Environment

GAIA Foundation (Grant Lm11,000)

Health

Titta Strickland Trust Fund

Transport and Communications

Pilotage & Mooring Funds established under the Pilotage and Mooring Regulations, 1975

Special Audits

Audits or investigations, which may be of a financial or value for money nature, are carried out in terms of Section 8(a) and Section 9(a) of the First Schedule of the Act. These audits may be carried out on the initiative of the Auditor General, at the request of the Minister of Finance or at the request of the Public Accounts Committee of the House of Representatives. They may relate to revenue, expenditure and resources belonging directly or indirectly to Government.

During 2002, an enquiry on the Malta Restoration Centre was carried out, as requested by the PAC, and presented to the Speaker of the House on 17 July.

In September 2002, the Auditor General was requested to investigate the grant of Lm60,000 to the St. Julian's Waterpolo Pitch and in October 2002 he was also requested to investigate the Foundation of Tomorrow's Schools. These two investigations are in hand.

Two other enquiries on the Zebbug and Nadur Local Councils (that were requested by the Minister responsible for Local Councils, in terms of Local Councils legislation) have been completed and will soon be concluded. Moreover in September 2002, the Minister requested the Auditor General to investigate the Bormla Local Council.

Other NAO activities

The NAO has a representative (in an observer capacity) in the Accruals Accounting System Task Force. This Task Force was established by Government to oversee the implementation process of accrual accounting in government accounts and financial reporting over the next few years.

The NAO, through its representative, also provided its views on draft legislation concerning the Public Finance and Management Act that is intended to eventually supercede the Financial Administration and Audit Act.

A representative of the NAO also acts as a liaison officer in connection with Chapter 21 (Regional Policy), Chapter 28 (Financial Control), and Chapter 29 (Financial and Budgetary Provisions) relating to the '*Acquis Communautaire*' with respect to issues concerning external financial control.

The Office also actively participates in overseas activities as indicated later on under "International Activities".

National Audit Office's relationship with Parliament

The Public Accounts Committee (PAC)

The Auditor General submits his annual Audit Report to the Speaker of the House of Representatives who lays the Report on the table of the House. This Report is subsequently referred to the Public Accounts Committee that in turn may review the Report and hold meetings to discuss its contents. It is also empowered to take evidence from senior officials of ministries and departments or other government related bodies. Apart from NAO reports, the PAC also reviews the activities of non-central government organisations, the accounts of which are presented to Parliament.

While the mission of the National Audit Office is to act as a watchdog to government financial operations and activities, the Public Accounts Committee helps to ensure that findings of the NAO are given their due attention.

The PAC held 89 sittings during the ninth Parliament from September 1998 up to 20 November 2002, 16 of which were held during the current year. A number of PAC meetings focused on issues raised in the NAO reports.

The National Audit Office Accounts Committee

The National Audit Office Accounts Committee is appointed in terms of Part IV of the Second Schedule of the Auditor General and National Audit Office Act No. XVI of 1997.

The Committee is composed of as follows: the member of the House of Representative who is for the time being Chairman of the Public Accounts Committee of the House of Representatives, the Leader of the House of Representatives and two members from among members supporting the Government and another member from among the members in opposition.

The Committee shall from time to time, but not less often than once a year, present to the House of Representatives (through the Leader of the House of Representatives) a report of its activities and the report of its examination of any estimates prepared by the Auditor General.

The revised budgeted financial statements and management accounts for 2001 and budgeted financial statements for 2002 were presented and discussed by the Committee on 29 April 2002. These were endorsed by the Committee and subsequently approved by the House.

The accounts of the National Audit Office for 2001 were audited by private sector auditors who were appointed by the Committee in terms of Part V of the Second Schedule of the said Act. These accounts were presented to the House

on the 17 September 2002. The same audit firm has been re-appointed to audit NAO's financial statements for the year ending 31 December 2002.

International Relations

NAO is actively participating in the international sphere and significantly involving itself in international activities. It also regularly submits its comments on reports, questionnaires and other studies related to public sector auditing carried out by INTOSAI, EUROSAI and other international organisations. These studies covered such themes as fraud and corruption, money laundering, the SAI's mandate and attributes, IT in auditing, the role of the SAI in Government Budgeting, etc.

A senior officer from the NAO acts as a EUROSAI joint sub-coordinator of SAIs from the Mediterranean region on Environmental Audit.

Another officer is participating in the Working Group for Liaison Officers of EU candidate countries and was appointed as co-rapporteur on a theme related to "Quality in the Audit Process". He also continued follow-up work before the publication of the report on "Relations between Supreme Audit Institutions and Parliamentary Committees"

The Office is also a member of the INTOSAI Committee on Accounting Standards.

Furthermore, a number of seminars and other meetings were held with foreign visitors to exchange views on the NAO and to discuss issues of an audit nature relevant to the NAO.

During the year 2002 the Office participated, locally or abroad, in the following events that related to conferences, seminars, working group committees, workshops, familiarisation visits and other meetings with foreign colleagues:

On 8 January, Profs Richard Batley from the School of Public Policy, University of Birmingham, together with an international group of Masters students in Governance and Development Management visited the National Audit Office for a half-day seminar. The group was briefed on the legislative and organisational changes in state audit legislation of 1997 and the relations of the NAO with Parliament. Senior officers gave presentations on these themes.

On 5 February, an NAO representative attended a meeting in Brussels (Belgium), together with a number of officials from different Ministries and Departments, for bilateral consultations and progress relating to Chapter 21

(Regional Policy and Coordination of Structural Instruments) relating to the '*acquis communautaire*'.

On 11 and 12 February, the Auditor General, the Assistant Auditor General (Financial and Compliance) and another senior official attended a familiarisation visit at the NAO of Denmark in Copenhagen to discuss issues relating to the preparation of audit manuals and guidelines, the organization of units connected with EU-related matters, the audit of EU funds and expenditure and other issues of an organizational and strategic nature.

On 28 February, the Assistant Auditor General (VFM), together with two other employees participated in a Working Group Meeting of SAIs of EU Candidate/Applicant Countries on "Audit Activities" in Budapest (Hungary), during which cooperation in audits between these countries and EU Member States was discussed.

On 1 March, the Auditor General received representatives from the Secretariat of the Congress of Local and Regional Authorities of the Council of Europe. During this meeting the state of local government in Malta was discussed.

On 18 March GRECO (the Council of Europe Group of States against Corruption) representatives held meetings with different authorities in Malta, including the Auditor General.

The purpose of the evaluation visit was to assess the:

- Independence, autonomy and powers of persons or bodies in charge of preventing, investigating, prosecuting, and adjudicating corruption offenses;
- Immunities from investigation, prosecution or adjudication of corruption offences;
- Specialisation, means and training of persons or bodies in charge of fighting corruption.

On 25 to 27 March, the Assistant Auditor General (VFM) and another senior official attended a Workshop on Audit Manuals and Mission Statements in Vilnius (Lithuania). A presentation was made on the preparation of the Audit Manual for use by the NAO.

On 11 and 12 April, the Auditor General and one other senior official attended the Second Meeting of the EUROSAI Working Group on Environmental Auditing in Paris (France). During this meeting the progress of the Working Group, in which Malta is a sub-coordinator of the Mediterranean Region was discussed.

On 22 and 23 April, the Assistant Auditor General (Financial and Compliance) attended a Seminar organized by the European Institute of Public Administration in Maasricht (Netherlands) on “Protecting the Communities’ Financial Interests: Information and Communication as a Service and a Means of Preventing Fraud.

On 25 and 26 April, the NAO organized a Liaison Officers’ Meeting of Central and Eastern European Countries, Cyprus, Malta, Turkey and the European Court of Auditors. Further information is found later on under separate title.

On 29 and 30 April, a Meeting on Technical Assistance was held at the NAO with two senior officials from the NAO (UK). The purpose was to discuss technical cooperation between the Malta and UK SAIs in a number of fields considered to be of interest to the Office, such as Strategic Planning, IT Security, Secondment at the NAO (UK), Training in VFM auditing and Corporate Governance.

On 13 May, a Meeting of SAI Presidents of a number of EU Candidate Countries was held in Prague (Czech Republic) to discuss EU-related issues of common interest, such as cooperation with Member States, collaboration with the ECA and activities being undertaken by the Liaison Officers of the EU Applicant SAIs.

On 16 and 17 May, three senior officers attended a seminar on the auditing of EU Funds (Environmental and Cohesion Funds) in Luxembourg.

On 27 to 31 May, the Auditor General and two senior officials attended the Fifth EUROSAI Congress in Moscow (Russia). The themes discussed were:

- The role of the SAI in the preparation by the Government of the Budgetary Proposals and in the examination thereof by the Parliament;
- The Control during and after Execution of the State Budget;
- The use of IT in the State Budget Execution Audit.

On 24 to 26 June, the Assistant Auditor General (VFM) and another senior official attended a Workshop on “Audit Policies and Standards” that was held in Sofia (Bulgaria).

On 1 July, a follow-up meeting was held at the NAO with representatives from the Secretariat of the Congress of Local and Regional Authorities of the Council of Europe.

On 5 July, a representative from the UK Treasury and another from the ECA paid a courtesy call at the Office. These officials were taking part, as speakers, in the Biannual Conference of the Internal Audit and Investigations Directorate.

On 10 to 12 July, two technical officers from the Audit Office of Cyprus held meetings at the NAO with the purpose of discussing methodologies of Technical Audits with a view of possibly upgrading these type of audits in Malta.

On 22 to 24 July, the Auditor General, the Assistant Auditors General and three other senior officials visited the NAO (UK) in London on a Study visit with a view to discuss issues relating to Corporate and Strategic Planning, Corporate Governance, IT Security and IT Audit Software, the Conversion of the UK Government from cash to accruals-based accounting, Audit of Capital Projects, and Relation with the Media. This visit was a follow-up to the visit that was conducted at this Office by two NAO (UK) experts in April.

On 9 to 20 September, two officials participated in workshops on “Financial Audit and Detecting Fraud and Irregularities” that were carried out in Tallinn (Estonia).

On 12 September to 3 October, an official attended an International Training Course on Value for Money and Financial Audit that was carried out at the NAO (UK) in London.

On 18 to 20 September, two officials attended a Training Programme on VFM Auditing in Budapest (Hungary). The event was co-chaired by the UK NAO and the Hungarian State Audit Office, under the auspices of EUROSAL. The declared goal was the illustration of modern techniques currently being utilized in VFM Audits.

On 23 to 25 September, the Assistant Auditor General (Financial and Compliance) attended a workshop in Bratislava (Slovak Republic) on Public Internal Financial Control Systems (PIFC). Features considered as very important for a functioning PIFC system included:

- Clear management responsibilities;
- Creation of an independent Internal Auditor;
- Adequate reporting system and effective use of it;
- Reliable and secure IT Management Information Systems (MIS);
- Controls based on risk management.

On 26 and 27 September, a senior official attended a working meeting in Warsaw (Poland) in connection with a report on 'Quality in the Audit Process', that he is preparing with officials from the Polish Supreme Chamber of Control and the Hungarian State Audit Office, together with support of SIGMA experts. This report is being prepared on behalf of the Supreme Audit Institutions of EU Candidate/Applicant countries.

On 2 and 3 October, two officials attended the Second European Environmental Auditing Seminar Seminar on European Environmental Auditing in Gotawice (Poland).

On the 3 and 4 October, one senior official attended the partly Joint Meeting of Liaison Officers of SAIs from the EU Member States, EU Candidate Countries and the European Court of Audit in Luxembourg. This was the first partly joint meeting attended by the liaison officers of both Member and Candidate States.

On 7 to 9 October, the Auditor General and the Assistant Auditor General (Financial and Compliance) attended the 18th Commonwealth Auditors-General Conference in Kuala-Lumpur (Malaysia). One of the themes discussed was:

- The Role of SAIs in Transition from Cash to Accrual-Based Reporting;

On 22 to 24 October, one senior official attended a Workshop on "Audit Quality Assurance" in Gdansk (Poland). The participant made a presentation on the report "Quality in the Audit Process" that he is preparing, together with senior officers from the SAIs of Poland and Hungary.

On 28 October, Mrs Michaela Schreyer, member of the EU Commission and H.E. Ronald Gallimore, Head of the EU Delegation in Malta, paid a courtesy visit at the Office. The functions of the EU Commission and the role and functions of the NAO in public external financial control were discussed.

On 4 to 6 November, a senior officer from the UK (NAO) conducted a seminar on Value for Money Auditing at the NAO (Malta). This seminar involved themes concerning:

- Selection and Designing of VFM Studies;
- Performance Measurement and Benchmarking;
- Enhancing the impact of audit work;
- Case Studies in VFM Auditing in Malta and UK;
- VFM Reporting.

Two internal auditors from the Internal Audit and Investigations Directorate joined NAO members in the seminar.

On 14 and 15 November, a working meeting on the report on “Quality in the Audit Process” was held at the NAO (Malta). The co-rapporteurs of the SAIs of Hungary, Malta and Poland participated, together with three SIGMA experts. The purpose was to discuss, review and finalise the final draft report on this theme.

On 21 to 23 November the Auditor General who was appointed an evaluator attended a Training Seminar for the Expert-Evaluators of the GRECO (Group of States Against Corruption) in Paphos (Cyprus) with a view to improve harmonisation of evaluation techniques in the field of crime linked to corruption.

On 26 November, the Auditor General and one other senior officer attended the “Verstehen 2002” Workshop of the European Commission’s Internal Audit Service in Brussels (Belgium). The theme concerned the so-called “Single Audit” concept, whereby coordination between different bodies that carry out similar audits is being studied by the European Commission. The purpose is to avoid duplication of audit work and excessive controls in order to carry out more efficient, effective and economic audits

On 27 November, the Auditor General and a senior officer attended the 25th Anniversary celebrations in Luxembourg commemorating the establishment of the European Court of Auditors. On the 28 November, the Heads of SAIs of EU Member and Candidate Countries held a Joint Meeting in Luxembourg. Presentations made at the meeting included the report on “Relations between SAIs and Parliamentary Committees” that was prepared last year by liaison officers from the SAIs of Malta and Poland. EU Member and Candidate States agreed to have the report distributed to the European Parliament.

On 12 and 13 December, the Heads of SAIs of EU Candidate/Participant SAIs attended a Meeting of SAI Presidents in Bucharest (Romania). The work of the liaison officers and the ECA on “Audit Activities” (cooperation between Member and Candidate States in audit activities) and “Audit Manuals”, as well as the report on “Quality in the Audit Process” were discussed.

Meeting of Liaison Officers of SAIs of Central and Eastern European Countries, Cyprus, Malta, Turkey and the European Court of Auditors in Malta – 25 and 26 April, 2002

This Office hosted a Liaison Officers’ Meeting for Supreme Audit Institutions (SAIs) of EU Applicant Countries on the 25 and 26 April. The SAIs of Albania, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic, Slovenia and Turkey

participated. Also participating were representatives from the European Court of Auditors (ECA), SIGMA (Support for Improvement in Governance and Management – a joint initiative body of the OECD and the EU), and representatives (from the UK and Germany) of the EU Member State SAIs' Contact Committee Working Group on Candidate Country SAIs.

The Malta Meeting focused on work and activities carried out by Working Groups on "Audit Manuals" and "Audit Activities". These activities aim at encouraging SAIs to strengthen their audit methodologies, through the preparation of audit manuals, and to seek technical assistance from EU Member State SAIs. The purpose was to bring the organization and methodologies of SAIs of Applicant Countries in line with best European practices, in preparation for accession to the EU.

Other activities discussed were those relating to internal control systems in the Candidate Countries, quality assurance in the audit process, as well as developments on the report on "Relations between SAIs and Parliamentary Committees".

Staff

Recruitment

During the year 2002, the National Audit Office intensified its efforts to recruit professional people from the labour market. Several internal and external calls for application were issued for the filling of various vacant positions.

Staff Profile

During the year 4 employees opted to return to the public service. 2 other employees resigned and another retired on reaching pensionable age.

The table opposite gives a breakdown of the staff position as on 1 November 2002.

23 or 39 per cent of NAO's staff are female. The average age of NAO's employees is 37 years.

Vacant Positions

At the time of writing this report 12 vacancies exist in the Auditing Grades.

There are also 4 vacant positions in the Clerical and Administrative Grades. It is probable that these vacancies will be filled by junior employees of this Office.

Staff Position as on 1 November 2002

Grade Description	Allocation	In Post	Vacant	Male	Female	Total
Senior Management						
Assist. Auditor General	2	2	-	2	-	2
Personal Staff						
Personal Assistant	1	1	-	1	-	1
Personal Secretary	1	1	-	-	1	1
Support Services						
Manager	2	2	-	2	-	2
Principal	3	1	2	1	-	1
Senior Executive	1	2	-	1	1	2
Executive	1	1	-	-	1	1
Clerks	-	3	-	1	2	3
Receptionist	1	-	1	-	-	-
Minor Staff	6	6	-	5	1	6
Auditing Grades						
Manager	6	6	-	5	1	6
Principal Auditor	12	10	2	5	5	10
Senior Auditor	12	6	6	4	2	6
Assistant Auditor	12	9	3	6	3	9
Audit Technician	8	5	2	1	4	5
Audit Clerk	-	3	-	1	2	3
Total	68	58	16	35	23	58

Qualifications by Staff

In its effort to achieve professional standards in its work, a number of qualified experienced persons were employed. The following table depicts the range of specialities currently on NAO's books:

Staff Qualifications	Males	Females	Total
Degree in Accounts or holders of CPA or CCAA warrant	6	7	13
Masters in Business Administration	1	-	1
Masters of Science in Management	1	-	1
Bachelor of Commerce in Management	1	-	1
Bachelor of Commerce in Public and Private Sector Management	1	-	1
ACIB	1	-	1
Diploma in Business Studies	2	1	3
Diploma in Management Studies	-	1	1
Diploma in Computer Studies	1	-	1
Total	14	9	23

Training

To acquire additional academic qualifications employees are encouraged to attend part-time courses. On-the-job training was given by experienced members of the staff.

As part of its continuous educational development programme, employees attended seminars and conferences both locally and abroad.

In-House Training

During 2002, senior officials delivered a series of in-house lectures to new recruits and junior members of the staff. The topics covered were related to audit work. However, presentations of the general working of the various government departments were also made.

- Examination of Expenditure – Corporate Issues: The objectives of this lecture were to examine those areas that are considered as corporate issues in the Annual Audit Report namely, the Returns of Arrears of Revenue, Travel Abroad, Training, Transport, Writing-off of amounts due to Government and Hospitality Expenses.
- Audit of Government Expenditure: The presentation was spread over two sessions and focused on the audit of expenditure as defined in the statutory duties of the Auditor General as described in the Constitution of Malta and the Auditor General and National Audit Office Act XVI of 1997.
- Introducing Special Audits: The presentation covered an in-depth study of the audit process starting from the Audit Plan to the Audit Report and included topics such as the Preliminary Survey, Audit Methodologies, the feasibility study, the exit conference and the audit report.
- Introduction to Total Quality Management: The objective of this presentation was to give a general overview of the concepts and issues related to TQM. The course outline covered the following topics: Total Quality Management, Managing Quality, Measuring Tools, Benchmarking, Role of Information Technology, Problem-solving, Decision-Making, ISO Standards.

Other Courses of Training

Training in Accrual Accounting: This course was organized by the Director General, Ministry of Finance in conjunction with the SDO. The main objective of this programme was to inform and intensify the participant's knowledge of

Accrual Accounting and related matters, particularly those aspects which are of relevance to the Public Service in its mission to implement the Accrual Accounting methodology throughout Government to replace the current cash based accounting. Fifteen employees from the NAO were nominated to attend this course.

Overview of the Departmental Accounting System DAS: In conjunction with the Malta Information Technology and Training Services Ltd a two and a half days overview of the DAS application was organised. Apart from the overview, the topics covered were: DAS Enquiry, Reporting and Reconciliations. The course was held in November 2002 and was attended by 17 employees.

Essential Skills you need to Perform IT Audits: This five-day seminar was designed for financial, operational and IT auditors in order to update their technical and operational knowledge to audit information technologies and automated business systems.

Course in Queuing Theory and Simulation: 7 Employees attended a 10-week course in Queuing Theory and Simulation organized by the Head, Department of Statistics and Operations Research of the University of Malta. The course contents covered the following modules: Introduction to Modeling, Queueing Theory and Computer Simulation. Participants were also required to present a project in this respect. Certificates were issued at the end of the course.

Staff Development Organisation (SDO) Courses: Members of the staff attended courses organised by the Staff Development Organisation SDO. These courses covered areas in Information Technology, Management Development and Finance.

Overseas Training

In 2002 another Principal Auditor was sponsored to attend an International Training Course with the U.K. National Audit Office. The course was of a three-week duration and is appositely organized for staff from overseas Supreme Audit Institutions. The course was inaugurated in 1993 and since then three employees have benefited from the course. The course covered topics such as Financial and Value-for-Money audits.

Local Sponsorships

The NAO is sponsoring employees undertaking part time courses leading to a degree or to a diploma. These sponsorships include:

Malta Institute of Accountants – 6 employees are currently following a five-year course leading to MIA Accountancy professional qualification.

Masters Degree in Business Administration – 1 Audit Manager and 2 Principal Auditors are reading for an Executive MBA degree at the University of Malta.

Diploma in Managerial Principles – 7 junior members of the staff are currently undertaking a two-year course leading to a Diploma in Managerial Principles. The course is organized by the Chamber of Commerce.

Diploma in Business Studies – 5 officers are attending a part-time course leading to a Diploma in Business Studies. The course is organized by the Chamber of Commerce.

U.K. National Computer Centre International Higher Diploma Course in Computer Studies – a Principal Officer at the I.T. Section is following this course.

Local Conferences and Seminars

Members of the staff are encouraged to attend local conferences and seminars as part of a continuous educational development programme. The following seminars and conferences were attended during the year 2002:

- Data-Mining Makes the Difference
- Amendments to Maltese Labour Legislation
- Strategies, Challenges and Opportunities for Maltese Companies
- Launch of New and Improved Electronic Communications
- Liability for Defective Products
- European Social Fund
- International Accounting standards – Update
- London Chamber of Commerce and Industry Examination Board (CCIEB) Employer Event
- Cyprus and Malta: Parallel History and Common Future
- Tax Index of Financial Data and Electronic Filing of Income Tax Returns
- State of negotiations
- IAS Update – IAS 39 Implementation
- The Investment Services Act and the Auditor in terms of the Act and related directives
- The Future of Europe
- Total Quality Management

- Risk Management issues faced by the Profession
- Are you Personal Data Protection Compliant?
- A Europe of Challenges
- International Conference – Democracy and Bureaucracy
- Euro-Tax
- Accounting for and Auditing Stocks
- Accessibility to Official Statistics
- The role of the reporting accountant
- Enlargement of the European Union
- Why Implement Information Security in Government?
- Business Valuations
- Accounting for small and medium sized enterprises
- Social Security Benefits – A Guide for Human Resource Practitioner

Engagement of Consultants

Industrial Relations Consultant: The services of an Industrial Relations Consultant were engaged to assist the Manager, Finance & Administration. The Consultant joined in the negotiations with the employees' representatives to finalise a Collective Agreement covering the period 2002 to 2004. The consultant is also providing advisory and consultancy services on Conditions of Employment and Social and Employment Policies.

Engagement of Audit Consultants: One Consultant offers advice to the NAO on matters relating to risk assessment. The Consultant also carries out 'ad hoc' specific tasks, as may be required by the Auditor General. Another Consultant tenders advice on laws, regulations and procedures pertaining to the Local Councils.

He may also be required to give advice on the audits of Non Central Government Organisations and on reviews carried out on the Welfare Committee.

Legal Advisor: An expert in constitutional law is engaged on a 'retainer basis' to advise on technical legal difficulties.

Information and Communication Technology

The Information and Communication Technology at NAO was further strengthened with the installation and commissioning of a new server to service its Local Area Network. This server will be the NAO central repository and will be the basis for the implementation of a mobile computing strategy that is planned for the near future.

All desktop computer equipment will be replaced with portable notebook computers and ancillary equipment. NAO's staff will be able to carry out audits at the clients' premises whilst having full access to information available on the server. This strategy has already been initiated with the replacement of 10 desktop PCs.

In order to standardise its financial audits across all government departments and also in view of the projected implementation of the accruals accounting system in the near future, NAO is also studying the introduction of the "paperless audit" whereby the financial audit process is automated. Discussions with UK counterparts were held to be made aware of problems encountered when this strategy was introduced by the UKNAO in 2001. The evaluation of different software solutions is necessary before a final decision is reached.

Besides its human resources the most valuable asset at NAO's disposal is information. Increasing reliance by auditors on sharing of information available will put further strain on NAO, more so in view of the Data Protection Act which requires that all personal data be stored as securely as possible. To carry out its mandate to parliament NAO needs to have access to all kinds of data and consequently has to ensure that this information is kept secure.

In order to fully comply with the requirements of the Data Protection Act steps are being taken to upgrade security practices. These security measures will address physical security as well as electronic data security. An official security manual is also being developed to guide and inform staff on security practices. In this regards a local management consultancy firm was commissioned to study and report on the impact which the implementation of the Data Protection Act will have on the NAO.

The NAO website and Intranet continued to be maintained and enhanced during the year. During the nine month period January to September 2002, the website attracted 2,890 unique visitors. Of these more than 75 percent were from overseas.

The reports published by NAO are also being made available on this website. Interest in these reports more than exceeded expectations. During a

six month period for which statistics are available, not less than 2,600 of these reports were downloaded by visitors to the website.

Conclusion

This year has once again been a challenging one for me and for all the staff at the National Audit Office. During 2002 we continued with the recruitment process by employing staff of a graduate level, in line with Office policy to engage highly qualified staff for posts of an intermediate or senior level. The increased demands on this Office necessitates an ever increasing level of qualified and competent staff.

We will continue to encourage current employees at the Office to upgrade themselves through appropriate and focused training both locally and abroad. A significant number of NAO employees are now professionally and academically qualified or are undergoing University and other professional courses outside Office hours.

Good governance demands accountability, propriety, good practices and value for money in public administration and government operations. Our mission is to strive to help government achieve these goals.

The upgrading of both Regularity and Value for Money audits conducted during 2002 will continue.

I wish to once again thank all audit staff for their sustained year long effort in assisting me in the building up and preparation of this Audit Report. I would also like to acknowledge the cooperation afforded by the auditees that, in most cases, has been readily forthcoming.

Finally, whilst appreciating the full support of the members of the House of Representatives for my reappointment as provided for by the Constitution of Malta, I shall endeavour to continue to honestly and diligently perform the functions of Auditor General.

Financial Report 2001

Financial Report 2001

Introduction

The Financial Report statements and accounts for year 2001 were submitted to this Office by the Accountant General in terms of Section 67 of the Financial Administration and Audit Act, 1962. These were examined in terms of Sub-para. 1 (e) of the First Schedule of the Auditor General and National Audit Office Act, 1997.

Statements of the Consolidated Fund Account, showing the comparative positions in 2000 and 2001, and the receipts and payments of funds created by law were laid on the Table of the House of Representatives in Sitting No 767 after being reconciled with Treasury Books by this Office in accordance with Sub-para. 1 (c) of the First Schedule of the Auditor General and National Audit Office Act, 1997.

To attain a comprehensive view of the government financial operations, reference should be made to both this Audit Report and the 2001 Financial Report.

Consolidated Fund Statement – 2001

The Consolidated Fund incorporates all moneys belonging to Government. All disbursements out of this Fund are authorised by means of Appropriation Acts of Parliament, which include the Supplementary Estimates.

The following Statement comprises the aggregate annual receipts and payments administered by Government and comparative estimates for 2001.

After the House of Representatives adopted the year 2001 Budget (Original Estimates) for an expenditure of Lm 767,534,000 as authorised by Warrant No 1 issued on 21 December 2000, and a further Lm 42,530,001 as approved by Supplementary Estimates Warrant No 2 dated 21 December 2001, it was estimated that Revenue was to exceed Expenditure by Lm 19,541,999. Following the closure of the 2001 Accounts, it resulted that Revenue had actually exceeded Expenditure by Lm 30,762,754.

Consolidated Fund - 2001

	Estimated (Original & Supplementary)		Actual	
	Lm	Lm	Lm	Lm
Opening Deficit Balance				(78,794,806)
Revenue				
Ordinary (incl. Grants)	671,306,000		668,620,905	
Sale of Shares/Assets	40,000,000		-	
Extraordinary	15,600,000		21,976,542	
Loans	102,700,000		106,823,199	
		829,606,000		797,420,646
Expenditure				
Recurrent	(636,448,001)		(614,626,204)	
Public Debt Servicing	(73,386,000) ^{b1}		(71,404,563) ^{b2}	
Capital	(100,231,000)		(80,627,125)	
		(810,065,001) ^a		(766,657,892)
Excess 2001		19,540,999 ^a		30,762,754
Closing Balance as on 31/12/01				(48,032,052)

a) The aggregate of figures quoted in the Financial Estimates 2001 does not tally with the aggregate of amounts appropriated in Warrants 1 (Lm 767,534,000) and 2 (Lm 42,530,001) by Lm 1,000.

This difference is due to the fact that Lm 315,551 were permanently appropriated to the Office of the Prime Minister as detailed in the Schedule to Warrant 1. However, the Financial Estimates 2001 reads Lm 316,551. Hence, the Lm 1,000 difference in Estimated Excess as shown in the above table compared to the amount quoted in the preceding paragraph.

This Office is concerned that there existed the possibility of the department exceeding the correct amount budgeted since estimated funds allocated to the department according to the Departmental Accounting System erroneously amounted to Lm 5,040,000 (i.e. Lm 4,723,449 appropriated through Warrant 1 and Lm 316,551 as erroneously permanently appropriated) instead of Lm 5,039,000. However, it is to be noted that Actual Expenditure for 2001 amounted to Lm 4,642,298.

b) This excludes Lm 2,542,000 (Estimates^{b1}) / Lm 2,526,422 (Actual^{b2}) relating to charges on property transferred from the Church and

contribution to sinking fund in connection with ex-Church property loan. This amount was paid out of Recurrent Vote 47 – Joint Office.

A detailed breakdown of the Consolidated Fund as compared with the approved Budget and the 2000 figures is given in Financial Report 2001.

Revenue

Details of Revenue collected during 2001, classified by heads and subheads, as compared with the Estimates, are shown in the Financial Report. Explanatory comments regarding Variations of actual compared to budgeted revenue, as forwarded by Ministry of Finance, are provided for in Part 1 (pgs xiv/xv) of the Financial Report 2001.

However, this Office does not consider adequate the reason forwarded with respect to the Lm1,215,000 adverse variation in connection with revenue generated from Customs and Excise Duties. The reason forwarded reads as follows: *“Higher receipts than projected from excise duties have partly compensated for lower receipts than originally expected from import duties as detailed herein.”*

Major sources of revenue for Years 1999 – 2001 are given in the table below.

Government Ordinary Revenues by Major Sources Lm (000's)

Year	Tax Revenue						Non-Tax Revenue*
	Income Tax	Nat. Ins. Cont.	Consumption Tax	Licenses, Taxes & Fines	Customs & Excise	Total	
	Lm	Lm	Lm	Lm	Lm	Lm	
1999	128,356	144,274	85,023	67,958	55,426	481,037	147,132
2000	149,511	162,018	104,065	70,449	55,140	541,183	91,570
2001	166,302	179,065	114,668	72,813	60,885	593,733	74,888

* Non-Tax Revenue for 2001 includes such items as Central Bank of Malta profit (Lm25,902,281), Rents (Lm9,572,384), Lotteries (Lm7,065,704) and Miscellaneous Receipts (Lm 7,411,528) .

Budgeted ordinary revenue for 2001 was Lm 666,416,000 (against actual ordinary revenue of Lm 617,651,857* for 2000). Actual ordinary revenue for 2001 amounted to Lm668,620,905, an increase of Lm 50,969,048.

* The difference between the amount quoted and the actual ordinary revenue reported upon in Financial Report 2000 i.e. Lm 632,753,419 is due to Grants (Lm9,548,852) included under 'Ordinary Revenue' and Lm24,650,414 from Sale of shares/assets and Sinking Funds of converted loans included under 'Extraordinary Receipts'

Foreign Loans and Grants

Foreign grants received by Government in 2001 amounted to Lm 1,391,620. As opposed to the previous two financial years, foreign loans availed of during 2001 amounted to Lm6,823,199.

Actual revenue derived from the reimbursement of expenditure on projects financed by foreign loans and grants shows Lm 624,819 favorable variance from the 2001 approved Estimates as shown below.

Grants / Loans	Budget 2001	Actual Revenue 2001	Variation	Reason for Variation Source: Fin. Report 2001 pgxv
	Lm	Lm	Lm	
GRANTS:E.U. Second Financial Protocol	10,000	-	(10,000)	Funds under the EU-Preaccession programme for 2000 were only partly utilised during the year.
E.U. Third Financial Protocol	200,000	365,000	165,000	
E.U. Fourth Financial Protocol	680,000	570,138	(109,862)	
E.U. - N.P.A.A. / Pre-Accession Funds	4,000,000	456,482	(3,543,518)	
TOTAL	4,890,000	1,391,620	(3,498,380)	
LOANS:C.O.E. - S.D.F. (Tal-Qroqq Hospital Project)	2,700,000	6,823,199	4,123,199	Progress on the Tal-Qroqq Hospital, through which expenditure and financing is carried out, has now reached an advanced stage.

Expenditure

The appropriations for expenditure during 2001 were effected by the issue of Warrants 1 and 2 by the Minister of Finance. These were appropriated under the following Statutes:

	Lm
(i) Appropriation Act (Voted Services)	514,084,241
(ii) In terms of Special Laws	279,801,751
(iii) In terms of the Constitution	16,178,009

Analysis of Appropriations

Appropriation Act (Voted Services)

	Lm
Appropriated by Act XXIX of 2000	481,196,240
Appropriated by Act XXIX of 2001 (Second Appropriation Act)	32,888,001
	<u>514,084,241</u>

Special Laws

The following amounts were appropriated in terms of the various laws as indicated:

	Lm
a) Electoral (Franchise Method of Election, and Registration of Voters) Ordinance (Cap. 99); and the Electoral (Polling) Ordinance (Chapter 102)	510,000
b) Expenses of the Broadcasting Authority – Broadcasting Act, 1992 (Act XII of 1991)	270,000
c) Expenses of the Tribunal for the Investigation of Injustices – Act VIII of 1997	45,551
d) Expenses under Re-letting of Urban Property Ordinance (Cap. 69) and Agriculture Leases (Re-letting) (Cap. 199)	3,000
e) Land Acquisition (Public Purposes) Ordinance (Cap. 88)	53,200
f) Social Security Act, 1987 (Act X of 1987)	191,721,000
g) Pensions Ordinance (Cap. 93)	24,400,000
h) Widows' and Orphans' Pensions Act (Cap. 58)	175,000
i) Personal Injuries (Emergency Provisions) Ordinance (Cap. 111)	38,000

j) Members of Parliament (Retiring Allowances) (Act XVII of 1966), Members of Parliament Pensions Act (Act XXVI of 1979) as amended by Act VII of 1989 and XIII of 1981 (Cap. 280)	316,000
k) Expenses of the Office of the Ombudsman, Ombudsman Act, 1995	166,000
l) Expenses of the Permanent Commission Against Corruption (Act XXII of 1988)	40,000
m) Interest plus contribution to the Sinking Funds i.r.o. Local Government Stock – Registered Stock and Security Ordinance 1959 (Cap. 161)	60,248,000
n) Interest i.r.o. Foreign Loans (Development Loan Act, 1972)	86,000
o) Malta Arbitration Centre (Act II of 1996)	30,000
p) Expenses of the National Audit Office, Act XVI of 1997	* 700,000
q) Refunds under V.A.T. / C.E.T. Acts	<u>1,000,000</u>
	<u>279,801,751</u>

* The salary and allowances of the Auditor General and the Deputy Auditor General are included in these expenses. As reported upon in previous Audit Reports, these salaries and allowances should have actually been shown as permanently appropriated under Section 107 of the Constitution.

In terms of the Constitution

In terms of Section 107 (2) of the Constitution, the following amounts were appropriated in respect of:

	<i>Lm</i>
The President of Malta	17,403
The Attorney General	12,453
Judges and Magistrates	533,671
The Public Service Commission	<u>20,482</u>
	584,009
In terms of Section 106 as applied to the Public Debt	<u>15,594,000</u>
	<u>16,178,009</u>

Excess of Expenditure over Estimates

Supplementary Estimates for 2001 which amounted to Lm 32,888,001 were approved, at Sitting No 670, by the House of Representatives on 12 December 2001 Act No XXIX of 2001 (explanations for excesses are found in the said Estimates).

Other overspending on various items under different Votes resulted, which, however, was offset by savings from items within the same Department or Ministry through the normal procedure of virements in terms of Section 24 (1) of the Financial Administration and Audit Act.

Excess expenditure over original / revised estimates exceeding Lm200,000 occurred in the following instances shown in the Table hereunder.

Vote, Item	Actual2000	Revised Estimates2001	Actual2001	Variation Actual 01/ Rev Est 01
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Vote 5: Office of the Prime Minister Item 5115: Awards by the Commission for the Investigation of Injustices	-	100,000	373,039	273,039
Vote 23: Ministry of Finance Item 34: Incidental Expenses	230,128	3,000	302,292	299,292 ¹
Vote 49: Ministry of Agriculture and Fisheries Item 5106: Guidance and Guarantee Scheme: Beef	220,000	120,000	340,000	220,000
Capital III - Ministry of Education Item 7023: Malta College of (Applied) Arts, Science and Technology - Construction / adaptation / refurbishment works and equipment	416,874	450,000	699,882	249,882
Capital III - Education Item 7030: Refurbishment and maintenance of Government Schools	750,000	500,000	739,785	239,785
Capital V - Ministry for the Environment Item 7042: Sewage treatment (and reclamation) plants	363,532	90,000	521,728	431,728
Capital VIII - Ministry for Economic Services Item 7091: Contribution to Malta Shipbuilding Co Ltd. - Subvention	5,141,154	3,500,000	5,038,908	1,538,908 ¹
Item 7096: Investment Incentives - Subvention	770,000	300,000	1,197,733	897,733

Excess of Expenditure over Revised Estimates

¹ It is pertinent to note that variations reported upon in the Financial Report 2001 were similar and exceeded those reported upon in the previous year's Financial Report as follows:

	Variation Revised Estimates vs Actual Exp. 2000 Lm
Vote 23: Ministry of Finance	
Item 34: Incidental Expenses	227,128
Capital VIII: Ministry for Economic Services	
Item 20: Malta Shipbuilding Subvention	741,154

Under Utilisation of Appropriated Funds

Actual Expenditure in connection with Item 5386: National Programme for the Adoption of the Acquis was substantially less than the amount budgeted for by Lm5,414,937, as detailed opposite:

This Office contends that the variation may be either due to improper preparation of forecasted expenditure or else departments not able to undertake and accomplish the planned objectives.

Moreover, one is to note that amounts expensed in respect of N.P.A.A. are partly financed by the European Union according to agreements entered into between the respective Ministry/Department and the European Union. Prior to commencing contracting procedures and issuing payments, Ministries/Departments are to obtain prior approval of the National Authorising Officer at the Ministry of Finance.

Assets and Liabilities

Section 67 (j) of the Financial Administration and Audit Act states that the Accountant General "*shall prepare a statement of assets and liabilities of the government at the end of the financial year*".

The statement of Assets and Liabilities may be looked upon as a statement of end-of-year balances in the Treasury books which result from cash transactions in the public account during the year. However, following

Department	Budget 2001	Actual Expenditure 2001	Variation
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Vote 5: Office of the Prime Minister	260,000	145,159	(114,841)
Vote 10: Ministry for Social Policy	490,000	118,629	(371,371)
Vote 17: Ministry of Education	1,215,000	1,179,196	(35,804)
Vote 22: Culture and the Arts	25,000	-	(25,000)
Vote 23: Ministry of Finance	407,000	834	(406,166)
Vote 27: Customs	908,000	182,289	(725,711)
Vote 28: V.A.T.	978,000	86,645	(891,355)
Vote 31: Environment Protection	203,000	67,876	(135,124)
Vote 32: Ministry for Tourism	20,000	19,916	(84)
Vote 33: Ministry for Transport & Comm.	275,000	23,370	(251,630)
Vote 34: Civil Aviation	65,000	25,704	(39,296)
Vote 35: Roads	80,000	8,441	(71,559)
Vote 36: Licensing and Testing	160,000	78,067	(81,933)
Vote 37: Ministry for Economic Services	253,000	5,004	(247,996)
Vote 38: Economic Policy	410,000	163,498	(246,502)
Vote 39: Commerce	83,000	14,374	(68,626)
Vote 40: Statistics	524,000	393,965	(130,035)
Vote 41: Consumer and Competition	95,000	7,540	(87,460)
Vote 42: Ministry for Home Affairs	175,000	105,608	(69,392)
Vote 43: Police	190,000	11,286	(178,714)
Vote 45: Civil Protection	75,000	3,195	(71,805)
Vote 49: Ministry of Agric. and Fisheries	717,000	354,455	(362,545)
Vote 51: Ministry of Health	946,000	233,090	(712,910)
Vote 52: Ministry of Just. and Local Govt.	245,000	209,459	(35,541)
Vote 54: Judicial	50,000	1,608	(48,392)
Vote 55: Ministry of Foreign Affairs	37,000	31,855	(5,145)
TOTAL	8,886,000	3,471,063	(5,414,937)

this Office's remarks in previous years' audit reports, it was satisfactorily noted that 'Other Investments' were included in the statement.

Hence, not all government's assets and liabilities are included in this statement due to government's current reporting basis being cash based, as opposed to the accrual basis of accounting.

Implementation of Accrual Accounting

Sources:

Accrual Accounting Task Force 'Implementation of Accrual Accounting' – Preliminary Report – 28 May 1999

Speech (No. 1486) from Hon John Dalli, Ministry of Finance during conference discussing 'Implementation of Accrual Accounting in Government Departments' (DOI dated 12th October 2001)

Letter from Grant Thornton dated 22 November 2001

MF Circulars 14/99, 10/01 and 8/02

Government is committed to a policy of implementing modern financial methods in its management of public finance. This commitment stems from the desire to generate more meaningful financial information that will lead to a better understanding of the overall financial health of the Government, thereby providing the basis for constructive long term financial projections and planning.

Government's commitment to better financial management of public finance has resulted in the decision to implement accrual accounting in all Ministries and their respective Departments. Accrual accounting is a management tool. It aids and facilitates the financial management function. To transform Government's commitment into reality, a Task force has been established to oversee the implementation process of accrual accounting.

The introduction of accrual accounting is a major change in the way the internal financial business of Government is conducted. This reform will have a major impact on the way each Department will conduct its day to day financial administration.

Apart from the primary strategic objectives, due consideration was also granted to the tactical and operational needs of Government, as follows:

(a) Strategic Objectives

- To facilitate the implementation of professional management practices in Departments

- To identify and introduce an accounting system that adheres to the latest accounting principles and thinking
- To provide the mechanisms to ascertain an accurate and realistic position of the financial state of every Government department and the Government in general
- To provide a means of managing and disclosing the assets and liabilities of government in a transparent manner
- To facilitate the measures of financial performance of individual government departments
- To facilitate the publication of financial statements in a more meaningful manner for their users and stakeholders.

(b) Tactical and operational needs

These include having an accounting system that:

- Facilitates financial control mechanisms
- Provides accurate accounting information
- Provides a comprehensive system for the inventory of assets and their valuation and liabilities
- Provides a comprehensive itemisation of debtors and creditors, and a practical means of writing off bad or doubtful debts
- Provides for the depreciation and replacement of assets and writing off procedures
- Identifies and segregates capital and recurrent expenditure and financing as distinct from revenue
- Provides a means of equating cost inputs to value outputs
- Enables the compilation of an accurate balance sheet, surplus and deficit statement and cash flow statement for each department and a consolidation of the financial statements for the Government as a whole
- Facilitates financial and business planning and forecasting.

Each department will have its own set of accounts, and produce a Surplus/ Deficit Statement, Balance Sheet and a Cash Flow Statement according to the established Government Accounting Standards. The consolidation of the departments' financial statements within a specific Ministry would represent the total Ministry financial statements, and the consolidation of the Ministries

financial statements would represent the corporate Government financial statements.

A draft Public Finance Management Act, including new financial regulations to replace the current Financial Administration and Audit Act 1962, have been prepared. The new legislation will reflect the accrual accounting methodology.

To date, Ministry of Finance has issued the following circulars applicable to Ministries and their respective Departments to prepare them for the implementation of Accrual Accounting:

MF Circular No 14/99 and MF letter dated 17th July 2000 – Revised Inventory Control Regulations

To ensure that inventory records containing Tangible Fixed Assets are updated with complete, accurate and timely information. To standardise the contents of the inventory database and facilitate consolidation of government assets, each tangible fixed asset is to be allocated an Asset Identification Number.

MF Circular No 10/01 – Procedures for the control of Debtors and Creditors

To implement procedures for the proper management and control of debtors and creditors. The active management of debtors and creditors should enable Government to maximise the collection of revenue due in the shortest time possible and optimise its payments within acceptable timeframes.

MF Circular No 8/02 – Procedures for the Management of Cash

To provide a practical guide regarding cash management concerns. Efficient cash management allows Government to secure the maximum benefit from its flow of cash funds. The fundamental objective of cash management is having enough cash available as and when required. It aids to minimise the cost of financing Government expenditure, in particular investment projects, thus achieving the best overall return.

A series of information seminars on Accrual Accounting have been delivered to all General Service Government employees (over 2000 attendees) as part of the change management process. These were conducted in April/ May 2001. Other information seminars are conducted periodically to intensify the change management process.

Adequate training is being provided to ensure that the Accounting Officers assigned to the departments are trained in accounting techniques

and be in a position to comply with the above Circulars, related regulations and Malta Government Accounting Standards (MGAS). MGAS have been compiled on the basis of existing International Public Sector Accounting Standards (IPSAS), exposure drafts of IPSAS and on research material released by the Public Sector Committee of the International Federation of Accountants (IFAC) in order to reflect the current thinking about public sector accounting issues.

Over 450 government employees, actually working in or who are scheduled to be involved in the accounting function, are attending this course. The accrual accounting training course consists of 63 weekly half-day sessions, at 'A' level accounting standard. There are two development programmes being pursued, the first is aimed at achieving short-term basic accounting competencies and the other aimed at achieving long term professional accounting development.

Trial financial statements under accrual accounting rules are to be compiled for the period ending 31 December 2002 using the data from the Departmental Accounting System (DAS) and other information generated by Circular 14/99 (Asset Management) and MF 10/2001 (Debtors/Creditors Management). These financial statements are scheduled to be compiled by the middle of year 2003. MITTS have been requested to carry out the necessary amendments to DAS to enable this to be achieved.

In support of the above initiative, a tender has been awarded for the provision of professional assistance to Government Departments. This will permit the Departments to build the necessary competencies and experience in the compilation of accrual accounting financial statements and highlight areas of concern. This professional assistance is being provided to three Ministries that have been selected as pilot financial areas, namely: Ministry of Foreign Affairs, Ministry of Home Affairs and Ministry of Tourism.

It is planned that all the work connected with the implementation of accrual accounting will be completed by December 2004 so that the accrual accounting methodology in Government may be effective as from January 2005.

Assets

The Statement of Assets, as shown in Appendix I of the Financial Report 2001, is reproduced overleaf:

Statement of Assets

	2001		2000	
	<i>Lm (000's)</i>		<i>Lm (000's)</i>	
Public Credit				
Share Holding	155,349		224,162	
Other Investments	67,668		-	¹
Loans	186,627	409,644	185,202	409,364
Investments held on behalf of				
Sinking Fund (Local)	59,692 ²		83,266	
Sinking Fund (Foreign)	10,645		11,401	
Trust Funds	283		258	
Court and Other Deposits	194	70,814	190	95,115
Advances				
Unallocated Stores	1,566		1,580	
Advances	120,151		106,622	
Loans	-	121,717	-	108,202
Bank and Cash				
Banks	242		339	
Cash at Treasury	-		-	
C.B.M. - Public Account	7,085	7,327	17,881	18,220
Total Assets		609,502		630,901

1. For comparative purposes, 'Other Investments' as at 31 December 2000 amounted to Lm67,668,314.

2. The following are Investments held on behalf of Sinking Funds (Local):

	Lm
Central Bank of Malta Deposit accounts	32,795,712
Treasury Bills	96,374
Malta Government Stocks	6,938,500
13049654 Ordinary Shares of 25c – Maltacom plc	<u>19,861,573</u>
	<u>59,692,159</u>

It is to be noted that Malta Government Stocks are not valued at Market Value but at their Nominal Value. The figure of Lm6.9 million is made up of as follows:

	<i>Lm</i>	<i>Lm</i>
Opening Balance		
6.1% MGS 2015 I	9,395,300	
5.9% MGS 2009 III	<u>172,200</u>	9,567,500
August 16 Purchase		
7.25% MGS 2005	2,130,000	
7.35% MGS 2007	1,084,000	
7.2% MGS 2008 II	<u>2,157,000</u>	5,371,000
September 13 Sale		
7.25% MGS 2005	(2,000,000)	
7.35% MGS 2007	(1,000,000)	
7.2% MGS 2008 II	<u>(2,000,000)</u>	(5,000,000)
October 3 Purchase		
7.2% MGS 2008 I	2,200,000	
7.2% MGS 2008 II	<u>730,000</u>	2,930,000
November 27 Sale		
6.1% MGS 2015 I	(3,000,000)	
7.2% MGS 2008 I	(2,200,000)	
7.2% MGS 2008 II	<u>(730,000)</u>	(5,930,000)
Closing Balance		<u>6,938,500</u>

Shareholding

Shareholding is being discussed under Investments on page 68.

Loans made by Government and Repayments thereof

Loans

Balances and other details of all loans issued by government as on 31 December 2001, are summarised as follows:

	<i>Lm</i>
I. Loans under Act II of 1956	9,917
II. Loans under Act XI of 1988 (Ex-Posterity Fund Loans)	17,356,000
III. Other Loans	<u>169,260,935</u>
	<u>186,626,852</u>

Loans at (II) were transferred to government on the winding up of the Posterity Fund in accordance with the provisions of the Central Bank of Malta Act, 1967 as amended by Act No. XI of 1988. The Fund was wound up on 31 May 1988. No transactions were effected during the year ending 31 December 2001, thus resulting in an unchanged closing balance over the previous years, as shown hereunder:

	<i>Lm</i>
Malta Drydocks Corporation	7,056,000
Malta Shipbuilding Company Ltd.	10,300,000

Other Loans at (III) include the following:

	<i>Lm</i>
Housing Scheme	64,003
Aids to Industries Scheme	1,596
MGI – (i) MDC – Investment in Industry	5,713,570
(ii) Malta Shipbuilding Co. Ltd.	111,054,879
Malta Drydocks Corporation	1,039,711
Malta Drydocks Corporation	24,600,000
Gozo Ferries Ltd.	20,848,522
Water Services Corporation	4,000,000
Malta Drydocks Corporation 1999	1,890,382

New Loans issued by government during 2001 amounted to Lm10,984,120. These loans were made to Gozo Ferries Ltd (Lm4,792,813), Malta Shipbuilding Co. Ltd (Lm6,167,118) and Kalaxlokk Co Ltd (Lm 24,189).

However, treasury records were not adjusted to reflect Lm217,414 loans advanced to Malta Win Cargo Containers Ltd. This was due to the fact that treasury was not informed on time to be able to account for all changes in the Financial Report 2001 since MGI forwarded the statement of loans advanced by Government on 5th June 2002.

Loan Repayments

Loan Repayments during the year under review amounted to Lm2,872,665.

- An amount of Lm1,372,665 was repaid by Gozo Ferries Ltd. on behalf of Malta Shipbuilding Co Ltd. in respect of the 3 percent loan (Lm1,322,665) and 8 percent loan (Lm50,000) made by government to the latter. This amount represented refunds of wages owed by Gozo Ferries Ltd. to Malta Shipbuilding Co Ltd. in respect of work made by Malta Shipbuilding employees on Gozo Ferries.
- The Lm1,000,000 held as security for banking facilities in favour of Malpro Ltd. was replaced by Malta Government Guarantee issued from Ministry of Finance on 23 January 2001. The Letter of Guarantee states that the maximum liability of government shall not exceed Lm1 million together with any accrued interest and bank charges thereon.
- This Office contends that the Lm500,000 repayment of Water Services Corporation loan should have featured in the statement ending 31 December 2002. This is because Ministry of Finance authorised, on 24 January 2002, that Malta Drydocks Corporation water consumption bills be partly settled by directly offsetting with an equivalent amount the loan due of Water Services Corporation to Government.

Observations

The same Observations as reported upon by this Office, in Audit Reports for Financial Years 1999 and 2000, are reproduced hereunder since previous years' non-compliance to relevant General Financial Regulations, 1966 was again noted and no terms for repayment of loans were negotiated. Thus,

- No terms for repayments were indicated in the Treasury Books in the case of certain loans to Industries made through the Malta Development Corporation.

- In December 1990, The Secretary, Ministry of Finance stated that it was not considered opportune at the time to stipulate terms of repayment. However, the Secretary also contended that action was to be taken through MIMCOL for the eventual collection of these loans. To date, this Office is still not in a position to report any progress regarding this issue.
- This Office again recommends that Ministry of Finance should consider examining those loans not covered by terms and conditions and negotiate an agreement on modalities. However, loans due by companies struck off the Register are to be written off following Ministry of Finance's approval.

The table opposite provides further details as to loans advanced to companies not covered by an agreement stipulating terms and conditions of repayment.

Outstanding Loan Repayments

Outstanding loan repayments and interest stood at Lm58,583,615 (of which Lm45,759,293 are outstanding interest payments) as on 31 December 2001. A breakdown of this figure is shown hereunder:

Outstanding Loan Repayments and Interest

Beneficiaries	Loan	Interest	Total
	Lm	Lm	Lm
Hotels	6,672	3,368	10,040
Industries	2,517,650	40,645,731	43,163,381
Malta Drydocks Corp.	-	859,194	859,194
Ex-Posterity Fund	10,300,000	4,251,000	14,551,000

To date, no reply was received by Treasury requesting M.G.I. to verify whether loans advanced to Bahhar u Sewwi and Malta Win Cargo Containers Ltd. are covered by agreements stipulating repayment terms and conditions for each loan. If agreements were entered into, then these loans are to feature in the Statement of Arrears due by Ministry for Economic Services and hence added with the above-quoted figures in relation to 'Industries'. Loans outstanding as at 31 December 2001 amounted to Lm38,810 and Lm911,251 respectively.

Company Name	Loans Advanced as at 31 Dec 2001 Lm	Interests Due as at 31 Dec 2001 Lm	Total Lm
Air Supplies & Catering Co. Ltd.	605	73,221	73,826
Quality Shoes Ltd. (C)	54,474 45,775	Interest Free 10,987	54,474 56,762
Libma International Construction Ltd.	39,530	Interest Free	39,530
Hannibal Civil and Mechanical Eng. Co. Ltd. (L)	36,695	Interest Free	36,695
Gozo Agricultural Products	167,500	Interest Free	167,500
Mediterranean Coral Fishing Co. Ltd. (L)	40,000	Interest Free	40,000
Miki Ltd.	50,000	51,127	101,127
Artcane Ltd. (L)	3,000	Interest Free	3,000
Handtools Ltd. (TC)	210,612	Interest Free	210,612
Lapsi Quarry Ltd.	40,000	12,896	52,896
Malta Decorative Glass Co. Ltd. (L)	(Loan Z) 77,386	Interest Free	77,386
Melita Knitwear Ltd. (C)	(Loan C) 77,803 (Loan E) 50,000 (Purchase of Plant & Equip) 59,727 (Loan trf from MDC Bonus) 3,380	140,847 Interest Free Interest Free 1,449	218,650 50,000 59,727 4,829
Craft Glass Co. Ltd.	3,000	Interest Free	3,000
Malta Spinning & Weaving Co. Ltd.	(Loan W) 378,926	Interest Free	378,926
Marsa Water Fittings -trf from MDC Bonus	1,650	708	2,358
Malta Drydocks Corp. 1999 Loan	1,890,382	Interest Free	1,890,382
Gozo Ferries Ltd. *	20,848,522	Interest Free	20,848,522
Water Services Corporation	4,000,000	Interest Free	4,000,000
Malta Shipbuilding Co. Ltd. 3% Loan 8% Loan	85,756,642 25,298,238	20,311,014 18,643,953	106,067,656 43,942,191
Aids to Industries	1,596	Interest Free	1,596
TOTAL	139,135,443	39,246,202	178,381,645

* In a letter dated 8th March 1999, Ministry of Finance informed Treasury that *“This Ministry is in the process of drafting a loan agreement (when the proper amounts are known) to be entered into between Government and the Company”*. However, no developments have to date been reported.

The adjustment of Lm6,377,512 in respect of MGI-MDC- Investment in Industry relates to the writing off of loan due from Kalaxlokk Co Ltd.

C – Company ceased operations

L – Company undergoing liquidation procedures

TC – Company awaiting tax clearance before it can be struck off.

During Financial Year 2002, Permanent Secretary, Ministry of Finance approved the writing off of the following loans:

- Loan due from Gozo Agricultural Products
- Loan and interests due from Miki Ltd.

Treasury books for the Financial Year 2002 have been adjusted accordingly.

Investments

The estimated market value of investments as shown in the Financial Report as at 31 December 2001 was Lm226,162,430 as against Lm319,277,696 as at 31 December 2000 i.e. a decrease of Lm93,115,266.

These investments are as listed below:

	<i>Lm</i>
Share Holding	155,348,965
Court and Other Deposits	180,339
Custodian of Enemy Property	13,177
Sinking Funds	70,336,879
Trust Funds	283,070

The major changes in investments during 2001, which explain the net decrease in the market value, were the following:

- Investment of 47,736,634 shares in Maltacom plc reduced drastically by Lm50,934,988 over the year as a result of the market value per share decreasing by Lm1.067. In addition, the value of 13,049,654 shares in Maltacom plc invested by the Sinking Funds reduced by Lm13,923,981.
- Investment in Bank of Valletta Ltd. depreciated by Lm15,850,701. Shares were valued at Lm1.596 per share less compared to the previous year. Thus, 2,265,517 Ordinary 'A' shares depreciated by Lm3,615,765, while 7,666,000 Ordinary 'B' shares went down by Lm12,234,936.
- Following the sale of 652,847 shares during 2001 (valued at Lm1,488,491), government investment in Middle Sea Insurance stood

at 1,972,153 shares as at end of year. The market value per share amounted to Lm2.098 as at 31 December 2001 compared to Lm3.812 as at end of previous year, resulting in Lm4,380,432 depreciation over the year.

- Investment held in VAT Fiscal Registers Co Ltd. of Lm20,000 was written off Treasury books following notice in Government Gazette of striking off of company from Registry of Companies, on 27th March 2001, and approval from Ministry of Finance.

As regards Investments of the Sinking Funds (Foreign Loans), it was noted that as at end of financial year, sinking funds of Italian Loans 1986 and 1991 were still denominated in Italian Lira. Thus, Treasury Books were not adjusted to comply with Central Bank of Malta instructions (letter dated 13th July 2001) instructing Treasury that *“The CBM will convert the sinking funds presently denominated in national currencies into EURO. The conversion process must be completed by 30th September 2001. The balances will be converted using the fixed rates established by the European Central Bank.”* Thus, it resulted that funds were erroneously converted from Italian Lira to Maltese Lira instead of from Euro.

Other Investments

This Office satisfactorily noted the inclusion of ‘Other Investments’ in the Statement of Assets and Liabilities. At the end of 2001, the total of these investments amounted to Lm67,668,364 as against Lm67,664,314 on 31 December 2000, an increase of Lm50 over the previous year. This is due to Lm50 investment (250 shares of Lm1 each - 20 percent paid up) in Malpro Ltd., originally held by government and subsequently transferred to Malta Government Investments Ltd., as per agreement dated May 1997 and Ministry of Finance approval.

Investments in Industry comprises government shareholding in eighty seven (87) different companies according to Treasury Books. Some of these are entirely financed by government while others are joint ventures with the private sector.

One is to note that out of Lm3,881,000 funds allocated by government to Malta Government Investments Ltd. for further investments during 2001, Lm 662,056 (i.e.17.1 percent) were used to advance loans to subsidiaries for ‘Payment of Creditors’. According to MGI Schedule of Loans advanced, provision for doubtful debts of Lm521,734 was created in connection with these loans advanced.

Company name	Loan advanced during 2001	Provision for 2001
	Lm	Lm
Kalaxlokk Co Ltd.	14,803.00	14,803.00
Konkos Ltd.	30,306.81	30,306.81
LIMSUK	155,952.58	155,952.58
Interprint	320,672.01	320,672.01
Fort Chambray	81,470.22	-
National Orchestra	4,500.00	-
Malta Air Traffic Services	10,000.00	-
Malta Film Commission	44,350.97	-

New Investments made during 2001

The following is a breakdown of additional investments recorded in Treasury Books for the year ended 31 December 2001:

Company	Additional Investment	Details
Eutelsat	EURO 991,310	991,310 shares valued at 1 Euro per share.
Viset Malta plc	Lm 1,200,000	1,200,000 cumulative, redeemable, participating preference shares on Lm1 each, at par, redeemable on 13th November 2016.
Malta Government Privatisation plc	Lm 250,000	250,000 shares of Lm1 each fully paid up.
Malta Freeport Corporation Ltd.	USD 1,976,126	1,976,126 shares of 1USD each fully paid up. In letter dated 5th November 2001, the Accountant General was informed that following the transfer of liabilities from Freeport Terminal (Malta) plc to Malta Freeport Corporation in 1999, the 30-year USD 250 million Bonds were showing a huge unrealised loss because of exchange difference. To eliminate this unrealised loss from the annual financial statements, the Board of Directors decided to change the report currency from Maltese Lira to US Dollars.
Malta Investment Management Co. Ltd.	Lm 350,000	350,000 ordinary shares of Lm1 each invested on 17th July 1990. Following the first meeting of the Government Securities Board, held on 31st July 2001, it was agreed to adjust Treasury records to include this investment featuring in MGI list of investments.
Mediterranean Offshore Bunkering Services Co. Ltd.	Lm4,000,000	On 5th February 2002, an agreement was entered into to purchase 1,680,000 Ordinary 'A' shares and 107,235 Ordinary 'B' shares of Lm1 each nominal value. Thus, this investment should have been reported for the year 2002.

Investments through MGI

In 1988, the bulk of the investments made over the years through the Malta Development Corporation (MDC) were transferred to Malta Government Investments Limited (MGI). A return submitted by the company to the Accountant General showed that the total investment in seventy nine (79) companies amounted to Lm32,343,514 as at 31 December 2001.

However, it was estimated that the net book value of these companies only amounted to Lm11,662,343, after a provisional loss of Lm20,681,171 carried forward. Further details are provided hereunder:

Investment Type	No of Companies	Cost	Provision	Net Book Value
		<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Subsidiary Companies	44	30,595,366	19,041,448	11,553,918
Associated Companies	15	1,650,616	1,544,620	105,996
Other Companies	20	97,532	95,103	2,429

The return also pointed out that thirty two (32) of these companies were undergoing liquidation procedures, six (6) have ceased operations, ten (10) are just awaiting tax clearance before they can be struck off and three (3) never commenced operations.

Inspection of Securities / Investments

Board of Securities

Section 42 of the Financial Administration and Audit Act, 1962 provides *inter alia* the purposes of setting up the Government Securities Board. The Board is:

- a) to have custody of such securities on behalf of the Government of Malta; and
- b) to facilitate the sale, conversion, exchange or other disposition of such securities.

The Board was set up for a period of 3 years with effect from 1 September 2000. Its records and seat of meetings are at the Treasury.

The List of Securities as at 31 December 2001 was inspected, on 20th August 2002, against original certificates of holdings and related documents. No discrepancies were reported.

Board of Survey

A Board of Survey was appointed in terms of Section 98 of the General Financial Regulations, 1966 in order to take account of moneys, deposits and other valuables at the Treasury as at 31 December 2001.

The Board of Survey report was received by this Office on the 5 December 2002, past the deadline for possible inclusion within this publication. A reminder had been sent to the Board of Survey on the 19 July 2002 by the Director (Resourcing) at OPM.

Unallocated Stores

The total book value of the unallocated stores stood at Lm1,565,781. These were held by:

- Ministry for the Environment

Petrol	Lm103,269
Diesel	Lm384,956
Precast Concrete	<u>Lm260,610</u>
	<u>Lm748,835</u>

- Department of Information (Government Property Press) – Lm212,016, and

- Contracts Department

Central Supplies	Lm604,246
Equipment from USA	<u>Lm 683</u>
	<u>Lm604,929</u>

Since these stores form part of Government Assets, they are also included in the Statement of Assets and Liabilities. It is to be noted that repayments in respect of Information (GPP) is the net amount of the Debit and Credit figures featuring in the Financial Statements – Statement of the Treasury Clearance Fund for 2001. Initially, the repayment amounted to Lm34,323. However, due to lack of funds the amount repaid had to be adjusted downwards by Lm19,945.

As reported upon in 1999 and 2000 Auditor General's Reports, a Board of Survey was appointed on 26th June 2000 with specific terms of reference.

On 14th June 2001, the Office received a report from this Board. Details of the report are reproduced hereunder:

	Lm	Action taken / Being taken
<i>Ex-CSS Stores</i> Original Discrepancy Credited to Advance Balance yet to be credited	705,209 <u>540,000</u> <u>165,209</u>	Writing off of the amount of Lm705,209 will be made when balance of Lm165,209 will be finally credited to the Advance, possibly from funds remaining unutilised by 31/12/01 under the Treasury/Contracts Department Votes.
<i>Asbestos pipes/fittings for Drainage Section</i> Pipes Fittings	70,663.37,5 <u>35,193.35,5</u> <u>105,856.73</u>	Awaiting nomination from Health Division of an expert to assist the present Board of Survey in the disposal of these stores. Writing off will be proceeded with after disposal.
<i>Outstanding Dues ex-CSS Stores</i> WSC Xandir Malta/Concrete Products/Kalaxlokk Const. Works Department	316,148 9,686 <u>1,929</u> <u>327,763</u>	Balance of Lm327,763 paid back to the Advance. No further action required.
<i>Ex-Government Printing Press</i> Stores Sundry Debtors	48,299 <u>178,212</u> <u>226,511</u>	(a)With regard to stores, GPP is communicating with DG (Educ) to release a circular in all State Schools for a request for a free allocation of those stores. Any balance left undistributed by 30/9/2001 will be authorised for disposal. Writing off will be seen to after that. (b)With regard to Sundry Debtors these are being credited piecemeal by 31/12/01 from Sundry Votes.
<i>Public Works</i> Diesel Petrol Lubricants Precast	384,956.20 118,627.15 <u>140.45</u> 503,723.80 <u>267,260.30</u> <u>770,984.10</u>	To credit back to the Advance from funds left unutilised by 31/12/01 under (a)'Transport Vote' at Ministry for the Environment (b) all transport 'line items' within all Recurrent Votes (c) Capital Votes Writing off will be seen to after 31/12/01.

Advances

Accounting of Advances

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

In M.F. Circular No. 9/92, the Minister of Finance directed that *“in the case of Advance Warrants, the amounts advanced by the Treasury may not always be repaid by the end of the financial year in which the warrants are issued. However, the accounts have to be closed according to the repayment schedule stipulated in the warrants”*.

Appendix L of the Financial Report incorporates a detailed statement of balances remaining outstanding as on 31 December 2001, in respect of advances made to various Government Departments, agencies and organisations as well as to Government delegations proceeding abroad.

Pending advances totalled Lm120,151,188 as on 31 December 2001, as against Lm106,621,458 outstanding on 31 December 2000.

The main outstanding advances were the following:

Description	Lm
Malta Development Corporation on 24 July, 1984 for the purchase of Verdala Hotel	793,644
Permanent Secretary, Ministry of Finance to provide bridging finance facilities to Malta Drydocks Corporation during 1996.	4,650,583
Director of Industry to meet expenditure in connection with the construction of ships at Malta Shipbuilding in 1991	9,291,722
Ministry of Finance to the Bank of Valletta Employees Foundation for the purchase by the Foundation of 1,385,406 ordinary shares in Bank of Valletta Ltd. in 1995	1,558,582
Ministry of Finance to provide the Malta Drydocks Corporation with the necessary funds for the settling of the Social Security Contributions due by the Corporation during 1995 as employer and in respect of employees, and also to provide bridging finance facilities to M.D.C. during 1995	1,990,245
Four (4) advances made to Permanent Secretary, Office of the Prime Minister to provide bridging finance facilities to Malta Drydocks Corporation during 1997	15,402,775

Two (2) advances made to Permanent Secretary, Ministry of Finance and Commerce to enable him to support the operational cost of Enemalta Corporation during 1997	5,590,000
Commissioner of Inland Revenue to meet loans in terms of Section 4 of the Monte Di Pieta' Act (No. XXXIX) of 1976	598,566
Permanent Secretary, Ministry of Industry to effect payments required by the Malta Development Corporation for the construction of a new factory intended for Brandt International in 1991	3,200,000
Permanent Secretary, Ministry of Finance and Commerce to be utilised as a loan facility by the Maltacom Employee Foundation i.c.w. the purchase of ordinary shares in Maltacom plc in 1998	2,461,845
Permanent Secretary, Office of the Prime Minister to provide bridging finance facilities to Malta Drydocks Corporation during 1998	11,428,404
Permanent Secretary, Ministry for Economic Services to provide bridging finance facilities to Malta Drydocks Corporation during 1999	7,999,646
Permanent Secretary, Ministry for Economic Services for the purpose of settling during 1999 and further servicing costs of Malta Freeport loans	15,626,163
Accountant General for the purchase of Middle Sea Insurance shares from HSBC Malta plc in 1999	4,499,135
Accountant General for the purchase of Maltapost shares from HSBC Malta plc in 1999	337,500
Accountant General for the purchase of Medigrain shares from HSBC Malta plc in 1999	865,008
Three (3) advances made to Permanent Services, Ministry for Economic Services to provide bridging finance facilities to Malta Drydocks Corporation during 2000	11,000,000
Two (2) advances made to Permanent Secretary, Ministry for Economic services to provide bridging finance facilities to Malta Drydocks Corporation during 2001	12,873,563
Permanent Secretary, Ministry of Foreign Affairs to acquire premises by Government of Malta to serve as new Chancery in Canberra, Australia	133,941

Permanent Secretary, Ministry of Finance to meet expenditure in connection with the privatisation process of the Department of Public Lotto	179,996
Permanent Secretary, Ministry of Finance for the purchase of 75,000 Maltacom plc shares in Maltapost plc	150,000
Permanent Secretary, Ministry of Finance for the purchase of Enemalta Corporation shares in Mediterranean Offshore Bunkering Co. Ltd	4,000,000
Permanent Secretary, Ministry of Finance to finance works being carried out at the Garrison Church in Valletta to be used as new premises of Malta Stock Exchange	1,000,000
Permanent Secretary, Ministry for Economic Services to meet expenditure in connection with the privatisation process of the Malta Freeport operations	772,500
Permanent Secretary, Ministry for Economic Services, for the purpose of settling Malta Freeport equipment claims	4,500,000

Observations

The following advances from those listed above should have already been repaid to Treasury Clearance Fund:

Construction of Ships at Malta Shipbuilding Co. Ltd. – Lm9,291,722: several advances were made for this purpose, the first one in 1991. The Director of Industry was to repay these advances when the Russian customer paid his dues or else when the ships were sold to third parties. However, when these ships were sold the proceeds were used to repay part of the Bank overdraft facilities granted to Malta Shipbuilding Co. Ltd. for the construction of the Russian vessels.

Enemalta Corporation 1997 – Lm5,590,000: this advance was to be repaid by Enemalta Corporation over a period of 2 years starting on 1 January 1998. Funds advanced through the warrant issued to purchase Enemalta Corporation's shares in Mediterranean Offshore Bunkering Co. Ltd., amounting to Lm4,000,000 were utilised to repay part of the advance.

Purchase of Verdala Hotel – Lm793,644: this advance was made to the Malta Development Corporation on 24 July 1984 for the purchase of Verdala Hotel. It had to be repaid from funds received from the sale of the Hotel. In March 1997, the hotel was sold for Lm2.75 million. MDC informed Ministry of Finance that the advance will be repaid when all the proceeds on sale are received.

Although specific repayment terms were not established for the following Advance Warrants, it is pertinent to note that:

- **Loans in terms of the Monte di Pieta' Act 1976 – Lm598,566:** In letter dated 6th January 2001, Ministry of Finance informed the department that *“The nature of Advance Warrants is not to remain opened perenially. As far as the ‘social’ element of the service is concerned, one needs to carry out a simple exercise to check whether, in the majority of cases, the same persons may be repeatedly availing themselves of this service and whether the persons making use of this service hail from some particular locality on the Island.your Department and this Ministry may come up with concrete proposals addressing the above and other issues concerning the Monte di Pieta’ system in its totality.”*
- **Malta Drydocks Corporation (1998 and 1999) – Lm19,428,050:** The Advance Warrants stated that *“The amounts so advanced shall be accounted for and repaid out of proceeds receivable by the Malta Drydocks Corporation from various debtors and pledged in favour of Government, from other monies due to Malta Drydocks Corporation and according to the terms of any agreement that may be reached between Government and Malta Drydocks.”*
- **Malta Drydocks Corporation 2001 – Lm12,873,563:** In letter dated 1st February 2001, Ministry of Finance informed the Accountant General that *“.....as negotiations are still in progress with regard to a new agreement for Malta Drydocks it may be premature to attach terms and conditions to the advance in question as from now.”*
- **Construction of new factory – Brandt International – Lm3,200,000:** The Advance Warrant instructed that *“The amount so advanced shall be accounted for and repaid out of Government’s annual budgetary allocation towards the Corporation’s Constuction of Factories programme (minimum Lm1 million annually) within five years commencing in the year 2000.”*
- **Refurbishment of Malta Stock Exchange Premises – Lm1,000,000:** Further to the Warrant terms, Ministry of Finance instructed that *“While no further withdrawal of funds shall be made after 30 June 2001, all capital shall be repaid by the M.S.E. by not later than 30 June 2006. Interests shall commence accruing with effect from 1 July 2001 at 5 percent pa on the amounts outstanding as at 30 June of each year (first*

year beginning 30 June 2001), with the first payment of interests being 30 June 2002.”

Audit Comments

Although it is primarily the responsibility of the Head of Department to timely account for these warrants, the Treasury, in conjunction with the Ministry of Finance, should monitor these advance warrants to ensure that the Financial Regulations and the directives issued by the Minister of Finance are followed.

The Permanent Secretary, Ministry of Finance, stated that several outstanding advances which cannot be repaid as laid down in the warrants (including a number which were indicated in our report) will start being repaid out of the Consolidated Fund monies provided under the related Votes. It is to be noted that this will entail additional expenditure to Government.

Bank – C.B.M. Public Account

Monies held in trust, received or paid by the Government of Malta as at 31 December 2001, amounted to Lm7,085,177, as accounted for in Treasury Books. However, the Central Bank of Malta statement of the Public Account ended with a closing balance of Lm16,048,465 as on the same date.

Although the discrepancy of Lm8,963,288 has still to date not been explained, considerable progress has been made to reconcile the balances, as explained further hereunder.

Developments

In ‘The Statement by the Accountant General’ – Financial Report 2001 Part I, the Accountant General stated that: *“The exercise got underway as planned and some operational shortcomings (Bank & Treasury) were identified and rectified. During the year under review the major and time consuming obstacle encountered involved data transmission and transaction identification. These have been ironed out and this long outstanding shortcoming will be addressed during the current year. An initiative which will contribute to the reconciliation exercise is the ‘Direct Credit’ system. This will substantially reduce the number of ‘unpresented cheques’.”*

Related cost effective measures implemented included:

- *“The elimination of the fortnightly wages and the incorporation of the beneficiaries on the normal Salaries payroll*
- *the introduction – presently on a voluntary basis – of payment by ‘direct credit’ instead of using cheques.”*

The Bank Reconciliation System went ‘live’ on the 14th October 2002, taking the opening balance of the Public Account as shown by the Central Bank of Malta. However, this Office is of the opinion that the Bank Reconciliation Statement for January 2002 should start with the opening balance as per Treasury Cash Book and account for the difference in balances as an ‘unreconciled amount’ held under ‘suspence’.

The Bank Reconciliation System commenced following the finalisation of the System Testing by MITTS and the User Acceptance Testing by Treasury. The latter testing was carried out on one day’s data for the month of January 2002. Prior to going ‘live’, Treasury performed a trial reconciliation exercise for the same month. At the same time, users were exposed to simulation exercises in order to get the necessary training.

However, Treasury also remarked that before reaching the first stage for the execution of the automated reconciliation process (First Cut), there is a great amount of clerical work to be done. Up to the writing of this report, Treasury is still in the stage of inputting manually Cash Book data in respect of January 2002. Thus, unless the staff compliment of the Cash Office is strengthened, Treasury might not be able to support such a system in the longer term.

In addition, in MITTS’ Progress Report (May 2002), Treasury was informed that *“.....to render the process more secure and complete, MITTS has recommended the development and implementation of fully automated remote-data-upload-security software to identify and reject any polluted data, any data corruption or any data inconsistencies in a ‘quasi’ real time mode. This verification process will be triggered automatically as soon as the CBM, Stock Exchange, or any other external entity, remotely upload the data on the Bank Reconciliation Server. All parties will be notified electronically via e-mail of the status of each upload.”* This software will also reduce the time required to import data from the Central Bank of Malta files.

Liabilities

The Statement of Liabilities, as featured in Appendix I of the Financial Report 2001, is reproduced hereunder:

	2001		2000	
	Lm(000's)		Lm(000's)	
Public Debt	853,347		752,081	
Treasury Bills	156,125		169,009	
Deposits				
Court and other deposits	20,255		35,386	
Other	<u>29</u>	20,284	<u>28</u>	35,414
Funds				
Sinking Funds	70,337		94,667	
Public Lotto	355		476	
Contingencies Fund	500		500	
Trust Funds	<u>289</u>	71,481	<u>266</u>	95,909
Accumulated Fund				
Cons. Fund at year end	(48,032)		(78,795)	
Net Public (Debt)/Credit	<u>(443,703)</u>	(491,735)	<u>(342,717)</u>	(421,512)
TOTAL LIABILITIES	<u>609,502</u>		<u>630,901</u>	

Public Debt

On 31 December 2001, the Public Debt (inclusive of Treasury Bills outstanding at year end) amounted to Lm1,009,472,356. This amount represents an increase of Lm88,382,358 over the corresponding reported figure of 2000.

This increase works out as follows:

	Lm
Total of New Loans	630,575,887
Total Repayment of Loans	(542,069,711)
Currency Adjustments	<u>(123,818)</u>
Net increase of the Public Debt	<u>88,382,358</u>

The following payments in connection with the Public Debt were made out of the Consolidated Fund (Vote 56 – Public Debt Servicing and Vote 47 – Joint Office).

Payments from Consolidated Fund

		Vote 56 Public Debt Servicing	Vote 47 Joint Office	Total
		Lm	Lm	Lm
(i)	Interest on Loans	50,288,236	2,023,422	52,311,658
(ii)	Interest on Short-term borrowing (Treasury Bills)	8,371,664	-	8,371,664
(iii)	Contribution to Sinking Funds	11,730,040	503,000	12,233,040
(iv)	Loan repayment 'Sumitomo Bank'	1,014,623	-	1,014,623
		71,404,563	2,526,422	73,930,985

The amount of Lm1,014,623 in respect of Sumitomo Bank Ltd. shown as '*loan repayment*' was made directly from recurrent expenditure.

The following payments were made out of the Sinking Funds:

Payments from Sinking Funds

	<i>Lm</i>
(i) Payment of Local Loans	21,976,542
(ii) Payment of Foreign Loans	4,558,383
(iii) Loss on currency adjustments (Foreign Loans)	34,531
(iv) Revaluation of Sinking Funds Investments	<u>14,273,568</u>
	<u>40,843,024</u>

Adjustments in Treasury Books

European Union Loan G – Treasury Books were adjusted with Lm101,048, correcting the error reported in the Auditor General's Report 2000.

European Union Loan F – This Office has still to date not been forwarded with the explanation necessitating the adjustment, during the Financial Year 2000, of Euros 2000. The Opening Balance was not adjusted accordingly. In addition, the Currency Adjustment and amount Repaid as

reported in the Financial Report 2001 do not tally with figures in Treasury Books. Whereas the Currency Adjustment reads Lm831 less, the amount repaid is Lm831 in excess. This Office contends that the amounts reported in the Financial Report should have been the same as per Excel sheets since these were checked and found correct.

Public Debt since 1983

The table hereunder presents the Public Debt (Local Loans, inclusive of Treasury Bills balances at end of year, and Foreign Loans), total Gross Domestic Product, and change of Public Debt over preceding year for the period 1985 to 2001.

Year	Local Loans (i)(ii)	Foreign Loans	Total	G.D.P. (iii)	Total Debt/GDP	Total Debt Change over preceding year
	Lm 000's	Lm 000's	Lm 000's	Lm 000's	%	Lm 000's
1985	27,463	42,524	69,987	475,982	14.70	(-) 2,784
1986	27,463	35,439	62,902	511,869	12.29	(-) 7,085
1987	56,739	29,842	86,581	549,171	15.77	(+) 23,679
1988	82,306	28,137	110,443	606,451	18.21	(+) 23,862
1989	92,454	26,889	119,343	670,139	17.81	(+) 8,900
1990	136,530	37,495	174,025	734,745	23.69	(+) 54,682
1991	166,928	44,707	211,635	806,875	26.23	(+) 37,610
1992	197,423	48,398	245,821	874,750	28.10	(+) 34,186
1993	254,290	50,480	304,770	940,034	32.42	(+) 58,949
1994	283,013	56,264	339,277	1,028,534	32.99	(+) 34,507
1995	355,820	53,433	409,253	1,145,524	35.73	(+) 69,976
1996	462,738	51,789	514,527	1,201,286	42.83	(+) 105,274
1997	610,956	50,449	661,405	1,288,219	51.34	(+) 146,878
1998	715,079	46,513	761,592	1,362,324	55.90	(+) 100,187
1999	792,821	44,186	837,007	1,456,099	57.48	(+) 75,415
2000	881,737	(iv)39,251	920,988	(v) 1,562,369	58.95	(+) 83,981
2001	968,978	40,494	1,009,472	(v) 1,626,714	62.06	(+) 88,484

- (i) Source: Treasury Books and Financial Report.
- (ii) Inclusive of Treasury Bills balances at year end.
- (iii) Source: Central Bank of Malta, Quarterly Review Publication.
- (iv) As amended.
- (v) Provisional, Central Bank of Malta, Quarterly Review Publications.

Letters of Comfort / Bank Guarantees

The position of "Contingent Liabilities" as at 31 December 2001 is featured in Part I of the Financial Report, 2001. The component parts are made up of (a) Government Guarantees, (b) Letters of Comfort and (c) Letters of Undertaking as follows:

Contingent Liabilities – 2001

	Lm	Lm
Government Guarantees:		
Local	207,609,140	
Foreign	<u>153,033,076</u>	360,642,216
Letters of Comfort		29,661,904
Letters of Undertaking		<u>26,518,162</u>
		<u>416,822,282</u>

Besides the canceling of some guarantees and decrease or increase in existing guarantees, during 2001 three (3) new Guarantees/Letters of Comfort were issued.

A detailed list of Letters of Comfort / Bank Guarantees (shown overleaf) submitted to this Office by the Ministry of Finance showed a balance of Lm416,822,282 as on 31 December 2001 (against Lm470,737,462 as on 31 December 2000 and Lm501,146,400 on 31 December 1999). The total amount for 2001 does not tally with that given by the Accountant General by an immaterial amount.

Statement of Abandoned Claims, Cash Losses and Stores Written Off

Departments are to submit to the Accountant General an annual return of abandoned claims, cash losses and stores written off. The following are comments on figures reported in Appendix N of the Financial Report 2001:

- i) The amount of Lm10,313 abandoned claims written off under Customs are unrecovered claims in respect of attendance of Customs Personnel at Merchants' requests, customs duty and legal fees. The amount of Lm16,517 shown under Cash Losses represents monies withheld from various individuals leaving the island which were stolen from the Law Courts.

Letters of Comfort/Bank Guarantees

Beneficiary	31.12.99 Lm	31.12.00 Lm	31.12.01 Lm
Air Malta Co. Ltd. (Foreign)	42,506,860	32,287,369	26,518,163
Air Malta Co. Ltd. (Local)	8,100,000	8,100,000	8,100,000
Malta Counter Trade Co. Ltd.	3,099,762	3,292,071	nil
Malta Drydocks Corporation	40,408,961	41,031,491	39,204,460
Malta Export House Co. Ltd.	nil	nil	3,393,730
Malta External Trade Corp. Ltd. (Metco)	nil	nil	2,795,163
Enemalta Corporation	58,538,235	57,419,511	49,631,232
Gozo Ferries Co. Ltd.	47,132,053	43,936,090	38,818,694
Malta Gantry Manufacturing Ltd.	13,498,832	nil	nil
Housing Authority	18,725,522	18,319,385	13,327,121
HSBC Home Loans (Malta) Ltd. (1)	60,000,000	60,000,000	30,000,000
Malta Development Corporation	4,944,618	4,520,791	4,352,321
MALPRO Ltd.	nil	nil	1,000,000
METCO Ltd.	2,789,883	2,793,383	nil
Malta Government Investment Ltd.	10,068,036	19,584,016	18,273,191
Public Broadcasting Services Ltd.	1,201,672	1,127,000	1,290,423
ST Microelectronics (Malta) Ltd.	2,800,000	2,800,000	2,800,000
San Lucian Oil Co. Ltd.	131,920	nil	nil
Self Employment Scheme	7,600	7,600	2,775
Malta Shipbuilding Co. Ltd.	3,112,607	2,566,537	2,124,341
Water Services Corporation	33,624,763	32,922,577	32,133,584
Malta Win Cargo Containers Ltd.	3,923,277	3,372,558	3,372,557
Kordin Grain Terminal Co. Ltd.	527,922	442,811	nil
Malta Freeport Corporation	124,188,290	130,928,684	134,865,639
Malta Government Loans (2)	16,693,224	nil	nil
Medigrain Co. Ltd.	15,000	15,000	921
Malta Desalination Services Ltd.	1,986,525	1,841,540	1,390,936
Tripoli Sewage Treatment Plant	735,871	665,488	665,488
I.B.R.D (3)	1,308,160	nil	nil
M.I.G.A. (3)	33,464	nil	nil
Malta Tourism Authority	1,034,920	2,757,032	2,757,032
YSSS - Jean Paul Mifsud	3,836	3,581	1,985
YSSS - Nikolai Cassar	4,587	2,947	2,526
TOTAL	501,146,400	470,737,462	416,822,282

1. Previously shown as Lohombus Corporation.
2. MG Loans: These are loans appearing in the Public Debt Account.
3. IBRD/MIGA: These are not loans but rather fees paid by the Central Bank.

- ii) Lm19,471 abandoned claims shown under Government Property Division are in respect of rent due from Mdina Mushroom Growers.
- iii) The amount of Lm6,835,884 abandoned claims shown under Ministry for Economic Services are in respect of:

	Lm
- Loan to Cross Continent Co. Ltd.	70,000
- Loans made under the Aids to Industries Scheme	187,192
- Loans made to MIMCOL for Kalaxlokk Co. Ltd.	6,377,512
- Loan plus interests to Marsaxlokk Fishing Co. Ltd.	201,180

- iv) The amount of Lm133,225 abandoned claims shown under Ministry of Agriculture and Fisheries includes Lm 121,927 loan to Marsaxlokk Fishing Co. Ltd. which is also shown under Ministry for Economic Services. As a result, the correct amount written off as abandoned claims should read Lm 11,298 representing mainly a loan of Lm10,007 due by Kordin Clothing Co-operative Society Ltd. and Lm1,287 bad debts for spraying/grafting services.
- v) The amount of Lm63,558 abandoned claims under Ministry of Health are in respect of claims for hospital fees due from foreign patients.

In view of the mistake pointed out in (iv) above, total amount of abandoned claims should read Lm 6,950,209 instead of Lm7,072,136. Total amount written off should therefore read Lm 6,971,552.

Treasury did not receive any reply from the Ministries/Departments listed hereunder in order to specify whether items listed in the Statement were missing, stolen or unserviceable:

Ministry/Department	Value of Stores Lm
Ministry of Foreign Affairs · Beijing · London · Tripoli · Vienna	1,445.07 800.00 73.15 <u>57.79</u> 2,376.01
Police	10,458.00
M.S.D.	173.00
Armed Forces of Malta	615.99
Total	13,623.00

Corporate Issues

- Arrears of Revenue**
- Travel Abroad**
- Immoveable property used by
Government Departments**

Arrears of Revenue 2001

Background

The timely collection of revenue and control over the extent of arrears of revenue is the responsibility of the Accounting Officers as defined in Section 2 of the Financial Administration and Audit Act 1962. Treasury Circular 3/2002 further states that: *“Since the collection of monies due to Government is a fundamental need for the execution of Government’s programme, Accounting Officers will be held accountable for any shortfalls.”*

In terms of Reg. 49 (i) of the General Financial Regulations, Heads of Department are required to submit an annual return of arrears of revenue to the Accountant General, by not later than the 31 March, and copies thereof forwarded to the Auditor General.

Returns

Opening and closing balances of arrears of revenue for year 2001, as shown in table on pages 90 and 91 are approximate figures collated by NAO on the basis of returns of arrears received from Ministries and departments.

The figures are approximate because:

- a) not all revenue collecting sources submitted their returns;
- b) some returns are incomplete or themselves made up of approximations.

NAO is concerned with cases of low rate of collection and large increases in arrears without valid reasons given.

Although returns of arrears had to be submitted by the 8th March 2002, some returns were not submitted in time and some were submitted incomplete. The Ministries/departments shown hereunder did not submit returns of arrears:

- National Office of Statistics
- Ministry for Transport and Communications
- Roads
- Ministry for Social Policy

Arrears of

Ministry/Department	Outstanding on 31/12/2000	Collected during 2001	Rate of Collection	Written off or not due 2001
	Lm	Lm	%	Lm
Agriculture & Fisheries	180,358	b		b
Ministry for Gozo ^d	37,149	17,490	47.1	NIL
Customs	7,172,915	6,356,271	88.6	96,460
Education	61,131	3,894	6.4	3,817
Inland Revenue:				
Income Tax	235,426,816	139,253,964	59.1	57,614,647
Duty on Docs&Transfers	17,995,714	915,378	5.1	7,674,355
Death & Donation Duties	2,971,404	17,045	0.6	325,924
Courts	5,330,521	b		b
Social Security:				
Social Security	1,534,672	333,770	21.7	88,217
National Insurance Cont.	5,432,565	a		a
Govt. Property Division	4,614,963	639,442	13.9	167,169
Health	877,285	46,986	5.4	73,658
Police	795,537	84,711	10.6	23,022
Min. for the Environment	7,082,880	713,055	10.1	328,366
M.D.C.	3,975,069	759,120	19.1	NIL
Treasury	13,309	8,891	66.8	445
Tourism	195,506	15,980	8.2	3,709
Ministry of Finance	9,892,605	110	Negligible	9,891,583
Information/G.P. Press	720,794	25,108	3.5	1,002
Med. Conference Centre	204,942	141,332	68.9	9,201
A.F.M.	20,740	2,922	14.1	3,801
Wireless Telegraphy	1,862,252	a		a
Youth & Sports	63,000	NIL	0.0	NIL
CET/VAT	43,879,914	3,647,164	8.3	10,852,467
Contracts	501,128	276,062	55.1	22,795
Roads	886,160	b		b
Ind. & Empl. Relations	182,182	7,172	3.9	100
Licensing and Testing ^c	2,001,213	304,276	15.2	2,000
Min. for Economic Serv.	53,579,829	NIL	0.0	201,179
Others	25,582	3,853	15.1	575
TOTALS	407,518,135	153,573,996		87,384,492

a) Information not available.

b) Return of Arrears not submitted.

c) Did not send Return of Arrears 2000.

d) Balance not included in previous year's table.

Revenue

Arrears 2001	Outstanding on 31/12/2001	Net Variation	Change in Arrears	Due from Govt. Depts. & Para. Bodies	Amounts Statute Barred
Lm	Lm	Lm	%	Lm	Lm
b	b				
33,619	53,278	16,129	43.4	22,531	NIL
4,932,293	5,652,477	-1,520,438	-21.2	4,669,060	467
12,346	65,766	4,635	7.6	NIL	1,539
193,093,408	231,651,613	-3,775,203	-1.6	a	a
13,363,292	22,769,273	4,773,559	26.5	NIL	NIL
181,000	2,809,435	-161,969	-5.5	NIL	NIL
b	b				
1,022,931	2,135,616	600,944	39.2	NIL	a
a	5,365,265	67,300	1.2	NIL	a
1,557,842	5,366,194	751,231	16.3	2,653,781	NIL
166,098	922,739	45,454	5.2	32,756	53,056
478,659	1,166,463	370,926	46.6	298,746	a
599,912	6,641,371	-441,509	-6.2	4,903,210	a
1,220,582	4,436,531	461,462	11.6	350,717	NIL
10,039	14,012	703	5.3	NIL	NIL
74,186	250,003	54,497	27.9	89,472	NIL
1,802	2,714	-9,889,891	-99.9	NIL	NIL
77,491	772,175	51,381	7.1	768,017	NIL
124,815	179,224	-25,718	-12.5	27,652	NIL
4,722	18,739	-2,001	-9.6	9,655	3,801
a	1,949,347	87,095	4.7	a	
NIL	63,000	NIL	0	63,000	NIL
20,655,984	50,036,267	6,156,353	14.1	843,647	a
NIL	202,271	-298,857	-59.6	49	NIL
b	b				
346	175,256	-6,926	-3.8	NIL	NIL
851,457	2,546,394	545,181	27.2	a	a
5,204,965	58,583,615	5,003,786	9.3	58,573,576	NIL
38,257	56,871	33,829	134.1	16,526	575
243,706,046	403,885,909	2,901,953		73,322,395	59,438

- Judicial
- Joint Office
- Agriculture and Fisheries (excl. Dept of Veterinary Services)
- Inland Revenue (Social Security Contributions w.e.f .1998)

Apart from listing defaulting departments in Part I of the Financial Report 2001, these were also reported to the Permanent Secretary, Ministry of Finance. The following submitted the return of arrears after the Financial Report 2001 was published:

- Licensing and Testing
- Ministry for Home Affairs
- Registration (Civil Registration)
- Registration (Public Registry)
- Customs
- Ministry for the Environment (part of)
- VAT

Notes and Comments on Arrears of Revenue

Joint Office

In a letter dated 8th August 2002, the department stated that it is still not in a position to compile a return of arrears. This will be possible when all the information due from the Ecclesiastical Entities is received, inputted and verified. Any corrections required have to be approved by the Control Committee in terms of the State/Church agreement. In fact, one of the scopes for which the Joint Office was set up was to validate and verify data.

Contracts Department

a) Penalties and Damages	Lm 202,169
b) Ex-CSS	Lm 102

The amount quoted for 'Penalties and Damages' excludes damages caused for the non-supply and failure to deliver frozen boneless ox-beef of first standard quality to Government hospitals, Institutions in Malta, the Armed

Forces of Malta and Civil Prisons. No figures were reported since the Department of Health was still in the process of estimating damages incurred.

Wireless Telegraphy

The present computer system, which has been in operation since 1982, is inadequate to extract relevant information needed to compile the return of arrears. It does not differentiate the type of funds received. Besides, the system does not keep separate records of the amounts written off and new arrears accrued.

However, the department is introducing a new Computer Accounting Module addressing, amongst others, information needed in respect of arrears of revenue. The new system, overviewed by this Office, is expected to start operating in December 2002.

The closing balance is made up as follows:

a) TV Licenses	Lm 1,657,628
b) Wireless Licenses, penalties and other charges	Lm 132,346
c) Marine Licenses, penalties and other charges	Lm 159,373

Most vessels which have applied for the issue of a Marine License did not fulfil the necessary conditions as attached to the issue of the said license. The department has cross-examined such licenses and it concluded that most of these licenses are not due, as the actual license has not been issued. Furthermore, the department sought advice from the Attorney General and it was agreed that these amounts are to be written off.

Commerce Division (Included under 'Others')

Arrears accrued during the year under review are in respect of amounts not featuring in the return of arrears as at 31 December 2000:

- Lm 1,567 penalties for non-fulfillment of obligations by 2 ex-students
- Lm 25,125 Laboratory Fees and Participation Fees in Industrial Fairs due by ex-Industry Department.

The Division informed this Office that Lm 14,115 arrears due in respect of Laboratory Testing Fees owed to the ex-Industry Department were written off during Financial Year 2002. Moreover, legal action has been instituted to recover the other outstanding amounts.

Ministry of Finance

Arrears due were adjusted downwards by an amount of Lm 9,590,000 previously reported as amounts due by Enemalta Corporation. This adjustment was as a result of the fact that *“the basis of repayment of these Government advances has still no fixed dated for repayment. These Government advances are, in fact, payable as per terms of repayment that are agreed upon between Government and Enemalta Corporation.”* (Source: Ministry of Finance Letter dated 11th February 2002). As at end of the financial year under review, the advance stood at Lm5,590,000.

Lm 301,583 relates to the writing off of the remaining balance due in respect of Mediterranean Crans Montana Forum advance.

Ministry for Economic Services

During previous years, these arrears were reported as amounts due to the Treasury Department, thus the shifting of figures in the opening balances. These arrears are made up of:

a) Loan under Act XI of 1988	Lm 14,551,000
b) Malta Drydocks Corporation Loan	Lm 859,194
c) Loans to Hotels	Lm 10,040
d) Loans to Companies	Lm 43,163,382

The total amount of Lm 43,163,382 under Loans to Companies is primarily made up of loans to Malta Shipbuilding amounting to Lm 38,954,968, which, constitutes 90 percent of the total amount.

Mediterranean Conference Centre

The majority of claims are in respect of the hire of the conference centre for conferences, gala dinners, theatre functions and meetings. Some claims were also issued for the hire of equipment.

Arrears acquired during 2001 are mainly made up of 3 substantial debtors and various other relatively small debtors. During 2002, 72.6 percent of accrued new debts during the financial year under review were collected. On verifying the three substantial debts, we concluded that:

- Lm 22,357 are in respect of rent due for the hire of Mizzi Hall and St Elmo Cafeteria for the period April – December 2001. This amount was eventually settled by three respective payments during 2002.

- The amount of Lm17,606 represents the balance on one claim issued on April 2001. As on May 2002, 2 further payments were effected adjusting the balance to Lm 9,000.
- Lm14,257 due from 2 claims, with Lm 12,545 claim issued on October 2001 to date still outstanding. This represents cancellation charges regarding an IBM Conference that had been booked through a local company but was never held. Since the company was verbally informed of cancellation charges and the contract did not include a provision in this respect, the local company is arguing that these are to be paid by the foreign company, who in turn, is reluctant to pay. It is doubtful whether this amount will be recovered by MCC and a full provision was provided for in the financial statements as at 31 December 2001.

Treasury Department

The balance is made up of:

- | | |
|-------------------------------|----------|
| a) Bearer Tax Levy (ex-BICAL) | Lm 3,979 |
| b) Overpayments in Pensions | Lm10,033 |

Arrears acquired during the year were due to the payment of differences in gratuities and pension arrears brought about by the notional salary structure devised in the 1996-2000 Collective Agreement.

Customs Department

- | | |
|----------------------------------------------------------------------------------------------------------------|--------------|
| a) Unpaid reimbursements and administration charges i.r.o. services by Customs Officials at Merchants' request | Lm 931,324 |
| b) Post entries (Customs duty paid after release of Merchandise) | Lm 4,527,768 |
| c) Fines and Penalties | Lm 180,889 |
| d) Others | Lm 12,496 |

Arrears accrued during the year under review include the amount of Lm 4,467 not shown in the return of arrears of previous years. Arrears in respect of item (b) include an amount of Lm 4,444,107 for unpaid duty by Enemalta Corporation.

Ministry for Gozo

The closing balance is made up of:

(a) Works Department	Lm 12,804
(b) Public Cleansing Department	Lm 40,025
(c) Agriculture Department	Lm 449

This Office is concerned about the low rate of collection of the Works Department. Only Lm799 out of Lm10,158 outstanding arrears brought forward from previous years were collected.

Museums Department (Included under 'Others')

In letter dated 14th August 2002, this Office was informed that:

- (a) 2 official letters were sworn by the Director of Museums on the 25th June 2002 in respect of arrears amounting to Lm 1,265.
- (b) 3 official letters are being issued to debtors for arrears due amounting to Lm 1,189.
- (c) 2 official letters will be issued in due course to recover amounts due of Lm 303.
- (d) A court case concerning the amount of Lm 1,996 is still pending and is due for hearing on the 28th November 2002.

Ministry for the Environment

The following is a breakdown of the closing balance:

(a) Works Division	Lm 1,382,064
(b) Central Districts Office	Lm 677,617
(c) Waste Management Strategy Implementation Department	Lm 713,332
(d) Manufacturing and Servicing Dept.	Lm 3,868,358

As reported upon in the Report of the Auditor General – Public Accounts 2000- Item (d) includes Lm 3,745,439 arrears due from the Works Division which MSD feels should not have been claimed in the first instance since they refer to works and services carried out within the same Ministry. The amount

due is being considered by MSD as statute-barred and the department is seeking authority to write them off.

Arrears accrued during the year include Lm 4,245 arrears relating to previous years but not included in previous returns of arrears.

Education

The closing balance can be analysed under the following headings:

(a) Miscellaneous Receipts	Lm 48,125
(b) Tuck-Shops	Lm 4,811
(c) University Maintenance Grants	Lm 12,830

The amount of Lm 1,539 due by the Libyan Authorities has been outstanding since 1978. Authority for write-off has been granted on the basis that every effort for the recovery of the amount has proved fruitless and no other action can be taken to recoup the said funds.

Arrears newly accrued include Lm 1,570 amounts due not included in previous returns.

Armed Forces of Malta

The closing balance is made up of arrears due following provision of service to third parties in respect of:

(a) Patrol Craft Conveyances	Lm 194
(b) Hire of Vehicles & Machinery	Lm 48
(c) Expl. Ord. Depot Charges	Lm 236
(d) Fuel and Repairs	Lm 344
(e) Security Duties	Lm 9,655
(f) Services rendered by AFM	Lm 772
(g) Refund of Wages	Lm 4,314
(h) Helicopter Services	Lm 230
(i) Sundry Services	Lm 2,946

This Office is concerned on the possibility of recouping a substantial part of the arrears outstanding at year end considering that 34.5 percent of arrears are over 5 years due, as shown hereunder:

Arrears outstanding equal to or less than 1 year	Lm 4,722
Arrears outstanding over 1 year till 2 years	Lm 4,583
Arrears outstanding over 2 years till 5 years	Lm 2,964
Arrears outstanding over 5 years	Lm 6,470

85 percent of newly accrued arrears were due by Water Services Corporation who were expected to settle its dues in February 2002.

Information / Government Printing Press

The closing balance consists mainly of Lm748,185 in respect of Jobbing Orders and Lm 23,944 in respect of Paper. Out of the amounts due at year end, the department stated that 77.4 percent or Lm 597,522 are statute-barred and 2.6 percent or Lm 20,326 are under contention.

Tourism

The closing balance is made up of as follows:

(a) Tourism	Lm 86,971
(b) Institute of Tourism Studies	Lm 30,029
(c) Hotel and Catering Board	Lm 70,844
(d) White Rocks	Lm 62,159

Lm 86,971 relate to arrears due from various local councils in respect of beach cleaning services. The Attorney General's advise is being sought to see what action should be taken against the Local Councils.

Lm26,069 shown under newly accrued arrears refer to amounts due in respect of overpayments in stipends issued by the Institute of Tourism Studies not shown in previous years' returns. It is to be noted that 51.3 percent of arrears due to the White Rocks Holiday Complex at year end date back to more than 6 years.

Department of Health

The closing balance is made up of:

(a) Licences	Lm 4,300
(b) Hospital Bills	Lm 650,494
(c) Hospital Tests	Lm 32,756

(d) Refunds/Resignations	Lm 213,986
(e) Overpayments	Lm 8,914
(f) Hospital Fees-SPBH	Lm 12,288

The department is estimating that Lm60,000 out of the balances due in items (a) to (e) above will be recouped during 2002. Ageing of arrears at year end can be analysed as follows:

Amounts outstanding equal to or less than 1 year	Lm 153,810
Amounts outstanding over 1 year till 2 years	Lm 182,418
Amounts outstanding over 2 years till 5 years	Lm 337,235
Amounts outstanding over 5 years	Lm 236,988

Arrears amounting to Lm 11,130 due to Boffa Hospital related to last year, but were not submitted, are being included with this year's arrears.

Civil Protection (Included under 'Others'.)

Of the closing balance, Lm 2,250 are due by the Planning Authority following site inspections. In addition, the return of arrears submitted does not include Lm 3,877 payable by the Safety Training Centre (Malta) Ltd., in respect of Water and Electricity Bills, covering the period April 2000 till June 2001.

Police

The amount of Lm 7,292 relating to arrears of licences were inadvertently omitted from last year's return and are being included for the year under review. In letter dated 26th June 2002, the department stated that this type of adjustment is effected every year.

The closing balance is made up of:

(a) General Licences	Lm 494,768
(b) Wines & Spirits	Lm 189,090
(c) Weapons Licences	Lm 183,859
(d) Expert Fees	Lm 162,244
(e) Photographic Material	Lm 136,502

As regards amounts in items (d) and (e), the department is in the process of submitting a request to write off these balances due from Courts as at end of December 1996.

Government Property Division

The following is a breakdown of arrears due at year end:

(a) Rural	Lm	59,613
(b) Perpetual	Lm	81,241
(c) Residential	Lm	317,736
(d) Non-residential	Lm	362,329
(e) Commercial	Lm	4,511,956
(f) Enroachments	Lm	33,397

Lm 166,279 arrears due were written off since balances were relatively small. Thus, it was not considered cost-effective to commence legal action against these defaulters.

Agriculture and Fisheries

The returns submitted were in respect of arrears due to the:

- i) Department of Veterinary Services with a closing balance of Lm 122,730. The department commenced legal action to recoup arrears amounting to Lm 23,811.
- ii) Sundry Services with a closing balance of Lm 8,706
- iii) Pitkali Markets with a closing balance of Lm 34,915 of which Lm 10,389 are arrears due not reported in previous returns.

It is to be noted that the opening balance shown in the table does not include arrears due to the Department of Veterinary Services since arrears due never featured in the return of arrears sent to this Office. The opening balance is made up of arrears in respect of:

- (a) Pitkali Markets
- (b) Sundry Services
- (c) Loans and Advances to Farmers and Fishermen
- (d) Sundry Revenue Fisheries
- (e) Sundry Revenue ex MMU
- (f) DDP Personnel

- (g) Service rendered to Local Councils
- (h) Fisheries Below-the-Line account

Return of arrears as at 31 December 2001 in respect of items (c) to (h) were not submitted to this Office.

Social Security Department

The closing balance relating to Social Security can be analysed as follows:

• Social Assistance	Lm 818,652
• Non-Contributory Pensions	Lm 177,827
• Sickness Asst./Milk Grant	Lm 129,389
• Short-term benefits (i.e. sickness, unemployment, marriage, injury)	Lm 56,235
• Bonus	Lm 1,823
• Children and Maternity all. (incl. Disability Child and Foster Child all.)	Lm 212,244
• Supplementary Assistance	Lm 3,807
• Pensions	Lm 727,662
• Further Contributions	Lm 7,977

Further details are provided in the report discussing the audit findings of the department's Arrears of Revenue on pages *****.

Industrial and Employment Relations

Notwithstanding the Judicial Letters and monthly reminders issued by the department to defaulters of arrears due in respect of Self Employed (Loan) Scheme:

- (a) 14 persons owing Lm 32,330 still have not made any payment to offset the loan,
- (b) 22 persons owing Lm 46,431 had made their last payment in the year 2000 or before.

Details of such individuals were sent to the Attorney General for necessary legal action.

Malta Development Corporation

Arrears outstanding are classified under two headings:

a) **Loans under the Aids to Industries Scheme Lm 795,241**

The amount of Lm793,645 relates to advances made by Government to MDC for the purchase of the Grand Verdala Hotel subsequently sold on 26th March 1997. In May 2001, the company settled the amount of Lm221,506. However, the Company failed to honour its commitments which fell due on 26th October 2001, as stipulated in the contract of sale repayment schedule.

The remaining balance of Lm1,596 relates to amounts due by a company which has ceased operations in 1973, but which has not yet been struck off.

b) **Rent Revenue Collection Lm 3,641,290**

These arrears are made up of Lm 2,457,334 in respect of existing companies and Lm1,183,956 in respect of companies which had ceased operations.

During the year under review, the Corporation has installed a computerised rental management system. However, such system is not fully functional yet. This system is intended to cater for the monitoring, control and administration of property, tenant, rent and insurance. The Corporation will thus be able to monitor defaulting debtors and adopt a more efficient and pro-active rent administration policy. It also ensures that lease renewals and rent increases take place as stipulated. Rent increases due to building extensions, modifications or other works are translated into rent demands.

The Corporation has also established procedures to monitor efficiently defaulters and control the increase in arrears. If no payment is received within a month from the due invoice date, 2 reminders are issued followed by a 45 days final notice. If tenants still fail to effect payment subsequent to the issuance of a judicial letter, a meeting is held with the tenant whereby a private agreement has to be signed regulating a repayment programme. If the latter is not honored the tenant will be requested to sign a public deed wherein the quantum of rent arrears is quantified, and a hypothec on immovable property is to be granted to the Corporation. If tenant cannot grant such hypothec, then eviction proceedings will be initiated.

V.A.T.

The closing balance can be analysed under the following headings:

(a) VAT (1998)	Lm 25,040,666
(b) CET (1997)	Lm 6,853,595
(c) Refunds (Stocks)	Lm 386,242
(d) VAT (1995)	Lm 17,697,574
(e) Expenditure Levy	Lm 58,190

The department stated that Lm 36,901,720 of the closing balance constitute amounts under contention, in the process of being written off or statute barred. This Office is concerned that amounts quoted could substantially be adjusted downwards considering that Lm 36.9 million is subdivided as follows:

(a) VAT (1998)	Lm 22,088,287 (i.e. 88.2 percent)
(b) VAT (1995)	Lm 11,054,535 (i.e. 62.5 percent)
(c) CET (1997)	Lm 3,756,457 (i.e. 54.8 percent)
(d) Refunds (Stocks)	Lm 2,441 (i.e. 0.6 percent)

After various verbal enquiries, the department was not in a position to estimate the financial consequences of a legal decision taken by the Constitutional Court against the department re Appeals. In addition, no official of the department is able to interpret the interest calculation as generated by the software system. In case of legal contestation, the department will not be able to respond with certainty.

Inland Revenue Department

Income Tax

The amount of Lm 231,651,613 is the gross arrears due as at 31 December 2001 which represents a decrease of Lm 3,775,203 on the previous year. A breakdown of these arrears by category is provided in Table on page 104.

Additionally, arrears denominated in foreign currencies amounting approximately to Lm 5,214,713 as at year end 2001 are also due from foreign owned companies and companies overseas. Lm 12,300 represent estimated tax in foreign currency in respect of taxpayers who did not submit any form of tax document.

Gross arrears due at year end can be analysed under the following headings:

i. Balance for Y/A 1949 up to 1998		Lm 151,719,545
ii. Balance for Y/A 1999	Lm 37,232,745	Lm 79,932,068
iii. Balance for Y/A 2000	Lm 18,511,095	
iv. Balance for Y/A 2001	Lm 24,188,228	

Out of the Lm 79.9 million arrears due for Year of Assessment 1999 and onwards, Lm73,365,564 represent estimated tax charged to taxpayers who did not submit any form of tax document.

As regards arrears under the new system, balances may have been adjusted following a request by the taxpayer to adjust amounts shown in the statement either due to an adjustment of amounts declared (by means of an Adjustment Form) or because of a departmental mistake in inputting

Income Tax Arrears due by Category		
Category	Amount due as on 31/12/2001 Lm (000's)	Percentage out of Total Arrears
Government Employees	7,553	3.3
Parastatal Employees	2,482	1.1
Drydocks Employees	492	0.2
Private Employees	26,737	11.5
Outside Malta Employees	446	0.2
Temporary Residents - Work Permit	7,681	3.3
Self-Employed	33,886	14.6
Shareholders	5,216	2.2
Rentiers / Pensioners	11,188	4.8
Temporary Residents - settlers	1,567	0.7
Non-residents	1,616	0.7
Companies anonyme	128,696	55.5
Companies en commandite	1,621	0.7
Companies foreign owned	213	0.1
Companies - overseas	887	0.4
Clubs, Associations etc.	593	0.3
Church (Commercial)	354	0.2
Church (Entities)	175	0.1
Others	249	0.1
Total for all Categories	231,652	100.00

amounts (by means of an Adjustment Form 1). In letter dated 17th June 2002, the department stated that Adjustment Forms issued amounted to 14,819 as follows:

Year of Asst.	Adjustment Form	Adjustment Form 1	Totals
1999	4,167	3,853	8,020
2000	3,088	1,512	4,600
2001	1,798	401	2,199

Duty on Documents and Transfers

- Monies due in respect of Inter Vivos Lm 21,353,875
- Monies due in respect of Causa Mortis Lm 1,415,399

These amounts refer largely to the issue of numerous claims incorporating substantial additional duty and penalties that have been objected to. In this respect, the Department estimates an approximate 20 percent rate of collection. Thus, the highly probable amount to be collected amounts to Lm 5,082,971, subdivided as Lm 4,772,723 and Lm 310,248 in respect of Capital Transfer Duty Branches in Malta and Gozo respectively.

Death and Donation Duties

The rate of collection is estimated to be higher than that of 'Duty on Documents and Transfers' i.e. approximately 60 percent. The department estimates that the likely amount to be collected stands at Lm 1,740,000 i.e. Lm 1,610,000 and Lm 130,000 for Capital Transfer Duty Branches in Malta and Gozo respectively.

Licensing and Testing Department

The Return of Arrears as at 31 December 2000 was received by this Office on 22nd October 2001. The following is a breakdown of the closing balance for the year under review:

- a) Motor Vehicle Road Licenses Lm 2,542,979
- b) Motor Car Dealers Lm 2,400
- c) Motoring Schools Lm 850

d)	Driving Instructors	Lm	85
e)	Car Park Attendants	Lm	80

Travel Abroad on Government Business

Background

Overseas subsistence, accommodation and overseas hospitality are initially given to public officers travelling abroad on official duties in the form of Travel Advances after completing the declaration forms.

Public officials travelling abroad may be paid subsistence allowance and reimbursed only the travelling expenses, which, they actually and necessarily incur in the course of official business. Documents and receipts are to be forwarded to the Director of Corporate Services within one month after the officer has returned to Malta. Within three months of date of the officer's arrival, the said Director shall present same to the National Audit Office.

Travel Debit Advances forwarded to Treasury by Ministries/Departments are collected on a monthly basis. After numbering each Debit Advice, the database is updated with the necessary details.

The current principal regulations covering overseas travel are:-

- Public Service Management Code-Chapter 8 Section 8.5-Travelling and Subsistence Overseas;
- OPM Circular PS/6/94 dated February 9, 1994;
- MF Circular 2/98 dated February 1998 – Official Abroad – Payment of Subsistence Allowance;
- MF Circular 12/99 dated 18th November 1999 – *Guidelines on Conditions for Travel* – codifying in one document the existing regulations on this subject arising from Public Service Management Code as well as from various OPM Circulars as subsequently amended by MF Circulars Nos. 3 and 9 of 2001;
- MF Circular 7/2000 dated 13th June, 2000, outlining the procedures for the financing of Visits Abroad/Missions sponsored by the TAIEX Office of the EU Commission;
- MPO Circular 5/2001 dated 3rd January, 2001 setting the revised rates of subsistence allowance for official travel abroad for the year 2001.

During the year under review, there were a total of 1,635 travel advances. In money terms, these amounted to Lm692,482. However, the total cost of travelling abroad during 2001 amounted to Lm1,621,081 – an increase of Lm263,837 i.e. 19.4 percent (year 2000 – Lm1,357,244).

The expenditure incurred on Travel Abroad was paid out from the funds shown below:

Incidence of Charge:	Lm
Recurrent Votes	1,064,820
Programmes and Initiatives	55,172
Contributions to Government Entities	48,535
Capital Votes	28,194
Below-the-Line Accounts	24,360
Total	1,621,081

A breakdown of how these funds were utilised is shown hereunder:

	Lm
Tickets	744,315
Overseas Subsistence/Accommodation	849,806
Overseas Hospitality	1,565
Removal and Relocation Expenses	25,395
Total	1,621,081

A breakdown of excess expenditure over revised estimates above Lm 10,000 by Ministry/Department during 2001 is given in the Table hereunder.

Excess of Expenditure over Revised Estimates

Ministry/Department	Approved Lm	Actual Lm	Excess Lm
House of Representatives	54,000	69,013	15,013
Armed Forces of Malta	8,000	19,720	11,720
Ministry for the Environment	35,000	64,664	29,664
Ministry of Agriculture and Fisheries	33,000	54,561	21,561
Ministry of Justice and Local Government	30,000	40,098	10,098

Control Issues

- Lack of adequate control. Due to the lack of control, the procedures pertinent to travel advances are being lightly taken. This is resulting in overpayments, wrong calculations and possible abuse of advances.

Outstanding Travel Advances for 2001

As at July 24th 2002, there were still pending for verification 126 Travel Advances. These Travel Advances had to be submitted maximum of three months from the officer's arrival. The pending advances carry a face value of Lm47,065 (i.e. 7 percent of the total amount advanced) and make up to 8 percent of the total advances as identified by this Office. Defaulters are shown in the following table:

2001 Outstanding Travel Advances as at 24th July 2002

Ministry / Department	Outstanding Advances	Sums Advanced Lm
Attorney General	17	4,895.00
Civil Registration	1	536.00
Contracts	1	400.00
Culture	1	355.00
Customs	1	293.52
Economic Policy Division	1	221.00
Education	14	4727.25
Elderly and Community Services	1	456.46
Electoral Office	2	1,195.00
Environment Protection	1	113.43
Health	21	4,231.00
Justice and Local Government	27	11,853.46
Licensing and Testing	3	1,210.24
Agriculture and Fisheries	16	10,164.72
Economic Services	1	1,146.00
Foreign Affairs	1	160.00
Home Affairs	3	1,269.00
Museums	2	441.00
Office of the President	1	115.00
VAT	6	1,983.00
Welfare of the Elderly	2	335.17
Works Division	3	963.76
Totals	126	47,065.01

Outstanding Advances 1980-2000

There are also outstanding as at the time of compiling this report, an additional 489 advances covering the period from year 1980 to year 2000 having a face value of Lm386,173. Defaulters are shown in the following table:

1980-2000 Outstanding Travel Advances as at 24th July 2002

Ministry/Department	Outstanding Advances	Sums Advanced Lm
Ministry of Food, Agric. & Fisheries	4	7,054.43
Attorney General	20	23,079.50
Civil Aviation	1	530.00
Culture	17	10,900.71
Customs	2	381.48
Ministry for Economic Services	1	490.00
Min/Dept of Education & Human Resources	63	72,895.09
Dept of Environment/Environment Protection	81	46,422.64
Family Welfare	1	275.00
Ministry of Finance	5	4,325.00
Ministry of Foreign Affairs	3	1,410.00
Ministry/Department of Health	62	33,237.18
Ministry for Home Affairs	17	8,577.0
House of Representatives	15	11,258.56
Department of Industry	33	56,986.19
Department of Information	1	268.67
Department of Inland Revenue	7	6,754.70
Min. for Interior & Justice /Local Govt.	24	16,187.17
Law Courts	41	20,874.37
Licensing and Testing	1	617.83
Department of Libraries	2	549.00
Department of Museums	17	6,415.97
Police	1	354.00
Office of the President	1	220.00
Department of Roads	1	247.00
Ministry of Social Development/Policy	8	3,796.00
Central Office of Statistics	2	198.00
Ministry/Department of Tourism	32	33,101.46
Water	2	2,449.50
Department of Works	22	15,586.83
Youth and Sports	2	730.00
Totals	489	386,173.28

Summary of Findings from Examination of Sample

Out of 1,635 advances made during 2001, 83 were selected for further checking. Only 28 advances were found to be in order in all respects. This means that 66 percent of the sample are not complying fully to the regulations.

Findings resulting from samples examined:

Business Class Basis

No indication was available in the case of 2 advances to show that the officials who travelled on a Business Class Basis whether they were accompanying any official in Salary Scales 1 to 3 as stipulated in Section 7.2 (b) of MF 12/99.

Incomplete/Inaccurate Declarations

9 advances did not state whether the officials were receiving any compensation for accommodation/meals/subsistence/transport from the host organisations or other entities.

17 advances were submitted with an improperly filled declaration in section A of form GA 27.

No Signature of Head/Director Corporate Services.

Section A of form GA 27 was not signed by the Head/Director Corporate Services in respect for 2 advances.

Miscellaneous

1 advance revealed that a delegate claimed 3,000 BEF extra.

3 advances indicated that unentitled Mini Bar expenses included in the hotel bills were claimed.

1 advance had Sections B and D both filled in foreign currency instead of Maltese currency.

3 advances indicated that the delegates claimed excessive amounts in respect of Tips and Porterage.

Expenditure listing in 2 travel advances were incorrect due to the omission of hotel bills and meals.

Dates of Seminar and dates of visit abroad of a particular travel advance did not match.

1 advance showed that the delegate upgraded the hotel room from a daily charge of Lm77 to a daily charge of Lm90.14. The extra expense involved amounted to Lm144.54.

1 advance indicated that an official travelled two days before and two days after the Conference without any accompanying explanation incurring four days additional public expense.

1 advance showed that the dates on GA 27 and on the air ticket do not agree.

Wrong class rate claimed

1 advance indicated that an official in salary scale seven claimed Class A subsistence allowance instead of Class B.

Lack of supporting receipts, sub-vouchers, or documents.

13 advances indicated that officials claimed for transport expenses, registration fees, drinks, informal meals, gratuities and other miscellaneous expenses without producing any supporting documents.

7 advances did not submit the air tickets and/or airfare invoices and duration of visits could not be verified.

5 advances had either debit/credit advice and/or Bank Deposit slips missing. Verification of any refunds due to/by the delegates could not be verified.

1 advance had the hotel bills missing. No cross checking with the Statement of Expenses was possible as to the claim made by the delegate.

1 advance regarding a delegate declared that he is not to receive any compensation in kind for accommodation/subsistence and transport and claimed the correct half subsistence allowance. However, it resulted that travel fees and accommodation were to be reimbursed by the European Commission.

Others

2 advances had Section C unsigned by delegates on receiving foreign currencies prior to departure.

No quotations were provided for air tickets not booked with Air Malta

4 advances were not booked with Air Malta plc. No copies of quotations from Air Malta plc and two other airlines were attached as required by MF Circular 12/99 Section 7.2 (e).

Official Programmes of the Visits

16 advances were checked at their respective Ministries / Departments to check if any compensation in kind was received for meals/transport/subsistence allowance. However, the Official Programmes of the visits in respect of 4 advances could not be traced in the respective files.

Wrong subsistence allowance claimed

5 advances claimed either 1/2 or 1/3 or 1/6 subsistence allowance extra due to returning to Malta late during the day.

4 advances out of the 16 official programmes of the visits checked, claimed the incorrect subsistence allowance due to failure to deduct the meals that were provided free by the organising bodies.

1 advance had the hotel bill paid separately and the delegate claimed the full subsistence allowance instead of the one-half allowance.

1 advance claimed 3 nights half-subsistence allowance instead of two nights.

1 advance indicated that the delegate over claimed one extra night both for the hotel room charge and for the subsistence allowance.

1 advance indicated that the two delegates claimed meals as hospitality expenses. However, subsistence allowance was not deducted for these meals.

These 13 advances resulted in an overpayment of Lm543.81.

Late Submission of forms to NAO

9 (27 percent) forms GA 27 out of 33, relating to visits abroad during the period from 1st September to 31st December 2001, reached the AG later than the three months of the dates of the visits as established in MF Circular 9/2001.

No confirmation by Head of Department/DCS re pending advances

3 (9 percent) advances out of 33, relating to visits abroad during the period from 1st September to 31st December 2001, lacks the signatures of the Head/Director Corporate Services from Section A of Form GA 27 as requested in MF Circular No. 9/2001. This circular requires that the Head/DCS has to confirm the correctness of the officers' declarations that they have no pending advances which they might have received in respect of previous visits abroad.

Statement of expenses drawn up later than one month

The statements of expenses in respect 4 advances were drawn up by the officials travelling abroad later than one month after their return to Malta as stipulated in MF Circular 12/99.

Unused balances not repaid immediately

2 advances revealed that the delegates effected the refunds of unused balances long after their return to Malta, and one of them showed that the refund of unused balance was made in Maltese currency instead of foreign currency.

Recommendations

When members are accompanying delegations of Salary Scales 1 to 3, the officers-in-charge of Travel Advances should ensure that all the relative information is indicated on the GA 27/GA 27A forms.

Officers travelling abroad should clearly state on GA 27 forms, whether they are to receive any compensation in kind for accommodation/meals/transport and subsistence allowance.

Officials travelling abroad should declare 'that they have no pending statement of expenses to submit in connection with any advances which may have been received in respect of previous visits abroad dating back more than one month'. Section A of GA 27 should be signed by Heads/Directors of Corporate Services confirming the correctness of the officers' declaration as instructed in MF Circular No. 9/2001.

Officials travelling abroad should ensure that Taxis expenses are kept to a minimum. Taxis should only be used if no other suitable method of Public Transport is available. Public Officials are to purchase, when available, the one day, five day, or weekly travel cards. (MF 12/99 Section 7.4 (a))

Tips, portorage and other undocumented expenses should be kept to the barest minimum.

All claims for expenses (air tickets, transport expenses, dinners etc.) incurred during the visits, are to be receipted and justified. (MF 12/99 Section 7.1 (e))

The Central Bank Debit/Credit advice covering the sale or purchase of foreign currencies should be forwarded with the GA forms.

Documents relating to reimbursement made by the EU Commission or any other organising body should be forwarded together with the GA 27 for audit verification.

Whenever air tickets and hotel accommodations arrangements are not procured through Air Malta plc, at least three quotations should be obtained from other travel agencies, one of which should be from Air Malta plc. These quotations should be submitted to this Office together with the other documents for audit purposes. (MF Circular No. 3/2001 Section 7.2 (c))

The officers-in charge, before issuing the subsistence allowance, should check the official invitations/programmes of the visits for meals provided free by the organising bodies so that these are deducted from the subsistence allowance entitlement. (MF 12/99 Section 8 (c)). The official programmes should also be forwarded to National Audit Office to verify compliance with regulations.

GA27/GA27A Forms are to be duly filled in and accompanied by originals of all documents and receipts and forwarded to National Audit Office within three months of the date of the visit abroad. (MF Circular No. 9/2001 (ii))

Officials travelling abroad are to account for money paid in advance not later than one month after their return to Malta. (MF Circular No. 12/99 Section 9 (b))

The officials travelling abroad should refund any surplus of money advanced in foreign currency immediately on their return to Malta.

Conclusion

The National Audit Office is concerned with the fact that some delegates are claiming portion of the full subsistence allowance such as 1/6, 1/3, 1/2 extra on returning to Malta either early during the day or late at night. Generally, these extra portions are claimed in respect of extra meals spent by the delegates, during such periods. If this is justified, the *Ministry of Finance should clarify and issue new guidelines for meals being claimed extra in such circumstances. NAO cannot but query such additional expenditure considering that more often than not meals are provided on return flights.*

Before approving the visit, Permanent Secretaries/Directors of Corporate Services should ask for the official literature that relates to the visit and which may include the conditions and amenities offered by the host organisation. (MF Circular No. 2/98) Such official invitations/programmes should be forwarded to the officers-in-charge in order to be able to calculate the correct subsistence allowance entitlement.

It is recommended that the Ministry of Finance should insist with the Ministries/ Department to furnish the National Audit Office, with all relative documents in connection with the visits, *in particular the official invitations/*

programmes. Moreover, the departments should inform this Office on cancellation of a visit abroad.

From the audit investigations carried out at various Ministries/ Departments it resulted that the accounting officers are doing their utmost to adhere to the regulations governing travel abroad but they are encountering difficulties.

Some officials travelling abroad are not co-operating fully with them, by not forwarding relative documents and information such as invitations/officials programmes etc, to calculate the subsistence allowance entitlement and to finalise the GA 27 forms according to the various rules and in time.

The responsibility and the accountability for the proper control and efficient use of funds allocated for travel abroad rests both on the officials authorising their use as well as on the officials availing themselves of the said funds. (MF Circular No. 12/99)

Immovable Property used by Government Departments

Background

The mission of the Estate Management Department is that of promoting the effective management of Government's immovable property. The principal activities of the department are:

- Investigating the nature of the said property
- Protection of government property through ownership registration under the Land Registration Act
- Authorisation of repairs and maintenance works required on Government owned property
- Provision of property to government departments and other entities
- Record keeping and maintenance of government's immovable property database even in case where this property is used by other Government Departments, including the transfer of property from one department to another.

The collection of revenue from the lease/rent of immovable property falls under the responsibility of the Land Department.

Immovable property occupied by other government departments is leased/rented at a lower price than otherwise it would fetch from the open market.

Audit Objectives

NAO intended to carry out an audit on that property in use by Government Departments to check what use is being made thereof. Government properties that are not needed by departments and to suggest whether these should be released in order that they could be rented to third parties at more favourable rates.

The objectives of the audit were to ascertain that the government property currently occupied by government departments is being utilised in the most efficient manner. The audit exercise consists in verifying whether the property is:

- Maintained in good condition, to safeguard the health and safety of both employees and the public in general
- Productively occupied as regards work places and for storage purposes.

Key Issues

Submission of Requested Data

For this purpose NAO requested, from the Estate Management Department, a database of all government immovable property that is being occupied by government departments.

A cursory look at a number of Departments/Ministries revealed that they are not shown as occupying the current premises, but are still recorded in their former property even though this transfer has been carried out some years back. In the cases picked up, the transfer of immovable property from one department to another was not reflected in the database.

In the circumstances it would not have served any useful purpose to carry out an audit using an unreliable database. Furthermore once the department was not in a position to carry out the necessary alterations following audit findings, this office was left with no option but to abandon the audit and report the matter.

The above was brought to the attention of the Director Estate Management and was requested to submit a more up to date database.

Management Comments

In its reply, the department stated that:

- Departmental records are known not to reflect the actual situation
- Departments agree to exchange property and sites without informing Estate Management Department

- It is reliant on information received, if forthcoming
- Enforcement resources to monitor changes in tenancy are so meagre that it is impossible to carry out

An updated list is impossible to be drawn up even if all departments were to submit a return of government premises occupied.

Office of the Prime Minister

– Public Service Commission

– Information

– Electoral Office

Public Service Commission

Background

The constitutional mandate of the Public Service Commission is to give advice and to make recommendations to the Prime Minister in the making of appointments to public offices, in the removal of persons from such offices and in the exercise of disciplinary control over public officers.

Control Issues

- Commitment (Goods and Services Purchase Order) not issued prior to purchase
- Inventory update

Compliance Issues

Payment vouchers not covered by a fiscal receipt

From the one hundred and one (101) vouchers audited, thirteen (13) suppliers did not forward to the department V.A.T. receipts relating to fifteen (15) payments.

Room Inventory

At the time of audit, the Public Service Commission was undergoing refurbishment and due to this, room lists were still being compiled.

Recommendations

Payment vouchers not covered by a fiscal receipt

The Commission is to continue to report defaulters to the V.A.T. Department. Every effort is to be made to enforce the principle that official V.A.T. receipts are obtained from suppliers.

Room Inventory

Provide updated and signed room lists to each room within the Public Service Commission and ensure that the inventory is updated with every purchase or relocation of inventory items.

Management Comments

Audit report was examined by relevant members of the Public Service Commission and conclusions were forwarded to the National Audit Office.

Management agreed that suppliers indicated in the audit report had not provided the Office with the relative V.A.T fiscal receipts by the time the audit review was being carried out. Since then, eleven (11) out of the thirteen (13) suppliers submitted a V.A.T. receipt and the amount which is not covered now is insignificant. The other two suppliers who failed to submit the fiscal receipt have been reported to the V.A.T. Department.

Room inventory lists will be redrawn as soon as refurbishment works are completed.

Department of Information

Background

The principal role of the Department of Information is that of assisting Government in the effective communication of updated policies and activities relevant to the Public Sector. Substantial investment was made in the information technology infrastructure to enhance the internal network system. This will enable the Department to provide a more reliable and effective link with the media through the regular electronic dispatch of Press Releases, Notices and visual materials including photographs. The Accounts Section, the Photo Library Section and the Sale of Government Gazette and Publications Section are the three (3) sections within the Department of Information where revenue is collected.

Control Issues

Opportunities were identified for improving controls in a number of areas during the review:

- Commitment (Goods and Services Purchase Order) not issued prior to purchase.
- Payment vouchers not covered by a fiscal receipt.
- Disregard of Procurement Regulations.
- Unreliable Inventory Ledger.
- Inaccurate Stock Records.

Compliance Issues

Commitment (GSPO) not issued prior to purchase

Thirty six (36) purchase orders out of fifty six (56) which required a commitment (i.e.64 per cent) were drawn up after the respective purchases had been effected.

The issue of a Purchase Order/Commitment is the main tool for ensuring that the relative expense falls within the approved budget. Non-adherence may result in not having enough funds to honour the actual expense and no approval being obtained prior to purchase.

Payment vouchers not covered by a fiscal receipt

Out of eighty (80) vouchers audited and which should have been covered by a fiscal document, twelve (12) payments (i.e. 15 per cent), covering ten (10) suppliers were not covered by a fiscal receipt.

An amount in excess of Lm 40,000 was found not to have been covered by an official V.A.T. receipt. This may result in V.A.T. collections not being passed on to the V.A.T Department.

Misallocation of expenditure

Four (4) vouchers out of the eighty four (84) examined during our audit (i.e. 5 per cent), were not charged to their respective account or sub item number.

The amount quoted in the Financial Report does not accurately reflect the proper amount relating to the particular item of expense. This also hinders an effective comparison of budgeted as against actual expenditure.

Disregard of Procurement Regulations

A high value professional Digital Camera was purchased from a supplier after a quotation was obtained from this same supplier. The procurement method adopted in this instance is in direct violation of the Procurement Regulations 1996 which stipulates "ad hoc" procedures in respect of items valued at more than Lm 2,500.

Unreliable Inventory Ledger

The Inventory room lists and the Inventory Database are not precise and accurate. In the five (5) rooms selected to be physically inspected, a number of items of inventory were recorded on the room lists but could not be traced in the relative rooms. There was also a number of items that were physically found in the rooms but not listed in the room lists.

Several items had no asset identification number marked on the asset itself and the Inventory Ledger was incomplete as most of the items did not show cost, location of the asset and/or date of acquisition.

Inaccurate Stock Records

Publications and Government Gazettes are supplied to the Sales Division by the Government Printing Press through a Supply Note. Up to the year 1997, all items received used to be included in the stock cards and any sales effected deducted therein. The balance of publications available was not always quoted on the cards. The system was subsequently computerised. However the balances from the old manual system were never carried forward.

The issue had been raised during reviews for financial years 1999 and 2000 and the Department confirmed that these balances were to be incorporated. The balances brought forward from previous years are however still not included in the computerised system.

Given the present situation there exists a lack of audit trail. It could not be verified whether all revenues were accounted for. This situation may lead to loss of revenue and/or abuse.

Recommendations

Commitment (GSPO) not issued prior to purchase

It is very important that, where applicable, goods and services are covered by a GSPO upon placing of an order. This will ensure that authorisation for the purchase is obtained as stipulated in the regulations.

Payment vouchers not covered by a fiscal receipt

The Department is to inform, on a regular basis as directed by the Ministry of Finance, the V.A.T Department regarding those suppliers who failed to submit a V.A.T receipt following payment of supplies of goods and/or services.

Misallocation of expenses

Items of expense are to be properly accounted for in the appropriate account and sub-item. This was also emphasised by the Permanent Secretary, Ministry of Finance by virtue of MF Circular 3/2000 dated 25th January 2000 that stated that *“it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded”*.

Disregard of Procurement Regulations

The Public Service (Procurement) Regulations states that equipment, stores, works or services costing more than Lm 2,500 but not more than Lm 20,000 shall be procured after a departmental call for tenders. These tenders shall be opened by three (3) senior officers of the department, and choice is made ensuring that the best value for money at the lowest possible cost is attained.

Unreliable Inventory Ledger

Inventory ledger is to be duly kept and updated with every purchase or relocation of inventory items. Asset ledger must be updated with all relevant details at procurement stage when it is relatively easy to establish their cost and date of purchase. One of the major tasks in the implementation of accrual accounting is to ascertain that inventory records are updated at all times. The absence of an up-to-date, complete and accurate Fixed Assets record has a serious bearing on accrual based accounting.

The room inventory list is to be generated in duplicate, one copy of which shall be kept by the inventory holder and the other by the Officer in charge inventory. Moreover, a new list shall be produced showing movement to additions, transfers and disposal of assets. However, the officer in charge should retain the replaced room list for possible audit trail.

Inaccurate Stock Records

Since the department has already contacted the Malta Information Technology and Training Services Ltd (MITTS) regarding the introduction of a stock control system at the sales division, it is recommended that the department makes every possible effort to reach an agreement with MITTS as soon as possible.

Management Comments

Audit report was reviewed by the Director at the Department of Information together with the respective members of staff and conclusions reached were communicated to the National Audit Office.

Findings and comments were mainly noted and steps are being taken to address shortcomings. However, reason given for disregarding the Procurement Regulations in the purchase of an expensive digital camera were not satisfactory.

Regarding the publications on sale at the Department, a Debtor control System tailor-made by MITTS Ltd. for this division is in the process of being introduced. However, no comments were forwarded in respect of the balances of the present stock records.

Electoral Office

Background

The main functions of the Electoral Office are to provide the organisation required for holding central and local government elections and referenda, to issue and renew Identity Cards, to maintain and publish the electoral register every six months and to provide administrative support to the Electoral Commission.

Key Issues

Copies of Electoral Register are made available to all interested parties at a charge of Lm 50. No records are kept as to number of copies made (compressed and copied to disks) and as to the number of requests received. This lack of audit trail may lead to abuse.

Control Issues

Opportunities were identified for improving controls in a number of areas during the review:

- Commitments (Goods/Service Purchase Order) not issued prior to purchases.
- Payment vouchers not covered by a fiscal receipt.
- Non compliance with standing transport regulations

Compliance Issues

Misallocation of Expenditure

Misallocation of procured items occurred in 17 instances out of 142 (i.e. 12 per cent) payment vouchers verified. These were not charged to their respective expenditure item.

Commitments (GSPO) not issued prior to purchases

Prior authorisation for purchase is being vitiated as very often goods and services are covered by a Goods/Services Purchase Order (GSPO) after purchases are made. Twenty eight (28) out of (49) vouchers verified (i.e. 57 per cent), had their Purchase Orders issued following the receipt of the invoice from the supplier.

The issue of a Purchase Order/Commitment is the main tool for ensuring that the relative expense falls within the approved budget. Non-adherence may result in not having funds to honour the actual expense and not approval being obtained prior to purchase.

Payment vouchers not covered by a fiscal receipt

Out of the 80 vouchers verified that required a VAT receipt, 22 suppliers did not forward VAT receipts relating to 31 payments (i.e. 38 per cent).

The amount of Lm 41,063.01 which is not covered by an official VAT receipt may result in VAT collections not being passed on to the VAT Department.

No return reporting suppliers who failed to submit fiscal receipts for the year 2001 has been sent to the VAT Department.

Non compliance with transport regulations

The Public Service Management Code and other directives issued periodically by the Ministry of Finance and the Office of the Prime Minister emphasise control and economy in vehicle utilisation, covering vehicles which are government owned or on hire. It was not possible to verify whether the regulations and other directives were being adhered to particularly because:

- i) No proper mileage records were being kept;
- ii) The number of litres purchased were recorded and not the cost;
- iii) There were several instances when:
 - no signatures were obtained from authorised persons;
 - one signature was entered to cover more than one journey towards different destinations for the whole day;

- the driver signed for the journeys made instead of the officer making or authorising the journey.
- iv) No log-book was produced in respect of one out of two of the impressed vehicles and no log-books were kept for self-drive vehicles which from time to time were leased during 2001.

Recommendations

Misallocation of Expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item as stipulated in MF Circular 3/2000 dated 25th January 2000 which states that *“it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded”*.

Commitments (GSPO) not issued prior to purchases

It is very important that, where applicable, goods and services are covered by a GSPO upon placing of an order. This will ensure that:

- i) authorisation is obtained as stipulated by the regulations
- ii) funds are available.

Payment vouchers not covered by a fiscal receipt

The Department is to report, on a regular basis as directed by the Ministry of Finance, to the V.A.T Department those suppliers who failed to submit a V.A.T receipt following payment of supplies of goods and/or services.

Every effort is to be made to enforce the principle that official VAT receipts are obtained from suppliers.

Lack of compliance with transport regulations

A logbook is to be kept for each vehicle and the exact mileage covered during each journey is to be recorded in the logbook and signed by the officer making the journey. This is essential to enable certifying officers to exercise proper control over the issue of fuel to vehicles.

General Recommendations

A system of internal control is strongly recommended to ensure that rules and regulations are adhered to and to ensure that rules and regulations are followed at a very early stage in the financial transactions.

Management Comments

The Chief Electoral Commissioner agreed to NAO's recommendations concerning the proper upkeep of logbooks. However, no satisfactory reply was submitted in respect of the other items of the report.

Ministry for Social Policy

- Social Security**
- Social Security Benefits**
- Care of the Elderly**

Department of Social Security - Stagers Section

Background

The function of the section is to transfer manual records of National Insurance Contributions onto the electronic SABS (Sistema għall-Beneficcji Socjali) system.

Data entry operators key in data from the manual ledger sheets to the system. The input is checked for human error and validated. The Senior Principal in charge has the facility to access the software to determine the daily input of each operator.

Control Issues

Opportunities were identified for improvement in the following areas:

- The facility available to the officer in charge has never been utilised to determine from time to time whether operators are giving a full day's work
- No time frames are established for the completion of this exercise. The number of employees assigned on the job fluctuates depending on other priorities of the section
- There is a risk that manual ledger sheets can be tampered with.

Recommendations

- The output of operators is to be assessed daily to identify low productive operators
- Time frames and completion dates are to be introduced as guidelines
- Samples are to be extracted from records transferred on computer. These are to be verified against the Employment & Training Corporation (ETC) database to check whether any contributions have been recorded as paid whilst the individual was unemployed.

Management Comments

Management agreed to make an assessment of the output of the operators. However, the other recommendations were contested on the following considerations:

- Work related to short term benefits is given priority as this is covered by a Quality Service Charter. Computerisation of manual records is considered of secondary importance
- Verification of data against ETC database has already been tried but discontinued due to the unreliability of the ETC data.

Department of Social Security -

Bank Reconciliation

Background

The Reconciliation Section is responsible for reconciling the Department's books of accounts against the bank statements. Accounts known as AM and CB were chosen for the purpose of this audit.

Key Issue

No Reconciliation and Adequate Records

The recording of benefits related to account AM was transferred from software known as VAX onto SABS (Sistema ghal-Beneficcji Socjali) during 1996. Account CB was similarly transferred in January 2002.

The VAX system had the facility of extracting the value of cheques which have been cashed, reversed and uncashed for reconciliation purposes. This is a vital routine in the reconciliation of bank balances with book balances. Although SABS caters for such a procedure, this list is not currently being extracted as it was found to contain technical errors. Due to this, the reconciliation of balances cannot be carried out electronically.

In addition, the Department does not hold any book of accounts that shows the running balance according to the Department.

The Department did not carry out bank reconciliation exercises since September 2001 in the case of account CB. This was stated to be due to technical errors in SABS. However, CB account was transferred onto SABS in January 2002. This means that the excuse of technical errors in SABS is not relevant for failing to reconcile the months of October, November and December 2001.

The AM account has not been reconciled since 1996.

Recommendation

The technical error in SABS is to be taken up at the highest level with MITTS to speed up action to address this weakness. Furthermore, it is also important for the Department to originate adequate records.

Management Comments

Management accepted the points raised and started remedial action.

Social Security Department -

Arrears of Revenue

Background

Arrears of the Social Security Department consist of amounts due from National Insurance contributions and of overpayments of Benefits/Pensions.

Key Issue

There is clear evidence that the gross amounts of arrears are unrealistic and unreliable. In view of this, no verification was carried out.

Control Issues

Opportunities for improvement were identified in a number of areas:

- The SABS software (Sistema ghall-Beneficcji Socjali) used at the Social Security Department has the facility of issuing overpayment reports. Due to the fact that the program does not have a cut-off date, records are generated from a specified date up to the date of running the program. The arrears of revenue report is run soon after the beginning of January with the result that the return for the year ending December 2001 does not include all payments up to 31 January 2002 as required by the Financial Regulations
- Personal ledger sheets, which are kept manually, contain details of receipts related to arrears. These are updated by information sent from area offices and from the reception at the Social Security Department, if sent at all. However, no enforcement is carried out to ensure that such information is received by the accounts section
- The report contains various entries with the note 'wrong ID'. If the person is unknown, there is a reasonable doubt whether such amounts can be recouped
- It was stated that arrears are not time barred/prescribed. However, various amounts, (some of which petty), are due as far back as 1957.

Nevertheless, nobody has taken the initiative to consider these amounts irrecoverable and initiate action to write them off

- The report contains Lm22,120.72 arrears which were collected before 2001 but were not previously recorded as such. This problem arises because all records are not updated on time due the complexity and work load involved in the compilation of the return of arrears
- The arrears for NI contributions prior to 1998 were not included in the return but had to be requested by NAO
- The amount of arrears with regards to NI contributions quoted in the Corporate Issues part of this report shows, in the Department's own words, a very rough estimate of what is owned to Government. The responsibility for collecting N.I. contributions was transferred to the Inland Revenue as from January 1998. This means that the Inland Revenue Department may have received payments of arrears of contributions which would alter the stated amount. Any such amounts have never been communicated to the Department of Social Security
- 47.8 per cent of the amount of arrears for the year 2001 consists of arrears created during the same year. This shows that efforts for minimising overpayments are hardly being made
- The total amount of arrears collected during the period is considered low. Only 21.7 percent was collected- Lm333,770 out of a balance of Lm1,534,672.

Recommendation

The Department should consider the implementation of a more simple and efficient procedure to cater for the needs of the completion of the return. In addition, the SABS system is to be enhanced to cater for the generation of a report as required by the Financial Regulations.

Management Comments

In view of the seriousness of the shortcomings, a meeting was held between NAO and the Department's officials following which a letter requesting remedial action was sent by this Office.

In reply, the Director Corporate Services stated what action will be taken in order to ensure better accountability as regards:

- i. those balances which are stale and should therefore be written off
- ii. balances which result to have been settled but not recorded
- iii. petty amounts that have been due for a considerable time and
- iv. dues as social security contributions charged to Age Pension claimants that are not payable in terms of the Social Security Act.

Furthermore, MITTS are being requested to enhance the SABS software so as to ensure that arrears of revenue that originated prior to the introduction of the computerised system are included in the database.

Also, N.I. Contributions that are collected by the Commissioner of Inland Revenue (since January 1998) and which have never been communicated to the Department of Social Security, would be included in the return. In this respect, the Inland Revenue Department is enhancing the system software so that these amounts will be made available.

Department of Social Security - Below the Line Account – Unpaid Drafts

Background

Funds for cheques issued with respect to Social Security benefits are transferred from the Public Account to any one of the three accounts known as AM, CB or AO. After the lapse of six months validity period of cheques, the related funds are electronically transferred from any of the three accounts to the Below the Line Account-Unpaid Drafts.

The beneficiary may present the cheque to the Social Security Department for redating or replacement within the next 18 months. This implies that a beneficiary retains the right to cash a cheque within 2 years from its issue date. Funds of cheques that are unrepresented during this period are transferred to a Revenue Account.

Key Issue

Submission of Requested Data

Several limitations were identified when data received was examined:

- No breakdown of the closing year balance of accounts AM, CB and AO held at the Central Bank was presented for examination. The Department only submitted a photocopy of the bank statement without the requested breakdown.
- No breakdown of the closing year balance of the Below the Line account was presented. Only a transaction listing for the year was submitted.
- No list of cheques redated or reissued during 2001 in respect of accounts CB and AO was submitted.
- None of the data submitted was in Excel or delimited text format as required. Furthermore, a check amount for verification purposes and

a certification that the information sent is complete, were not made available.

In the circumstances the intended audit could not be carried out.

Management Comments

Management accepted the points raised and started remedial action.

Department of Social Security -

Children Allowance

Background

Children Allowance is regulated by Section 76 of the Social Security Act. The payments of benefits are calculated in accordance with Part VII of the Second Schedule and the rate is determined by Part VI of the Fourteenth Schedule of the same act.

Households benefitting from Children Allowance totalled 35,814 during 2001. Total expenditure was Lm15,851,333.

Key Issue

Unreliability of Data

Children Allowance data covering the period July 1, 2000 to June 30, 2001 was initially requested by NAO in November 2001.

The database containing 2446 records of households with no children was received for examination in January 2002. Further examination resulted that some of these had never benefited from Children Allowance, others stopped receiving payment and others were still receiving the benefit.

Furthermore, preliminary examination of 3 households from the data received, revealed that two of such cases had stopped receiving benefit in 1997. The other stopped in 1998.

The System Administrator was not in a position to confirm that the information forwarded is complete once the information system contractor failed to give such a declaration.

In view of the above shortcomings the data was considered to be unreliable and as a consequence the audit exercise was aborted.

Management Comments

The Department was informed of the above concerns. However, management comments were not received by the date this publication went to print.

Department of Social Security -

Injury Benefit

Background

Any insured person who has not reached retirement age and has suffered personal injury arising out of or in the course of his employment is entitled to injury benefit. This is regulated by Section 28 of the Social Security Act. The computation of the amount due to entitled beneficiaries is carried out at the Department's branch office in Gozo.

The number of injury benefit claims were 5,150 and 4,867 for 2000 and 2001 respectively.

Control Issues

Opportunities were identified for improvement in a number of areas:

- On some occasions, when an ID number is entered onto the computerised system, the field related to the details of the spouse of the beneficiary will display the particulars of the previous beneficiary viewed
- According to the ETC database available at the Gozo branch, 3 beneficiaries (i.e. 12.5 percent of the total sample) were not registered as being in employment during the period for which injury benefit was granted.

Compliance Issue

Overpayment of Injury Benefit

On one occasion (i.e. 4.2 percent of the total sample) there was disagreement between the beneficiary and the employer on the number of days (5 or 6) worked per week. Furthermore, the same case resulted in a disagreement. It is not known which version is legally accepted. In either case the computation was incorrect and claimant was overpaid.

Recommendations

Control Issues

- The department should request MITTS to address this weakness.
- Employment data is to be corroborated with the ETC database.

Compliance Issue

Evidence on the actual number of working days per week is to be obtained from contract of employment. If this detail is not stated in the contract, the matter is to be referred to the Tribunal of the Industrial and Employment Relations. After the days worked in a week is determined, the amount of benefit due is to be recalculated and any overpayment recouped.

Management Comments

Management will be taking the necessary action to address the weakness in SABS system. The overpayment was also confirmed. However, the other recommendation was contested as follows:

- Beneficiaries not registered as being in employment-the Assistant Director stated that the signature of every employer is sought to ensure that the insured person was employed. However, being registered by the ETC is not a pre-condition to the entitlement to Injury Benefit.

Department of Social Security - Social Assistance

Background

Social Assistance (SA) in various categories is provided for in the Social Security Legislation and is aimed towards a segment of the population who fall under any one of the categories of assistance listed below.

- SA Allowance is received by persons under the age of 60 that are inmates of a state owned institution for the care and welfare of old people.
- SA for Drug Addicts is received by drug abusers admitted into a therapeutic community centre for the rehabilitation of Drug Addicts.
- SA Females is intended for single females and/or widows who are unemployed because they are taking care of a relative on a full time basis.
- SA for Single Unmarried Parents is to financially assist an unmarried parent (usually a female) who is unable to take up full time gainful occupation to take care of minor children.
- Social Assistance is granted to other heads of households who are incapable for work due to medical reasons.

The audit, which covered the period June 24, 2000 to June 22, 2001, was carried out on a sample basis. The population of this benefit and the sample size is as follows:

Benefit Type	Total Population	Sample Size
SAA - Social Assistance Allowance	21	1
DAD - Drug Addicts	126	1
SAF - Social Assistance Females	707	7
SUP - Single Unmarried Parent	1077	10
SA - Social Assistance	5630	56
Total	7491	75

Key Issues

Internal Control System

The internal control system in force is inadequate to prevent and/or detect errors. Assessors are not trained to perform their duties with the result that errors amounting to 46.7 percent of the selected sample were found even though the department has a system where one assessor determines the amount of benefits to be given and another verifies that that amount is correct.

Control Issues

Opportunities were identified for improvement in a number of areas:

- Discretionary decisions taken by management are verbally passed on to personnel. No system is in place to ensure consistency
- Sources of information available but not accessed at the application stage or at a later date to check for changes in circumstances
- Anonymous reports received not always investigated
- Relevant documentation not found in file
- A case of double payment was found thereby putting in doubt the reliability of SABS for preventing such occurrences
- No request from the beneficiary for alimony from the spouse even though legally eligible.

Compliance Issues

Medical Panel and Certificate

Nine (9) cases (making up approximately 16.1 percent of SA claimants) were not submitted for a medical examination by the department's medical board. Only the PA132 issued by the private medical doctor was traced in file. In another five (5) cases (making up approximately 8.9 percent of the selected sample for SA) the medical panel examining the claimant requested a re-examination on a particular date. This medical re-examination was carried out much later than as requested.

Incorrect Calculation of Benefit

Thirty-one (31) claimants (making up approximately 41.3 percent of the selected sample) were overpaid during the period under review. The overpayments during the 12 months under review varied from Lm1 to Lm2200.

Four (4) claimants (making up approximately 5.3 percent of the selected sample) were underpaid during the period under review. The underpayments during the 12 months under review varied from Lm6 to nearly Lm250.

Recommendations

Key Issue

Internal Control System

- The internal control system is to be enhanced to cater for the timely detection and continuous prevention of errors.
- Social Security Department personnel are to be well trained before being assigned any assessment or verification duties.
- Assessment and verification of new claims and/or changes in rates is to be carried out by two different pools of personnel.
- Verification should not only be carried out on application or when claimant requests a change in rate but periodically for as long as the benefit is given.

Control Issues

- Written guidelines are to be drawn up by management and brought to the cognisance of assessors, establishing consistency on decisions taken
- No claim should be met or referred for payment without the necessary checking against available databases.
- From time to time management is to ascertain that information held in the claimants' files and on computer have not changed. The more frequent it is practiced, the lesser the risk of error
- Anonymous letters are not to be completely ignored. Discreet investigations should be carried out

- If the department is unable to have sufficient documentary evidence to establish the correct rate, it is to award the minimum benefit or no benefit at all as the case may be. It would be the onus of the claimant to prove otherwise
- The software is to be enhanced to cater for these occurrences
- If claimant does not exercise his rights the department is to find out the other party's income and give claimant a reduced benefit or no benefit at all as the case may be. The department is to be vigilant for changes in the financial status of separated spouses to inform the claimant, in a timely manner, to request the courts to review maintenance allowance. This will better control public expenditure on social assistance and target financial help to genuine cases.

Compliance Issues

Medical Panel and Certificate

The department is to ensure that first time claimants in receipt of social assistance are invariably examined by the official Medical Panel as soon as possible after applying for benefit (in terms of the Act). In the cases of claimants being reviewed, review is to be carried out in a timely manner.

Incorrect Calculation of Benefit

Management is to establish procedures to improve the control system of reviewing amounts of benefits being paid. Sample checks are to be carried out by independent assessors to ascertain efficiency in the reviewing process.

Management Comments

The reply submitted by the Director (Social Security) addressed some of the findings reported by NAO. Nevertheless, the comments made were not satisfactory. NAO is awaiting reply with respect to the other findings.

Care of the Elderly and Community Services Department - Below the Line Account- Elderly Hostels

Background

During the year 2000, an amount of Lm220,000, later supplemented with an amount of Lm200,000 in the Supplementary Estimates, were voted for the planning, building, and completion of the Cospicua Home for the Elderly. These works were entrusted to the Construction and Maintenance Department. This Department was responsible for the drawing up of all the relevant specifications, the issue of the respective tenders, the supervision of all the works, the certification of all aspects of the project and the finalisation of all the bills.

Payments were referred to the Elderly and Community Services Department for endorsement once they were duly certified by the Director Construction and Maintenance, the Project Manager, the Consultant Engineer and the Quantity Surveyor as the case may be.

Several meetings were held between the above mentioned Departments and it was concluded that the remaining funds had to be allocated for the Cospicua Home to settle outstanding bills in respect of this Capital Project.

The Ministry of Finance authorised the transfer of the remaining funds to the Below the Line Account – Elderly Hostels for the payment of outstanding bills in respect of the Cospicua Home in accordance to Legal Notice 254/98.

Key Issues

Unrealistic Pending Bills

Due to the fact that the Construction and Maintenance Department is responsible for the drawing up of all relevant specifications, the issue of the respective tenders, the supervision of all works, the certification of all aspects of the project and the finalisation of all bills, the Department Elderly and Community Services is unaware of the value of pending bills to be settled from this account. The guideline used to calculate such amounts is only arrived

at by deducting amounts settled from the estimated contract value calculated prior to the issue of tenders. No coordination exists between the two departments in a bid to control pending bills.

Compliance Issues

Transactions were tested to ascertain whether they have been accounted for in accordance with the Departmental Policies and to the relevant financial legislation (M.F. Circulars 9/92, 5/96, General Financial Regulations 1966 and Procurement Regulations 1996).

Misallocation of Funds

- An amount of Lm68.78 which constitutes a payment for the installation of cable television at Luqa Day Centre has been inappropriately charged to the Cospicua Home account;
- An amount of Lm309.73 for the interior design of Luqa Day Centre was also incorrectly charged to this account. Furthermore an identical amount was subsequently erroneously vired to account 2240 – Operating Materials and Supplies. Eventually these two errors were reversed.

Unauthorised Transfers of Funds

An amount of Lm2,473 has been transferred from Improvement to existing Property account, without the necessary approval, and another deposited amount of Lm680 had no supporting documents.

Lacking Evidence Regarding the Use of Tiles

Documents related to a payment of Lm222.03 for the purchase of tiles were not filed with the other payment vouchers of the Below the Line account. No evidence was found regarding the use of such tiles. Furthermore, no information was given as to whether the tiles were part of the contract and whether certification was submitted by the Works Department.

No Reference for Approval by Contracts Department

A Payment for Lm3,965 in respect of extra works was not referred for the approval of the Director of Contracts once this amount exceeds 5 percent of the original contract value (Lm61,570).

Quotations not available

The purchase of shelving items costing Lm 985 was neither part of the tender awarded nor were quotations sought before the procurement was made.

Lack of Certification

Prior to payment, works completed should be duly certified by the Director Construction and Maintenance, the Project Manager, the Consultant Engineer and the Quantity Surveyor as the case may be. Payment certificate amounting to Lm4,987.50 for the purchase of fire doors, was paid without the endorsement of the Quantity Surveyor.

Recommendations

Key Issues

An action plan is to be embarked upon so as to facilitate the co-ordination between the departments involved with a view to resolve all pending issues in the most economic manner.

Compliance Issues

Misallocation of Funds

Funds in this Below the Line Account are not to be utilised or transferred for any other purpose other than for the payment of pending bills at the Cospicua Home for the Elderly.

Unauthorised Transfers of Funds

Approvals are to be requested from the Ministry of Finance for virement of funds of a capital nature in accordance with MF Circular 9/92. Furthermore, supporting documents are to be invariably available.

Lacking Evidence Regarding the Use of Tiles

Every payment voucher is to contain sufficient details so as to be able to determine that payments are charged to the appropriate account.

No Reference for Approval by Contracts Department

All works carried out over and above 5 percent of the original contract value should be approved by the Contracts Department for execution and eventual payment in accordance to MF Circular 5/96.

Quotations not Available

Since the purchase of shelving items costing Lm985 was not part of the tender awarded, quotations should have been sought before the procurement was made. It is to be ensured that procurement legislation is to be adhered to.

Lack of Certification

All payments, should be signed by the authorised official before effected in terms of standing regulations.

Management Comments

Management acknowledged receipt of the report submitted by NAO. Most of the weaknesses were addressed satisfactorily with the exception of:

- i. The unrealistic pending bills resulting from the lack of co-ordination between the Construction and Maintenance Department and the Elderly and Community Services Department
- ii. The missing documentation for an amount deposited to the below the line account and for the procurement of shelving.

Care of the Elderly and Community Services

Department - St. Vincent De Paule

Residence -Pharmacy

Background

St. Vincent De Paule Residence is the main state owned institution for the care of the elderly in Malta. The function of the Pharmacy within this institution is to provide medicinals for the residents at the home.

All medicinals utilised at SVPR are ordered and supplied from the Central Government Pharmaceutical Services (GPS) Stores.

Key Issues

The weaknesses that came to light during the course of the audit, are evidence of a lack of accountability and nonexistence of the basic elements of stock control.

One of these weaknesses concerned a particular dangerous drug that is obtained by wards from the dispensary in the required quantities depending on the number of users and the dosage that has to be administered. Notwithstanding that no quantities should be retained in a ward as stock, amounts ranging from 44 to 253 were found in five (5) wards selected as samples.

In addition, stocks are not stored in an adequate environment and the system does not cater for the prevention and/or detection of errors.

Control Issues

Opportunities were identified for improvement in a number of areas:

- No funds are allocated under the Department's vote for expected expenditure on medicinals to be needed during the year. Funds are allocated centrally within the vote of the Ministry of Health. SVPR is totally dependent on the Central Government Pharmaceutical Services.

Pharmacy

- Segregation of duties is very limited due to lack of qualified personnel
- Access to stores is not restricted only to authorised personnel
- The value of stock items is not determined
- Re-order levels, re-order quantities, consumption rates, maximum and minimum stock levels are not operated
- Stock items are not kept in a proper environment
- No stock ledgers are maintained
- Not all bin cards are kept with the respective items at the stores
- The records of stock movements on bin cards were not always initialed
- Requisitions for the replenishment of stock from the pharmacy to the dispensary are seldom raised
- Discrepancies between physical stocks and bin card balances varied from -3.33 percent to +500 percent
- The bin card of 4 items from the selected sample, making up approximately 15 percent, was not made available and quantities of two distinct types of store items are kept on the same bin card. Furthermore, no corresponding bin card entry was recorded for a number of items for which an invoice was available
- No corresponding invoice was made available for a number of receipts recorded on bin cards
- 20,000 units of item A014 on invoice dated 19th February 2002 were recorded on bin card as a receipt of 19,740
- 1000 units issued on 30 January 2002 from item no. EQ 12021 (0.5cc Insulin syringes) were recorded as an issue of 100 items from the running balance. Notwithstanding this, the physical balance matched with the balance on the bin card on the date of the stock take carried out during the audit.

Dispensary

- From the stocktaking exercise carried out at the dispensary, comparison between quantities on requisitions and physical issues over a week, revealed that a considerable number of issues were not accounted for. Furthermore, some medicinals were documented as delivered from the dispensary when this quantity was not available
- Medical items may only be obtained from 8:30a.m to 1:30p.m. As these items are required 24 hours a day, this may lead to ordering quantities in excess of requirements to cater for emergencies after pharmacy hours.
- Requisitions for staff entitlement are frequently requested verbally and vouched for only by the private doctor's prescription
- No ledgers and bin cards are maintained at the dispensary
- Dangerous Drugs of Addiction (DDAs) held at the dispensary were not included in the stocktaking report submitted to NAO.

Wards

- From the stocktaking exercises carried out at the selected wards, comparison between issues on requisitions and quantities administered to patients revealed that a considerable number of issues were not accounted for. On the other hand, it could not be explained how medicinals were administered to patients when this quantity was not available in wards
- The requisition booklet is not drawn in duplicate and hence alterations are possible
- No controls exist on the quantity of medical items ordered by wards.

Compliance Issues

Pharmacy

Writing off of expired drugs

No procedures exist for requesting and granting of approval for the writing off of expired drugs. This is in breach of Section 108 of the

General Financial Regulations. Furthermore, the expiry date of different batches is not recorded on an independent source apart from the physical container.

Stock takes

Stock takes are not carried out regularly in compliance with Section 111 of the General Financial Regulations. The first stock count ever made was the one submitted in February 2002 at NAO's request.

11 items from the selected sample, representing approximately 40 percent, were not included in the stocktaking report submitted to NAO.

Dispensary

Stock takes

Stock takes are not carried out in compliance with Section 111 of the General Financial Regulations.

The return submitted to NAO does not include quantities held at the dispensary.

Recommendations

Control Issues

- Management is to take up the matter with the Ministry of Finance to include the expenditure in the relative vote. This would be an incentive to control expenditure. Any savings under the vote at the end of the financial year could be utilised for other necessary expenses.

A system could be adopted whereby the Residence would not be dependent on GPS on its supplies but could order directly from the same suppliers appointed by GPS. This system is already being adopted in the case of the purchase of foodstuffs.

Pharmacy

- Management should attach suitably qualified personnel to the section. This will make the segregation of duties possible and thus enhance controls
- Stock should be safeguarded against loss by pilfering through appropriate physical controls including restrictions of access. Only

stores personnel should have access to store premises. This will enable management to establish control and accountability

- Action should be initiated now to conform with internationally accepted accounting practices as well as in preparation for the introduction of accruals based accounting system
- Such controls if adopted will optimise the management of stocks to cater for the needs of the home
- An action plan is to be established in order to set up adequate storage facilities
- Stock ledgers are to be introduced in order to improve accountability in stores management
- Bin cards are to be invariably placed next to the item in the stores and all entries are to be recorded immediately
- All entries on bin cards are to be invariably initialed in order to ensure a better audit trail
- No issues are to be effected without the appropriate requisition
- The stock control system should be improved so as to minimise and possibly eliminate the occurrence of similar discrepancies in the future
- Bin cards are to be originated for individual store items. More care should be taken for entries on bin cards in order to maintain correct record of stock movement
- More care should be taken for safekeeping of invoices in order to maintain full record of stock movement and ensure a better audit trail
- A system to prevent and detect errors is to be put in place to reduce or possibly eliminate such risks.

Dispensary

- An efficient system of control is to be introduced. This should comprise the introduction of bin cards and ledgers as well as procedures for periodic stock takes to identify in a timely manner discrepancies between physical, ledger and bin card balances

- Management should consider the possibility of increasing the number of hours during which medical items may be obtained from the pharmacy. This would decrease the necessity of holding emergency stocks in wards
- Management is to establish the staff entitlement for free medicinals. Upon confirmation of such entitlement, issues, are to be covered by proper requisitions and authorisation from the ward's doctor
- Stock ledgers and bin cards are to be introduced for every item in order to improve accountability
- Dangerous Drugs are to be included in the annual stocktaking report and issues to be under strict controls.

Wards

- A system that accounts for the consumption of medicines by patients is to be implemented at ward level
- The requisition raised for requesting medical items should be prepared in duplicate by the ward. Original to be sent to the dispensary and retained there while the copy is kept at the ward. The dispensary is to send a dispatch note with the delivery of medicinals
- The whole system of requisitioning should be overhauled with a view to eliminate the practice of additional requisitions. Loose requisitions, if retained, should be sequentially numbered as an internal control mechanism.

Compliance Issues

Writing off of expired drugs

A procedure for writing off of expired drugs should be established and implemented in accordance with Section 108 of the General Financial Regulations.

The stock control system should highlight the expiry date.

Stock takes

Stocktaking exercises are to be carried to satisfy the provisions of the General Financial Regulations (Section 111). Furthermore, management is to consider the adoption of continuous stocktaking. This method requires pharmacy

and dispensary personnel to carry out a stock take of a number of items periodically, and, in such a manner that all items would be checked at least once a year. This system if applied would not hinder the pharmacy's and the dispensary's operations.

It is to be ensured that all items are to be included in the annual stocktaking report.

Management Comments

Management comments were not received by the date this publication went to print.

Ministry of Education

- **Ministry**
- **Department of Education**
- **Libraries and Archives**
- **Department of Museums**
- **Department of Yourth and Sports**
- **Department of Culture**

Ministry of Education

Background

The mission of the Ministry of Education is to lead, coordinate and support change and developments in the formal and informal fields of education, culture, youth and sport. The Ministry strives to ensure that education and learning in educational institutions are appropriately related to the social, cultural and economic aspects of the life of the citizen, and that such institutions contribute individually, collectively and dynamically towards the promotion of social inclusion and the evolving requirements of a learning society.

Control Issues

Opportunities were identified for improving controls in a number of areas:

- Commitment (Good/Services Purchase Order) not issued prior to purchase.
- Payment vouchers not covered by a VAT fiscal receipt.
- Payment of goods and services made without receipt certification signature.
- Lack of compliance with transport regulations .
- Unreliable Inventory ledger.

Compliance Issues

Commitment (GSPO) issued after receipt of invoice

Fifty three (53) purchase orders out of one hundred and two (102) which required a commitment (i.e. 52 per cent) were drawn up after the respective purchases were effected.

The issue of a Purchase Order/Commitment is the main tool for ensuring that the relative expense falls within the approved budget. Non-adherence

may result in not having enough funds to honour the actual expense and no approval being obtained prior to purchase.

Payment vouchers not covered by a fiscal receipt

Out of one hundred and twenty two (122) vouchers examined and which should have been covered by a fiscal document, sixty (60) (i.e 49 per cent), covering forty eight (48) suppliers were not covered by a fiscal document.

The amount of Lm32,301.14 is not covered by an official V.A.T. receipt. This may result in V.A.T. collections not being passed on to the V.A.T Department.

Misallocation of Expenditure

Ten (10) vouchers out of the one hundred and fifty three (153) that were examined (i.e. 7 per cent), were not charged to their respective account or sub item number.

The amount quoted in the Financial Report does not accurately reflect the real amount relating to the particular item of expense. This also hinders an effective comparison of budgeted as against actual expenditure.

Payment for goods and services made without receipt certification signature

The part of the GSPO form requiring certification that the goods or services were received in good order and condition is not being filled in. Payments are still being effected without confirmation of actual receipt of such goods or services.

Lack of compliance with transport regulations

No proper mileage records are kept, thus control over the consumption of fuel and use of general cars could not be made. Furthermore, three (3) vehicles are being made use of after office hours, by personnel who are not entitled or authorised to use a fully expensed vehicle.

Unreliable Inventory Ledger

The Inventory Ledger kept at the Department is not reliable. Assets purchased during 2001 could not be traced in the ledger while other assets were entered twice. In eighty five (85) cases the same sequence number was

allocated to items of a different nature thus resulting in duplicate Identification Codes. Furthermore, other items were classified as “Heritage Assets”.

Recommendations

Commitment (GSPO) not issued prior to purchase

It is very important that, where applicable, goods and services are covered by a GSPO upon placing of an order. This will ensure that:

- i) authorisation for the purchase is obtained as stipulated by the regulations;
- ii) funds are available.

Payment vouchers not covered by a fiscal receipt

The Department is to inform, on a regular basis as directed by the Ministry of Finance, the V.A.T Department about those suppliers who failed to submit a V.A.T receipt following payment of supplies of goods and/or services.

Misallocation of Expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item as stipulated in MF Circular 3/2000 dated 25th January 2000 which states that *“it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded”*.

Uncertified receipt of goods and services

The person receiving the goods or service is to sign the Purchase Order, in order to enhance the internal control function. Payments should only be effected upon the declaration by the receiver that the items being paid for have actually been received.

Lack of compliance with transport regulations

A log-book is to be kept for every Government-owned or hired vehicle, and proper mileage for every journey performed recorded therein. This is essential to enable certifying officers to exercise proper control over the issue of fuel to Government-owned and hired vehicles. Each log-book is to be examined by the Head of Department from time to time and cases of irregular use of cars duly reported. Moreover no Government-owned or hired vehicles

may be used for journeys which are not on official business (Public Service Management Code section 8.2.4).

Unreliable Inventory Ledger

The Inventory Ledger is to be duly filled in and updated with every purchase or relocation of inventory items. The Asset Ledger must be updated with all relevant details at procurement stage when it is relatively easy to do so as their cost and date of purchase are known. One of the major tasks in the implementation of accrual accounting is to ascertain that inventory records are updated at all times. The absence of an up-to-date, complete and accurate Fixed Assets record has a serious bearing on accrual based accounting.

Management Comments

Ministry has agreed with NAO's recommendations and actions on the audit findings are being taken.

Regarding the item concerning the non submission of fiscal documents by suppliers, it was stated that the measures adopted by the Ministry since the beginning of 2002 were leaving good results.

A positive step taken by the Permanent Secretary was the issue of an internal memo addressed to the Director General, Directors and Assistant Directors within the portfolio of the Ministry of Education on the subject "Department Audits - Responsibility for Public Funds". Guidelines in connection with the proper implementation of the Financial and Procurement Regulations were also given. A short seminar for officers directly or indirectly linked to public expenditure was held. The seminar was also addressed by the Auditor General.

Department of Culture - Millenium Celebrations

Background

In February 1999 Government announced that a Committee consisting of 15 persons under the chairmanship of the Minister of Education was appointed to organise celebrations marking the start of the third millennium on a national level. The committee's task was to:-

- ascertain that an event that comes once every 1000 years is given its due importance;
- evaluate the celebration projects already initiated by both private and government entities and render support so as to make these projects a success;
- organise other activities which the Committee may deem fit for these celebrations.

Key Issues

Government financed the celebrations under the Department of Culture. All invoices paid out were certified correct by the Chief Executive Officer of the committee. Payment vouchers and other documents were raised by the Department of Culture. The committee also opened a bank account with the Bank of Valletta plc into which funds received in the form of sponsorships were deposited and payments were then settled from this account between end 1999 and early 2001.

Internal control in the processing of invoices was weak and subsequent settlement resulted in a series of overpayments effected by the department.

Control Issues

Internal control weaknesses were identified in a number of areas:

- Overpayment to various suppliers.
- Infringement of the Multipayment system.

- No proper filing of fiscal receipts and other documents.
- Untraceable purchases of assets.
- No authority from the Ministry of Finance to open a Current Account.
- Overstated balance of creditors.

Compliance Issues

Overpayment to various suppliers

A total amount of Lm 1,869.75 was detected as being double payments to four different suppliers and which have not yet been recouped are as follows:

- Payment Vouchers amounting to Lm247.25 were issued to a supplier for payment of 2000 posters in connection with the millennium celebrations calendar. Two invoices were issued for the same items. One invoice was addressed to the Millennium Celebrations Committee at La Sagra Infermeria in Valletta and the other was addressed to the Chief Executive NMCC at the Education Department Floriana. Both invoices were eventually paid.
- An amount of Lm 1,277.50 covering the same invoice was paid twice.
- Two payment vouchers were issued in respect of 30 reels of bell wire – 200 meters. Each voucher amounted to Lm103.50. Both invoices were dated 05/01/00, with one of the invoices being received by fax.
- Another two different Payment Vouchers, amounting to Lm 241.50 each were issued to a supplier in respect of a particular invoice. This amount was paid out by two separate cheques, from two different items of expenditure.

Refund of overpayment

A refund of overpayment amounting to Lm 1,000 collected from a supplier was submitted to the Department of Culture. However, the said amount could not be traced in the cash book.

Infringement of the Multipayment system

One hundred and ninety (190) multi payments raised by the Department in connection with the celebrations were examined. Thirty-nine (39) out of these payments included VAT charges amounting to Lm5,018.38. These payments should have never been treated as multi payments but as vendor payments.

The remaining balance of one hundred and fifty one (151) multi payments were issued to various individuals who are not VAT registered. They cover payment for services rendered, including attendance at information desks, to performers, watchmen and as reimbursements.

Most of the multipayment vouchers examined, which had been spent out of Public Funds, have been undeclared in the hands of the taxpayer.

During 1999 and 2000 various other multipayments were issued to individuals for services rendered in connection with the millennium celebrations such as, co-ordination, organisation, street decorations, special services in connection with band marches and assistance at information stands. These remunerations were not reported to the Commissioner of Inland Revenue for Income Tax purposes and no FSS deductions were applied.

- i) A payment voucher amounting to Lm 361.85 was issued for assisting at the information stands. Lm42 of the said amount were issued as an extra allowance as the individual concerned was on vacation leave from her proper work during part of the same period.

Another payment amounting to Lm100 was made to the same individual as payment for general co-ordination, identification, and allocation of personnel on two information stands and supervision of duty staff during the millennium celebrations.

There was no indication as to why two separate payments were made to cover the same period.

- ii) An amount of Lm544 was issued to an individual as payment in respect of service rendered. Part of the amount included a payment for vacation leave.
- iii) Three payments were made to an individual. A payment voucher amounting to Lm250 was issued as payment for professional and other services rendered during the month of December 1999 while

another payment voucher amounting to Lm300 was a payment as a special bonus for co-ordinating Valletta activities. The third payment amounting to Lm1,450 was also issued to the same individual for co-ordinating Valletta activities during the same period.

The amount of Lm300 as a special bonus for co-ordinating Valletta activities was paid twice under two separate payment vouchers.

- iv) An amount of Lm806 paid to other individuals for services rendered included a special bonus of Lm16 for Sundays and Lm8 for weekdays.
- v) Three other individuals received payments amounting to Lm7,100, Lm2,041 and Lm2,550 respectively which were described as being remuneration, mainly for services rendered, special bonus, production fees and payment for extra hours.

No authority was sought to pay these bonuses and allowances, no indication was given as to how the rates of payment for the various services rendered were calculated and such earnings were not declared to the Inland Revenue for income tax purposes.

No proper filing of fiscal receipts and other documents

The Department of Culture is a VAT registered entity. Treasury Circular 6/2000 dated 3rd February 2000 stipulates that fiscal receipts submitted by suppliers should be attached to payment vouchers. This is the only way to ascertain that both suppliers and departments are abiding with the VAT regulations. Moreover a clause in the contracts entered between the performers and the committee stated that “payment shall be effected by not later than six weeks from the date of receipt of a fiscal invoice”. However no fiscal documents (Tax Invoices/Fiscal Receipts) were attached to the relative payment vouchers.

Furthermore departments are obliged, in virtue of Treasury Circular 9/99 dated 11th November 1999, to report to the VAT Department those suppliers who do not submit a fiscal document. The Department did not submit details of defaulters to the VAT Department as per standing regulations.

Untraceable purchases of assets

A number of assets costing Lm12,598 that fell within the sample audited, were purchased and paid out of government funds between end 1999 and beginning 2001.

Items could not be verified whether these were taken on charge at the Department of Culture or not. It could not therefore be concluded whether the

assets were disposed of after the Millennium Celebrations Office ceased functioning or whether these have been taken on charge at some other department.

One has to point out that the list of assets under review is not to be considered as exhaustive since only a test check was carried out on expenditure vouchers.

No authority from the Ministry of Finance to open a Current Account

A current Account was opened with the Bank of Valletta on the 11th November 1999. The signatories of this account were any two persons out of a panel of three namely, the Chief Executive Officer, the Chairman Executive, or a member of the National Committee.

No approval was sought from the Ministry of Finance to open this bank Account while, Section 13 of the Financial Administration and Audit Act stipulates that 'no accounting officer shall open any public or official account in any bank.....without the authority in writing of the Minister'.

Overstated balance of creditors

The National Audit Office enquired whether there were any creditors and debtors relating to the Millennium activities. The Director Corporate Services replied that whereas no debtors existed, there was a number of creditors totaling to Lm 14,566.

In addition there exists a payment of Lm2,000, requested by the heirs of a late individual for the design of the Millennium logo but which is still in dispute since the Ministry is insisting on reducing the amount.

It also appears that Lm 432.50 interest shown as due to a supplier (as per creditors' list) is already included in their outstanding balance. This amount was then rectified when the supplier was eventually paid in December 2001 and this amount was deducted. Furthermore, the Accounts Officer at the Department of Culture verbally informed us that the amount of Lm 6,297.40 due to another supplier may have already been settled through various payments to another entity having interest in this supplier. This could not be confirmed through payment vouchers.

Recommendations

Overpayment to various suppliers

Action is to be taken immediately to recoup these funds. Once the sample uncovered a serious weakness in the payment processing system, a

review of all payments effected both from the Department of Culture funds and the Bank of Valletta current account is strongly recommended.

Infringement of the Multipayment system

When classifying an expense as a Multipayment, officers in charge must ensure that such an expenditure can neither be classified as salaries nor as paid to a VAT registered person. A person or body of persons that are carrying on an economic activity are obliged to register under the VAT Act .

The department should also ensure that relevant authority is obtained before allowances are granted.

No proper filing of fiscal receipts and other documents

V.A.T. receipts are to be attached to payment vouchers as is envisaged in Treasury Circular 6/2000 dated 3rd February 2000. The Department is to inform, on a regular basis as directed by the Ministry of Finance, the V.A.T Department regarding those suppliers who failed to submit a V.A.T receipt following payment of supplies of goods and/or services. Every effort is to be made to enforce the principle that official V.A.T. receipts are obtained from suppliers.

Untraceable purchases of assets

The Department of Culture should compile a list of assets bought for the Millennium Celebrations and trace the whereabouts of such assets.

As stipulated by MF Circular MF14/99, all fixed assets are to be recorded in an inventory ledger which is to be kept updated reflecting accurate and precise details of the item in question. If any item is found to be obsolete, a board is to be appointed to confirm and declare obsolescence of the item and to recommend its write off together with method of disposal.

Management Comments

Management failed to reply to our report and recommendations

Education Division

Background

The education division provides an effective and efficient system of educational institutions to ensure education and training in the domain of learning relevant to the needs of the Maltese society and in which, the right of the individual to develop all cognitive potential is a moral obligation on the part of society and a secure investment in the continued development of the nation

Key Issues

One of the major tasks in the implementation of accrual accounting is to ascertain that inventory records are updated at all times. The absence of an up-to-date, complete and accurate Fixed Assets record has a serious bearing on accrual based accounting.

The Education Department is vast and has many out-stations with schools spread throughout the island. Although the issue regarding the compilation of inventory was highlighted in the Auditor General Annual Report 2000, very little progress has been achieved.

Control Issues

Opportunities were identified for improvement in a number of areas:

- Completeness of records.
- Timely deposit of monies.
- Commitment (GSPO) not issued prior to purchases.
- Payment vouchers not covered by a fiscal receipt
- No segregation of duties for raising of a Purchase Order, certification of a correct invoice and issuing of the payment voucher.
- No proper record keeping of vehicle log books.
- No control over the use of vehicles and fuel consumption.

Compliance Issues

Incomplete Records

No requisition forms for the purchase of books by third parties has been kept by the Stores Section for the months January to May 2001. Although from June to December requisition forms were filed, these were not numbered. Hence, the exact amount that should have been collected from this section could not be determined.

No Receipt Numbers for tender documents collected

In two (2) out of the eight (8) tenders in the sample examined there were four (4) instances where no receipt number was allocated in the tender register to the persons/companies who collected the tender document. As a result it could not be verified whether fees were collected in these 4 cases.

Due to the high irregularity encountered, we checked all tenders originating from this section. It resulted that in twenty one (21) out of a total of eighty (80) tenders issued, there were twenty nine (29) persons/companies who collected the tenders but were not supported with a receipt number.

Moreover, tender documents for a particular tender were collected from the Capital Works Section for Aluminium works to be carried out at a Primary School. The receipt number quoted on the register for this company was already allocated to another company, in the previous months.

Delay in deposit of monies

The department is not abiding by the General Financial Regulations, 1966 as funds exceeding the Lm30 limit are not being deposited immediately. Money kept on site very often amounts to substantial sums.

Commitment not issued prior to purchase

Thirty-one (31) out of one hundred fifty (150) vouchers verified (or 21 per cent) were drawn up after their respective purchases had been effected. No approval was obtained prior to actual purchase.

Misallocation of Expenditure

Eighteen (18) payment vouchers representing 6 per cent of those verified during our audit were not charged to their respective account or sub-item number.

The amount quoted in the Treasury Financial Report would not reflect the real amount relating to the particular item of expense. This would also make it difficult to arrive at an effective comparison of budgeted as against actual expenditure.

V.A.T. Fiscal Receipts

Out of the three hundred and two (302) vouchers examined and which should have been covered by a fiscal document, one hundred and one (101) payments (or 33 per cent) relating to seventy-one (71) suppliers were not covered by a fiscal document.

An amount exceeding Lm120,000 is not covered by an official V.A.T receipt. It may result in V.A.T. collections on the amount not being passed on to the V.A.T. Department.

No Authority on Purchase Orders

In twelve (12) instances, the Goods or Service Purchase Order (GSPO) and the Payment Voucher were signed by the same individual and in most cases, the invoice was also certified correct by the same individual. The purchase orders were not forwarded to the Director for his authorisation.

Vehicle Log Books

The department has not complied with the standing transport regulations and proper record keeping of log books. Defaults encountered were:

- i) Tachometer readings records were left unrecorded or else recorded only once at the beginning or end of day. On two different days tachometer records have decreased instead of increased.
- ii) There were several instances when no signatures were obtained from the officer making the journey or from the person authorising the journey. On many occasions, one signature was entered to cover more than one journey towards different destinations for the whole day.

Recommendations

Completeness of Records

For internal control purposes, requisition forms are to be sequentially numbered to ensure completeness.

The correct receipt number is to be quoted in the Tender register against each person collecting the tender documents. These steps will ensure completeness of records and provide audit trail for revenue collected.

Delay in deposit of monies

Due to the nature of these payments received, the department can make arrangements with the bank to operate a direct credit system. This should substantially reduce the handling of cash.

Commitment not issued prior to purchase

It is very important, that where applicable, goods and services are covered by a Purchase Order upon placing of an order. This will ensure that authorisation for the purchase is not vitiated.

Misallocation of expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item. This was also emphasised by the Permanent Secretary, Ministry of Finance by virtue of MF Circular 3/2000 stating that *“it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded”*.

VAT Fiscal Receipts

The Department is to inform, on a regular basis as directed by the Ministry of Finance, the V.A.T Department regarding those suppliers who failed to submit a V.A.T receipt following payment of supplies of goods and/or services.

No return has yet been sent to the VAT Department, referring to suppliers who failed to submit fiscal receipts for the year 2001.

Every effort is to be made to enforce the principle that official VAT receipts or Tax Invoices are obtained from suppliers.

Vehicle Log Books

A log book is to be kept for each vehicle and proper mileage and destination recorded therein. This is essential to enable certifying officers to exercise proper control over the issue of fuel to vehicles. The signature of officer making/authorising the journey is to be obtained for every journey made. Each log book is to be examined by the head of department from time to time and cases of irregular use of cars duly reported. (Public Service Management Code)

No Government-owned vehicles may be used for journeys other than on official business. A car should not be for the exclusive use of any individual officer unless the duties of such officer consist almost entirely of fieldwork and is so authorised. (Public Service Management Code).

Management Comments

Audit report was reviewed by Management and conclusions were forwarded to the National Audit Office. Most of our comments were mainly noted and actions were taken to address shortcomings.

Management managed to trace nearly all of the relative receipts for the missing tenderers. However, in five cases the receipts quoted were dated well before the issue of the respective call for tenders. NAO is still awaiting the Department's response on these pending cases.

No reply was submitted as regards to lack of updated inventory records within the department.

Technician Apprenticeship Scheme

Background

The Education Division collaborates with The Employment and Training Corporation (ETC) in managing the scheme. Apprenticeship schemes are based on three aspects – Academic, Theoretical and Practical. These are based on a Dual System of studying at school and training in industry. During the apprenticeship phase all apprentices are required to attend an Educational Establishment for the acquisition of theoretical knowledge based on full time attendance during the first year and for two or three days per week from the second year onwards.

Any unauthorised absence leads to a deduction of Lm 1.30 and Lm 0.65 from the allowance, for any full day or half day respectively. The Department receives attendance records from the school on a monthly basis and the Salaries Section is informed accordingly.

During the summer vacations, first year apprentices will attend for an observation period in a work environment approved by the ETC.

An apprentice under this scheme is entitled to a maintenance grant and a weekly remuneration:

First Year

- A Maintenance Grant of Lm 40 per month payable from October to June;
- A Grant of Lm 100 per month from July to September payable to apprentices who attend for practical training (or observation) at an establishment approved by the ETC;
- Grant of Lm 140 paid on a once only basis at the beginning of the course to cover expenses related to the purchase of educational equipment.

Second and Third Year

- The Government pays a Maintenance Grant of Lm 40 per month for the two years.

Fourth Year

- The employer pays the wages, since apprentices will be on full time employment by then.

Key Issues

Overpayment of the scheme resulted mainly from delay in sending termination letters by the ETC.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Timeliness in correspondence from the ETC to the Department
- Correct remuneration to be given to students

Compliance Issues

Students paid during their fourth year

During the same year, two (2) out of twenty (20) 3rd year students of the audit sample, failed to be promoted to their 4th year but were still paid their maintenance grant when neither repeaters nor fourth year students should be paid any maintenance grant.

Remuneration to students who “Resigned” or “Terminated” their studies

New entrants for scholastic year 2001- 2002

Six (6) out of the eighteen (18) students taken in sample, (or 33 per cent) out of the new entrants who were listed as “resigned”, “terminated” or not confirmed by the ETC were paid their initial grant of Lm 140 and/or the monthly remuneration.

Students for scholastic year 2000 - 2001

During the scholastic year 2000-2001, thirty-seven (37) students from the fifty-seven (57) selected in sample have terminated the course halfway through the scholastic year. Two (2) students or 5 per cent out of these thirty-seven (37), were still being paid their maintenance grant after their resignation.

Inaccurate remuneration

Two (2) out of the fifty-seven (57) students, (or 3.5 per cent) that were selected as a sample received a higher remuneration without a valid reason.

Recommendations

Letters submitted to TAS students indicating their termination date from the scheme should be sent immediately upon resignation by the students. Copies of the said letters are to be forwarded both to the Department of Further Studies and Adult Education and Salaries section without delay. This will eliminate the possibility of overpayment. Furthermore:

- a system should be adopted outlining the responsibilities of the division/section involved in this process to ascertain that any overpayments are collected timely;
- an exercise should be carried out to quantify the overpayments and action is to be taken to collect amounts overpaid;
- follow up action is to be taken to ascertain that all refunds requested are settled.

Management Comments

During a meeting held with the Director Further Studies and Adult Education regarding overpayments, the Department of Further Studies feels that it is not within its duties to claim overpayments but this should fall under the direct responsibilities of the salaries section. No concrete steps have been taken up to time of writing by the Education Division to address this issue.

Libraries and Archives

Background

The Department of Libraries and Archives consists of the National Library in Valletta, the National Archives in Rabat and the Public Libraries in Malta and Gozo.

The National Library acquires, assembles and preserves for posterity the national collections of printed and audio visual material as well as material in electronic form.

The National Archives collect, appraise and organise all public records of archival value. They make these records available for research by preparing indexes, catalogues and other finding aids.

The public Library system provides the public with well-selected and current reading material for information and for leisure. The Public Library Network is made up of the Central Public Library, 7 Regional Libraries, 49 Branch Libraries including 10 in Gozo and 3 Hospital Libraries, two of which are run on a part-time basis.

Key Issues

The department collects revenue from the sale of four publications namely, *“National Bibliography”*, *“Bibliography of the 19th Century periodicals”*, *“Guide Book to the National Library”* and *“Deed of Donation”*. No control is kept of such publications and as a result the number of books sold could not be verified against the number of books in stock.

Control Issues

Opportunities for improving controls were identified in a number of areas:

- Good or Service Purchase Order (GSPO) not issued prior to purchase.
- Payment vouchers not covered by a fiscal receipt.
- Unreliable Inventory Ledger.
- No proper Upkeep of Motor Vehicle Log Books.
- Untimely Deposits at Bank

Compliance Issues

GSPO not issued prior to purchase

Eighteen (18) out of sixty-one (61) purchase orders (i.e 29.5 per cent) which required a commitment were drawn up after the respective purchases had been effected.

Moreover, no purchase orders were raised in respect of eight (8) payment vouchers. Payment is being made for goods or services which may not have been authorised and/or were not required.

The issue of a Purchase Order/Commitment is the main tool for ensuring that the relative expense falls within the approved budget. Non-adherence may result in not having enough funds to honour the actual expense and that no approval was obtained prior to purchase.

Payment vouchers not covered by a fiscal receipt

Out of eighty seven (87) vouchers examined and which should have been covered by a fiscal document, twenty six (26) payments (i.e.30 per cent), were not covered by a fiscal document.

This may result in V.A.T. collections not being passed on to the V.A.T Department. Furthermore, during 2001 the list of defaulters reported to the VAT Department was not properly submitted as a "nil" return was sent.

Unreliable inventory ledger

- i) Discrepancies were found between items recorded in room lists and actual items found in rooms;
- ii) Room lists are not signed, neither by the officer in charge of room nor by the officer in charge of inventory;
- iii) The inventory ledger does not show all the information requested by MF circular 14/99.

No proper Upkeep of Log Books

The department has not complied with the standing transport regulations and proper record keeping of log books. Defaults encountered were:

- i) Tachometer reading records were entered only at the start and at the end of the day irrespective of the number of journeys performed

during the day. The department would not be in a position to effectively control consumption of fuel and usage of vehicles.

- ii) In several instances no signatures were obtained from the officer performing the journey or from the person authorising the journey. On other occasions, one signature was entered to cover more than one journey towards different destinations for the whole day or even covering journeys carried out on different days. This results in the officer in charge not being able to certify that journeys were carried out on official duties.
- iii) In two (2) out of the three (3) log books examined, fuel purchased was only occasionally recorded. This goes contrary to Public Service Management Code provisions.

Untimely deposits into bank

The National Archives section is not abiding by the General Financial Regulations wherein the frequency of cash and cheque deposits are stipulated – deposits of amounts exceeding set limits are being made at long intervals.

Recommendations

GSPO not issued prior to purchase

It is very important that where applicable, goods and services are covered by a signed and approved GSPO upon placing of an order. This will ensure that authorisation for the purchase is obtained as stipulated in the regulations.

Payment vouchers not covered by a fiscal receipt

The Department is to inform, on a regular basis as directed by the Ministry of Finance, the V.A.T Department regarding those suppliers who failed to submit a V.A.T receipt following payment of supplies of goods and/or services.

Inventory Ledger

The room inventory list is to be generated in duplicate, one copy of which shall be kept in the room and the other by the Officer in charge of inventory. A new list shall be produced with each new addition, transfer or disposal, however the replaced room list should be retained by the holder for possible checking.

Inventory ledger is to be duly filled and updated with every purchase or relocation of inventory items. Asset ledger must be updated with all relevant details at procurement stage when it is relatively easy, as their cost and date of purchase are known. One of the major tasks in the implementation of accrual accounting is to ascertain that inventory records are updated at all times. The absence of an up-to-date, complete and accurate Fixed Assets record has a serious bearing on accrual based accounting.

Proper Upkeep of log books

Correct mileage records should be recorded for every journey performed and log books should be examined by head of department or his assistant every month, as per Public Service Management Code. Moreover, the signature of officer performing or authorising the journey is to be obtained for every journey made.

The Department should ensure that logbooks are updated with the quantity of fuel purchased in the appropriate column following the purchase of fuel, and that journeys are carried out on official duties only.

No control of stock

A stock book is to be kept showing the number of publications printed, the number of copies sold and the running balance of such publications.

Untimely deposits

Monies collected by the National Archives are to be remitted to the bank as per General Financial Regulations. The officer in charge should deposit daily any sums of money that has been collected.

Management Comments

Audit report was reviewed by the Director Libraries and Archives together with the respective members of staff and conclusions reached were communicated to the National Audit Office. Findings and comments were mainly noted and steps are being taken to address shortcoming and to implement the recommendations made by this Office.

Department of Museums

Background

The Museums department is responsible for the management and maintenance of a diversity of museums and archaeological sites and their collections. It also ensures by means of its diverse services, that present and future generations are able to derive cultural, educational and economic benefit from Malta's heritage.

Key Issues

The Inventory Control Regulations are not being followed by the Department. No Fixed Assets (inventory) records are kept.

The exercise outlined in MF Circular 14/99 and which should have been completed within one year should be finalised without delay. One of the major tasks in the implementation of accrual accounting is to ascertain that inventory records are updated at all times. The absence of an up to date, complete and accurate Fixed Asset Record has a serious bearing on accrual accounting.

Control Issues

Opportunities for improving controls were identified in a number of areas:

- Payment Vouchers not covered by a fiscal receipt
- No control over the issue of Receipt Books
- Entrance tickets cannot be traced to bank deposit
- No cash books kept at Head Office or at the various Museum sites
- No proper Stock Record Register kept for the sale of publications and the issue of complimentary books

Compliance Issues

Commitment to purchase (GSPO) raised after receipt of Invoice

Seven (7) out of eight five (85) or 8 per cent Payment Vouchers which required a commitment (GSPO), were drawn up after the respective purchases were effected.

The issue of a Purchase Order is the main tool for ensuring that the relative expense falls within the approved budget. Non-adherence may result in funds not being available to honour the actual expense and no approval being obtained prior to purchase.

Payment Vouchers not covered by a fiscal receipt

Out of the seventy four (74) vouchers audited and which should have been covered by a fiscal document, forty four (44) payment vouchers or 59 per cent were not covered by a fiscal document.

No control over the issue of General Receipt Books

The exact amount of funds collected through the sale of publications could not be determined. The General Receipt Stock Book could not be produced for inspection and therefore the completeness of all used counterfoil Receipt Books could not be ascertained. Neither could it be ascertained that all receipt books supplied by the Government Printing Press have been taken on charge in the register.

Entrance tickets cannot be traced to bank deposits

There is no indication as to which entrance tickets are being covered by each bank deposit, as the serial numbers of the tickets are neither entered on the Departmental Accounting System Receipt, nor on the Deposit Slip. Since only the amount of deposit effected is documented, completeness of the deposits could not be verified.

No cash books or collection sheets kept on site or at Head Office

Neither the Head Office nor any one of the Museums Sites keeps a cash book or a collection sheet to record takings as stipulated in the General Financial Regulations.

No proper Stock Record Register kept for the sale of publications and the issue of complimentary books

No proper Stock Record Register is being kept for recording the sale and the issue as 'complimentary' of publications found at the Museum of Fine Arts, Inquisitor's Palace, Roman Villa and Museum of Archeology (including postcards at the Museum of Fine Arts).

This issue has already been raised by this Office in the Report of the Auditor General for the year 2000. Although NAO was informed by the department in August 2001 that instructions were given to officers/curators in charge of museum sites that they are to keep such stock control register, the procedure has not yet been implemented.

Recommendations

Commitment to Purchase raised after receipt of Invoice

It is very important, that where applicable, goods and services are covered by a Purchase Order upon placing of an order. This will ensure that authorisation for the purchase is obtained as stipulated in the regulations.

Payment Vouchers not covered by a fiscal receipt

The department is to continuously inform the VAT Department, on a quarterly basis, (monthly up till February 2002) regarding those suppliers who failed to submit a fiscal receipt following payment of supplies of goods or services. Every effort is to be made to enforce the principle that official VAT receipts are obtained from suppliers. As stipulated in the standing regulations, one should discontinue purchasing items from VAT defaulters until the matter is rectified.

Control over the issue of Receipt Books

The Stock Register should be kept in a safe place with easy access when updates are required. Treasury Circular 10/99 states that *"Head of Department shall ensure that the Department Stock Book is kept up to date at all times. The date of acquisition and serial numbers of all Counterfoil Books taken on charge, issues, returns and striking off will be appropriately entered in the Stock Book"*.

Revenue from Entrance tickets to be traced to bank deposits

Both Deposit slips raised on Site and DAS receipts issued by Accounts are to include the receipt numbers in respect of which deposit is being made. It is also important that the related DAS receipts, the Paying-In Record Form and the Collection Advice from the bank are to be kept attached together.

Cash Books or Collection Sheets to be kept

Each accounting officer both on site and at the Head Office who in the course of duty is responsible for the receipts, custody and disbursement of public funds shall keep a cash book in which all receipts shall be promptly entered. All cash books shall also be balanced daily and checked with the cash in the office till as stipulated in the General Financial Regulations.

Proper Stock Record Register to be kept for the sale of publications and the issue of complimentary books

A stock taking exercise should be immediately carried out for each type of publication (including postcards), to determine the amount of stock in hand. An officer shall be assigned to update records when a sale is effected and held responsible for stocks. An annual physical stock take will be carried out thereafter and result reconciled with stock records.

General Comment

The implementation of the above recommendations may become very urgent in view of the taking over of the responsibilities of the Museums Department by the "Heritage Malta" established under Act VI of 2002.

Management Comments

Audit report was reviewed by Management and conclusions were forwarded to the National Audit Office. Comments were noted and action is to be taken to implement recommendations to ensure that the above shortcomings are addressed.

Department for Youth and Sports

Background

The department's mission is to promote the development of sport in Malta and to stimulate an environment that gives youths the right opportunities and space for their talents and energies.

The Youth Section's task is to create and develop opportunities for holistic education and work by means of activities, programmes and initiatives on a national scale. Priority areas for this section include promoting the implementation of the National Youth Policy in collaboration with the National Youth Council. Technical and financial assistance as well as overseas studies and exchange opportunities are provided to youths and youth organisations to enable them to promote and develop both personal and community oriented initiatives in the areas of drama, music, arts and voluntary work.

The Sport Section assists individuals and organisations to enhance the development of their preferred discipline at national and international levels. It focuses on sport developments including construction of sport complexes and upgrading and maintenance of other sport facilities. It also provides technical and financial assistance to sport organisations and individuals.

Key Issues

During 2001 the department accepted registrations for "Skola Sport" and "Skola Sajf" by means of various Credit/Debit cards. However no prior arrangements were made with the banks so as to be able to recover such payments. Consequently, all such revenues were not collected.

The Department is to take immediate action to collect monies due from "Credit/Debit Card" applicants

Control Issues

Opportunities were identified for improving controls in a number of areas:

- Commitment (GSPO) not issued prior to purchases.
- Payment vouchers not covered by fiscal receipts.

- Payment of traffic fines.
- No control over the use of vehicles and fuel consumption and no proper record-keeping of vehicle log books.
- No cash book kept by the Department.
- Delays in remitting money to the Bank.
- No reconciliation between amounts remitted to the bank and amounts entered in the Accounting System.

Compliance Issues

Commitment (GSPO) issued after receipt of invoice

Twenty seven (27) purchase orders out of sixty five (65), (i.e. 41.5 per cent) which required a commitment, were drawn up after the respective purchases had been effected. No approval was obtained prior to purchase.

Payment vouchers not covered by a fiscal receipt

From the ninety one (91) vouchers audited and which should have been covered by a fiscal document, thirty (30) were not covered by a fiscal document (i.e.32 per cent).

The amount of Lm 6,983 is not covered by an official V.A.T. receipt which may result in V.A.T collections not being passed on to the V.A.T Department.

Furthermore, a payment voucher amounting to Lm 50.43 was issued for hospitality expenses. No invoice was attached with this payment voucher.

Regulations broken in the “*course of duties*”

Four vouchers covering Lm110 payments were issued to a private garage in respect of parking tickets.

Lack of compliance with transport regulations

Further to our recommendation following the year 2000 Audit Report, a memo outlining regulations relating to the use of cars was issued by Director, Youth & Sports. However these rules are still not being followed and the officer

in charge is not in a position to confirm or otherwise that journeys were carried out on official and/or authorised duties.

No control over the use of vehicles and fuel consumption.

- i) No proper mileage records are kept, thus control over the consumption of fuel and use of general cars could not be made;
- ii) Three vehicles are being made use of after office hours, by personnel who are not authorised to fully expensed vehicles;
- iii) On a number of occasions only one signature was made to cover more than one journey towards different destinations. The same can be said in respect of journeys carried out on different days. Signatures on the log books pertain to the officers of the department who are making continuous use of the vehicles. No signatures at all were obtained from authorised persons, or log book signed at the end of the day to cover all the trips effected during the day. The officer in charge transport would not be able to certify that journeys were carried out on official duties;
- iv) Contrary to Public Service Management Provisions, fuel purchased was not recorded in the log books concerned. There is no record of the cost or number of litres of fuel purchased except for the requisition form number.

Delay in remitting money to the Bank

Monies, both cash and cheques are being kept at the Department for long periods of time. Financial Regulations stipulate that cheques are to be remitted to bank on the same day these are received. Since there is no record of when cheques are received at the department, it could not be determined for how long the cheques had been held back.

It was also noted that the sum of Lm150 received between 2nd November 2001 and 3rd December 2001 was kept at the officer's desk and handed over to the accounts section on 7th January 2002. These monies were remitted to bank of 28th January 2002 .

No reconciliation between amounts remitted to the bank and amounts entered in the Accounting System

From a report extracted from the Departmental Accounting System (DAS) we examined the below-the-line A/c 8467, fees from "Skola Sports" in the year 2001. These receipts were physically examined.

No DAS receipt was issued to cover one hundred sixty five general receipts amounting to Lm1,920 remitted to bank on 20th December 2001. In the absence of a DAS receipt, the amount has not been included in the reports generated by the Accounting System such as an Income Report. As a result, the amount shown on the Income Report does not include the amount of Lm1,920 which has been actually remitted to the bank. Furthermore, two DAS receipts amounting to Lm104 issued to cover general receipts between 11th November and 11th December 2000 were remitted to bank on 16th January 2001, thus shown as revenue for the year 2001.

This results in reports being extracted from the Accounting System showing inaccurate and unreliable results.

Inventory Database not yet updated

The department is still updating inventory database. Items purchased during the year 2001 had not yet been entered up to the time of this review.

Recommendations

Commitment (GSPO) issued after receipt of invoice

The issue of a Purchase Order/Commitment is the main tool for ensuring that the relative expense falls within the approved budget. Non-adherence may result in not having enough funds to honour the actual expense and no approval was being obtained prior to purchase.

It is part of the control function to ensure that where applicable, goods and services bought are covered by a GSPO upon placing of an order. This will ensure that authorisation for the purchase is obtained as stipulated in regulations.

Payment vouchers not covered by a fiscal receipt

The Department is to inform, on a regular basis as directed by the Ministry of Finance, the V.A.T Department regarding those suppliers who failed to submit a V.A.T receipt following payment of supplies of goods and/or services.

Every effort is to be made to enforce the principle that official V.A.T receipts are obtained from suppliers. The Department is to continue reporting defaulters to the V.A.T. Office.

Non compliance with standing regulations and no proper record-keeping of vehicle log books

Correct mileage records together with the signature of the officer making/authorising the journey is to be obtained for every trip made.

The Department should ensure that logbooks are updated with the quantity of fuel purchased in the respective column following the purchase of fuel, and that journeys are certified to have been carried out on official duties.

No cash book kept by the Department

Section 82 of the General Financial Regulations states that for all cash and cheque payments made to the Department, a receipt is to be issued and then recorded in a cash book. The latter is to be balanced daily and income collected classified under the different items of revenue. This cash book is to be kept up to date enabling audit trail and providing reliable and accurate records.

Delay in remitting money to the Bank

Monies are to be remitted to the accounts section immediately and are to be deposited to the bank as soon as possible.

Lack of reconciliation of income

General receipts issued during the day are to be recorded into the DAS system at the end of the day so that reports are always up to date and reliable.

Inventory Data Base not yet updated

The inventory database is to be kept updated with every purchase or relocation of inventory items. The Asset Ledger must be updated with all relevant details at procurement stage when it is relatively easy, as their cost and date of purchase are known.

Management Comments

- Audit report was reviewed by the Director for Youth and Sport together with the respective members of staff.
- Our comments were noted and action promised to address shortcomings.

- The Department also stated that action is being taken to recover monies that should have been collected through card applications. However, upon verification at the Department, it transpired that forty nine (49) out of seventy (70) payments (i.e.70 per cent) have still not been recouped up till end October 2002.

Department of Culture

Background

The Department promotes the participation of local artists in cultural initiatives both locally and abroad. It also sought to raise cultural awareness of the national heritage at all levels of our social strata. The Department extended its services and assistance to Local Councils, non-governmental cultural organisations as well as to the artistic community and the general public.

During 2001, the department accepted fifty-four requests for financial assistance through the Cultural Support Programme. Forty-six organisations and eight individuals benefited from this scheme, receiving a total of Lm 16,522, moreover there was a number of revenue generating activities.

Key Issues

The weaknesses inherent in the internal control system and the series of errors that came to light indicate that the Department needs to address weaknesses as a matter of priority to safe guard public funds.

Control Issues

Opportunities for improvement were identified in a number of areas:

- No segregation of duties exists for raising of a Goods or Service Purchase Order (GSPO), certification of a correct invoice and issuing of the payment voucher. GSPO certifying that the goods or services were received in good order and condition was very often not filled.
- Lack of control in allocation of expenditure.
- Infringement of the Multipayment system.
- No proper filing of fiscal receipts and other documents.
- No “*Arrear Charge*” approval.

- Lack of follow up of original receipt for presentation to the Department.
- Laws and Regulations broken in the “*course of duties*”.
- Funds not deposited in bank or delays in deposits and inaccurate cash book.
- Insufficient records of revenue due and/or collected and revenue not receipted.
- Non compliance with standing transport regulations and no proper record-keeping of vehicle log books.
- No control over the use of vehicles and consumption of fuel.
- Inventory ledger not updated.
- Non submission of annual stocktaking report.

Compliance Issues

Commitment to purchase issued after receipt of Invoice

Thirty eight purchase orders out of ninety (i.e. 42 per cent) which required a commitment (GSPO), were drawn up after the respective purchases had been effected.

Misallocation of Expenditure

The forty-eight (48) payments out of the one hundred and eighty four (184) vouchers examined (i.e. 26 per cent), were not charged to their respective account or sub-item.

The Treasury has since January 2001 upgraded Government’s accounting/reporting system enabling a better analysis of Government’s Expenditure and Revenue.

Eighty-four (84) out of three hundred and seventeen (317) i.e. 26.5 per cent of the payment vouchers amounting to Lm17,413.58 and which were not related to contributions, were charged to item 5705 i.e. Contributions to Non Government Institutions.

56 per cent (i.e. 194 out of the 345) of the expenditure entries, amounting to Lm36,889 were erroneously charged to item 3060 i.e. Contractual Services,

when these were mainly Prizes, Grants, Subsidies, Financial Assistance and reimbursements falling under different sub-heads.

The amount quoted in the Financial Report would not reflect the real amount relating to the particular item of expense. This also hinders an effective comparison of budgeted as against actual expenditure.

Infringement of the Multipayment System

Multipayments are a special type of transaction used for payments to non VAT registered persons, that is persons who are not registered in the National Vendor Database. No invoice is expected to be raised by these individuals. It may be tempting to use the Multipayment function to generate cheques for all types of commitment, but this is neither advisable nor allowed.

Due to the high incidence found in the Multipayments that fell within the sample audited, the whole population was examined.

Five hundred and forty (540) entries out of seven hundred and sixty (760) expenditure items (i.e. 71 per cent) can be classified as remuneration for participation and other services rendered. These should therefore, have been included under salaries/wages and/or declared under the Income Tax FSS regulations.

An amount of Lm78,992 (i.e. the total amount for the 540 payment vouchers) which had been spent out of Public Funds, has been undeclared in the hands of the taxpayer resulting in the possible loss of revenue due under the VAT regime and/or the Income Tax Act.

V.A.T. Fiscal Receipts

Out of the ninety (90) vouchers audited and which should have been covered by a fiscal document, fifty seven (57) payment vouchers (i.e. 63 per cent) were not covered by a fiscal document.

The total amount of Lm7,587.79 is not covered by V.A.T receipts possibly resulting in V.A.T. collections not being passed on to the V.A.T. Department.

“Arrear Charge” Approval

Five (5) payment vouchers amounting to Lm 843 required arrear charge approval from the Ministry of Finance since the invoices were issued by the suppliers during 2000.

However the requisite authority as granted by the Ministry of Finance was not made available. The Department stated that it does not keep a copy.

Lack of follow up of original receipt for presentation to the Department

A grant of Lm 3,000 was paid to enable a Choir to perform overseas. These monies were to be payable upon production of original receipts, however receipts have not yet been presented up to the time of NAO's audit.

Laws and Regulations broken in the “course of duties”

Payment voucher 7308001558 amounting to Lm250 was a payment for a traffic fine in respect of a hired vehicle on behalf of the Culture Department. The fine was issued for *“Having driven the said car without being in possession of both the driving license issued by the Commissioner of Police and tag issued by the Public Transport Authority. As a result, you were not covered with an adequate insurance policy covering third party liability risk. The prosecution revokes any driving license from your possession for a period of not less than twelve months”*.

It is NAO's opinion, that the fine of Lm 250 should have been paid by the owner of the vehicle and not by the Department of Culture.

Thirteen (13) other “Lm10” fines were also settled by the department in respect of contravention tickets during the year under review.

Funds not deposited and inaccurate cash book

Discrepancies were found between the amount of cash forwarded by the Cultural Organisers and the actual amounts entered in the cash book and remitted to the bank. The discrepancies amounted to Lm 1,171.

Particulars in respect of sources of revenue entered in the cash book were inaccurate. As a result it was quite difficult to verify amounts in the Cash Book with the statements given by the organisers.

Insufficient records of revenue collected and revenue not receipted

- A cheque amounting to Lm 500 received by the Department in relation to the hire of ten trailers could not be traced to the Cash Book. It could not be confirmed whether this was lodged with the bank, as a list of cheques deposited is not kept by Accounts Section.
- Revenue of Lm 520 from the hire of trailers which was forwarded to the accounts section and entered in the cash book under a particular

activity, was not included in the income and expenditure account prepared by the cultural officer in charge of that activity. The exact amount of revenue that should have been remitted could not therefore be traced.

- No records were available showing items hired out by the department, thus the exact amount that should have been received could not be determined.
- Details relating to refunds of salaries by the Mediterranean Conference Centre, totaling Lm 1,738.85 shown in the cash book were not given to NAO in order to ascertain whether the amounts were allocated to the correct account. Moreover, no receipts were being issued for this type of revenue and as a result it could not be established whether the amounts found in the Cash Book were correct and what the actual refund should have been.

Delay in deposit of monies to bank

Monies, both cash and cheques are being kept at the Department for long periods of time. This applies, both to the officers in charge of collecting revenue to be handed over to the Accounts Section, and to the accounts section itself in remitting monies to bank.

Vehicle Log Books

The department has not complied with the standing regulations and proper record-keeping of log books. Defaults encountered were:

- i) No log books were presented in respect of six (6) vehicles;
- ii) No proper mileage records kept, thus control over the consumption of fuel and use of general cars could not be made;
- iii) No signatures were obtained from authorised persons using the car, or log book signed to cover the trips effected during the day. The officer in charge therefore would not be able to certify that journeys were carried out on official duties;
- iv) Vehicles are being made use of after office hours by personnel who are not entitled to a fully expensed vehicle.

Inventory Ledger Not Updated

Out of three hundred and eighty four entries (384) recorded in the departmental inventory database, two hundred and seventy seven (277) entries (i.e. 72 per cent) did not show the cost of the items, while two hundred and fifty five (255) entries (i.e. 66 per cent) did not show the date when the asset was acquired.

Inaccuracies resulted in allocating the Asset Identification Number. MF Circular 14/99 illustrates how the Asset ID No structure is to be made up out of digital characters. However, the Department has not followed these guidelines.

Inventory of the Finance office which consists of twenty five (25) inventory items all recently purchased (except for one item) according to the Finance Manager, are not included in the Inventory Database. Only the room list with no asset identification number was made available for checking, however a carpet and curtains costing Lm174 and Lm365 respectively are not included in the list. Furthermore, transfer procedures as per MF Circular 14/99 were not followed when the old Inventory items in this room were replaced.

Non submission of Annual Stocktaking Report

In spite of the various reminders, a copy of the annual stocktaking report of physical check of stores carried out during the year 2001 has not been submitted by the Department of Culture to the National Audit Office as per Section 111 of the General Financial Regulations.

Recommendations

Commitment to purchase issued after receipt of Invoice

It is very important, that where applicable, goods and services are covered by a Purchase Order upon placing of an order. This will ensure that authorisation for the purchase is obtained as stipulated in the regulations.

Misallocation of expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item. This was also emphasised by the Permanent Secretary, Ministry of Finance by virtue of MF Circular 3/2000 dated 25th January 2000 that stated *“it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded”*.

Infringement of the Multipayment System

When classifying an expense as a Multipayment, it must be ensured that such an expenditure can neither be classified as payment of salaries, nor paid to a person or body of persons that are carrying on an economic activity, in which case those receiving payment are obliged to register under the VAT Act.

VAT Fiscal Receipts

V.A.T. receipts are to be attached to payment vouchers as is envisaged in Treasury Circular 6/2000 dated 3rd February 2000. The Department is to inform, on a regular basis as directed by the Ministry of Finance, the V.A.T. Department regarding those suppliers who failed to submit a V.A.T. receipt following payment of supplies of goods and/or services. Every effort is to be made to enforce the principle that official V.A.T. receipts are obtained from suppliers.

“Arrear Charge” Approval

In terms of the Financial Regulations, any claims which remain unavoidably unpaid at the end of a financial year shall not be defrayed from the votes of the subsequent year unless authority is obtained from the Permanent Secretary Ministry of Finance for their being paid as arrear charges. Authority covering such payments should be filed and made available when required.

Inaccurate Cash Book

Revenue should be properly classified and identifiable to its related activity. Any monies, both directly received by the accounting officer, and amounts forwarded by the cultural organisers are to be covered by a DAS receipt, indicating the manual receipt numbers issued by them.

Undeclared Revenue

All revenue should be included in the Income and Expenditure account of the related activity. If such account is not required, the organiser in charge is to keep statements of revenue segregated from other activities for ease of reference.

Revenue not receipted

It is to be ensured that a receipt is given for every type of income received by the department, irrespective of its nature as stipulated by the General Financial Regulations.

Delay in Deposit of Monies to Bank

Monies are to be passed on to the Accounts Section immediately after they are received. Cheques received during the course of the day together with any sum of Lm30 or upwards are to be remitted to bank on the same day. Any collections, however small the amounts have to be remitted to the bank every Friday and on the last working day of the month as per the General Financial Regulations.

Vehicle Log Books

A log-book is to be kept for each vehicle and proper mileage recorded therein. This is essential to enable certifying officers to exercise proper control over the issue of fuel to vehicles.

Every journey made should be recorded giving correct mileage and destination. The signature of officer making/authorising the journey is also to be obtained.

Government-owned vehicles cannot be used for unofficial business. The allotment of a car for the exclusive use of any individual officer should not be allowed unless the duties of such officer consist almost entirely of field work. Every log-book is to be examined by the head of department from time to time and cases of irregular use of cars duly reported.

Vehicles are to be left at the location of the respective department/section.

Inventory

The exercise outlined in MF Circular 14/99 dated 24th November 1999 and which should have been completed within one year, should be immediately undertaken and the task finalised with the least possible delay. One of the major tasks in the implementation of accrual accounting is to ascertain that inventory records are updated at all times. The absence of an up-to-date, complete and accurate Fixed Assets record has a serious bearing on accrual based accounting.

The Inventory Ledger is to be duly filled and updated with every purchase or relocation of inventory items. The Asset Ledger must be updated with all relevant details at time of purchase when it is relatively easy as their cost and date of purchase are known.

General Recommendation

- Management should be more aware of the responsibilities assigned to them and take appropriate action to improve the situation.
- A robust internal control mechanism should be put in place.

Management Comments

Director Culture agreed with all audit findings and is also to implement the recommendations made by this Office. However, notwithstanding requests by the department for submission of the necessary receipts covering the grant of Lm 3,000 to a choir, no documentation has yet been received by the department.

Furthermore the following comments were submitted in respect of particular items, namely;

- the department has submitted to the Commissioner of Inland Revenue a list of payments amounting to over Lm 29,000 effected during 2001 through the “*Multipayment*” system to “*non-VAT registered*” individuals;
- no member of the staff on messengerial duties is a driver by grade. The mini-bus which had all the required licences and permits, was hired for one day. The department will, if need arises, hire a mini-bus together with a driver from the rental garage;
- the sum of Lm 1,171 being difference between the cash forwarded by the Cultural Organisers to the Accounts and the actual amount deposited has been remitted to bank upon notification by the NAO examiner during the audit;
- the short deposit of Lm 500 has been made good for and deposited into bank.

Ministry of Finance

- **Ministry**
- **Inland Revenue Department**
- **Capital Transfer Duty Branch**
- **Treasury**
- **Contracts Department**

Ministry of Finance

Background

The Ministry of Finance's mission is to introduce the necessary financial, fiscal and monetary measures and to ensure that their implementation is directed towards the achievement of Government's economic and social objectives.

The Vote covered by this audit relates to the operations of the Office of the Minister of Finance and that of the Private Secretariat.

Key Issues

Lack of original documentation

It was not found possible to carry out the audit on original documents since these were placed in the stores. For the period January 2001 till November 2001, verification was done on copies of Local Purchase Orders, Payments Vouchers and Invoices. However, original documents were used for the month of December 2001, since these were still in the office. The officer in charge was recommended to store original records for ease of future reference.

Control Issues

Petty Cash Book not maintained

The Ministry does not maintain a Petty Cash Book. Records of expenses reimbursed are maintained through the imprest account sheets and receipts.

This weakness hinders:

- the Ministry's control over refunds issued
- the possibility of verifying that balance as per Petty Cash Book tallies with balance of petty cash in hand.

Lack of authorisation or documents relating to purchase

Purchase of Security System

Request for a direct order approval, to cover the purchase of a security system costing more than Lm 3,000, was made some days after the supplier's invoice.

Purchase of Laptop

A laptop costing more than Lm 1,000 was purchased through a direct order and approved by the Minister. Payment for purchase was authorised by same.

In addition, opportunities for improvement were identified in the following areas:

- accounting for and effecting payments
- control over use of Ministry's general use vehicles
- control over inventory items.

Compliance Issues

Purchase of Oven

Quotations were obtained from four different suppliers for the purchase of an oven to cater for the needs of the Ministry. After comparing prices and different equipment characteristics, a bidder was chosen on the basis of the most economic price and equipment but the final oven that fitted a built-in cupboard was bought for a higher price of Lm473.

Purchase of Summer Uniforms

Summer uniforms were purchased from a company other than that which was awarded the contract for the Government servicewide supply of summer uniforms. In addition, no specific details of the uniform purchased were shown on the invoice.

Vehicle Lease Agreement

The Ministry signed a 6 year agreement in 1999 to lease a vehicle. The option was not taken up of purchasing the vehicle at a depreciated rate of 20 percent per annum on the reducing balance of the purchase price.

Refurbishment works at the building housing the Ministry's Basement

The final works amounted to Lm 14,000 (incl. VAT) against the successful bid of Lm 7,700. The Director General approved this bill following the architect's certification.

Local Purchase Orders issued after receipt of Invoice

Thirty-one (31) out of 79 (i.e. 39.2 percent) payment vouchers verified had their Local Purchase Orders issued following the receipt of the invoice from the supplier.

Misallocation of Expenditure

Twenty-one (21) out of 89 (i.e. 23.6 percent) vouchers (including multi-payments) verified were not charged to their respective account or sub-item number.

The amount quoted in the Financial Report would not reflect the real amount relating to the particular item of expense. This also hinders an effective comparison of budgeted as against actual expenditure.

V.A.T. Fiscal Receipts

From the 79 Payment Vouchers audited, 21 suppliers did not forward to the department V.A.T. receipts relating to 23 payments (i.e. 29.1 percent).

The amount of Lm 100,270 is not covered by official V.A.T. receipts which may result in V.A.T. collections not being passed on to the V.A.T. Department.

Arrear Charges

The department did not obtain the necessary approval to effect 2 payments, invoiced during Financial Year 2000, out of funds approved for the year under review. Payments related to the hiring of equipment for TAIEX week (Lm 510.19) and purchase of hard disk and software (Lm 378.93). In addition, the Local Purchase Orders were issued during Financial Year 2001.

Funds for the year 2001 may have been used to pay for invoices carried forward from the previous financial year without prior formal approval.

Log-Books

Log books of two general use cars for the first two months were examined and revealed the following weaknesses:

- On a number of occasions, miles on the tachometer decreased with every journey instead of increased.
- On other occasions, miles increased excessively with every journey.
- No tachometer records were kept on some days.
- Beginning-of-day destination records for one vehicle were either found unreadable, left blank or else the journey did not commence from the Ministry, as is required.
- On other times, end-of-day journeys were not clearly recorded, records were not kept at all, or vehicles were not returned to the Ministry at the end of the day.
- In some instances, either no records were kept for 'Purpose of Journey' or the purpose of the journey was not clearly recorded.
- No records were kept for journeys carried out (if any had actually been made) on various days.
- There were several instances where no signatures were obtained from authorised persons for the whole day's journeys.
- Fuel issued was never taken note of in the log books. The column 'Issue of Petrol' was used to record other log book details.

Because of the above irregularities,

- control for the consumption of fuel and use of general use cars is hindered
- the officer in charge would not be able to certify that journeys were carried out on official duties
- comparison between journey destination and tachometer reading is not possible
- the officer has to refer to Local Purchase Orders and/or Payment Vouchers to obtain details as to the amount of fuel consumed during a particular period by one of the general-use car

- the officer in charge would not be able to certify, on a monthly basis, that journeys were carried out on official duties.

Inventory

- A sample of 124 items was selected to a physical inspection. 59 items (i.e. 47.6 percent) could not be traced either because they were not physically in the room (24 items) or else their location was unknown (31 items).
- A digital copier was not taken on charge in the Inventory Ledger.
- Inaccuracies resulted in allocating the Asset Identification Number Classification.
- Although some inventory items were physically found, they were not mentioned in the respective Room List. On the other hand, although some inventory items were mentioned in the Room List, either some were missing or else found to be located in a different room.

Recommendations

Control Issues

Petty Cash Book not maintained

Ministry is to maintain a Petty Cash Book as stipulated by the General Financial Regulations 1966.

Lack of authorisation or documents relating to purchase

Purchase of Security System

Ministry is recommended to comply with the Public Service (Procurement) Regulations 1996, in particular with Section 11 regulating the procurement procedure.

Purchase of Laptop

Prior to affecting purchases in the range of Lm 1,000 to Lm 2,500, Ministry is to obtain authorisation of the Permanent Secretary or the Director Corporate Services.

Compliance Issues

Purchase of Oven

The Officer in charge must ensure that the actual purchase of goods or services tallies with the quotation selected. If requirements change, established procedures covering such eventualities are to be followed.

Purchase of Summer Uniforms

Purchases of government uniforms are to be effected only from suppliers chosen by the Contracts Department. Moreover, for effective verification to be carried out, full details and specifications of the uniform(s) ordered are to be shown on the relevant documents.

Vehicle Lease Agreement

Ministry is to prepare calculations in order to decide whether it would be more cost-effective to continue leasing or else purchase the vehicle.

Refurbishment works at the building housing the Ministry's Basement

Prior to issuing a call for quotations, Ministry is to carefully study the specifications. Considering the final bill, a departmental tender would have been more adequate than a selective call for quotations.

In addition, reference is made to Section 11 (b) of L.N. 70 of 1996 stating that *".....the Minister may allow variations, penalties and remissions, in respect of such contracts, to be approved by the Minister charged with responsibility for that department, who may delegate his authority to the Parliamentary Secretary, the Permanent Secretary, or head of department."*

Local Purchase Order issued after receipt of Invoice

The issue of a Local Purchase Order is the main tool for ensuring that the relative expense falls within the approved budget. Non-adherence may result in not having enough funds to meet the actual expense. Moreover, authority is not obtained prior to the purchase.

Whenever possible, goods and services are to be covered by a Local Purchase Order or Letter of Acceptance upon placing of an order. This will ensure that proper authorisation for the purchase is not vitiated.

Misallocation of Expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item number as stated in MF Circular 3/2000. If the proper account is short of funds a virement should be raised.

V.A.T. Fiscal Receipts

The department is to continuously inform, on a quarterly basis, the V.A.T. Department regarding those suppliers who failed to submit a V.A.T. receipt following payment of supplies of goods and/or services. (MF Circular 5/2002 relates)

Arrear Charges

The department is to adhere to Section 74 (1) of the General Financial Regulations 1966 stating that: *“Any claims which remain unavoidably unpaid at the end of a financial year shall not be defrayed from the votes of the subsequent year unless authority is obtained from Ministry of Finance for their being paid as arrear charges on the accounts of the financial year to which they refer”.*

Log-Books

- Correct mileage records should be written for every journey made.
- The signature of officer making/authorising the journey is to be obtained for every journey made.
- The destination of every journey carried out on an official duty should always be appropriately recorded.
- Vehicles are to be left at the Ministry of Finance. Thus, beginning and end-of-day journeys are to read ‘Ministry of Finance’.
- The log-books are to be updated, with the amount spent in the column ‘Petrol Issued’, following the purchase of fuel.
- The log-books are to be examined by the Head of Department, or an officer authorised to do so, on a monthly basis, and cases of irregular use of cars duly reported. (Public Service Management Code - Sections 8.2.4 and 8.2.5)

Inventory

- Update Inventory Ledger with every purchase or relocation of inventory items.
- Assign the appropriate Asset Identification Number Classification to each inventory item.
- Provide updated and signed Room Lists to each room within the Ministry.

Management Comments

Management will be addressing main concerns raised and action taken accordingly. However, it was further remarked that:

- Allocation to specific budgetary sub-items often involves an element of personal judgement and the effect on the Financial Report is minimal.
- Certain divergencies from regulations were due to urgent responses to specific needs.
- Although costings regarding the vehicle lease agreement, using a 6 percent Discount Factor, indicate that purchasing the vehicle would be marginally more cost-effective, it is doubtful whether it would be prudent for the Government to purchase the car at this particular moment.

Department of Inland Revenue – Income Tax

Background

The Income Tax Division of the Inland Revenue Department is considered as the back bone of Government's source of revenue generation. Apart from the administration and collection of Income Tax, this Division is also responsible for the administration and collection of the Social Security Contributions. During 2001, amounts collected totalled Lm345 million, Lm166 million under Income Tax and Lm179 million contribution under the Social Security Act. The report covers the operation of the Income Tax Cost Centre during Financial Year 2001.

Key Issues

Correspondence Management Unit

This unit is responsible for the management of the Workflow Management System introduced on 22 January 2001. All unstructured correspondence is scanned and electronically routed to the responsible IRD Officer for the necessary action. This system is the first step towards the setting up of Taxpayers' Quality Service Charter.

Legislation

The Income Tax Act and the Income Tax Management Act were amended by Act IX of 2001. The more important amendments were:

- **LN 125/2001:** enabling provision and clarifications with respect to Fringe Benefits. The rules provide for detailed valuations in respect of car benefits, use of assets, accommodation, other benefits and certain exemptions.
- **LN55/2001:** regulations regarding the classification, valuation and taxation of Collective Investment Schemes.
- **LN298/2001:** an updated schedule providing a list of assets and the number of years over which Plant and Machinery is to be depreciated. The method of deduction changed to the 'straight line method'.

Tax Audits

During the year, the department started conducting tax audit enquiries. One hundred and sixty-seven out of 298 cases were concluded, resulting in an increase of Lm1.2 million in income brought to charge (These figures do not include cases referred to the Tax Compliance Unit).

Computerisation

During the year, the Year-by-Year System and the Accounts Receivable System were enhanced to cater for new requirements and regulations, including the Fringe Benefit Tax System.

The receipting process and reporting system at the Cash Office were amended. The latter was made compatible with the Departmental Accounting System.

New software to enhance the present enforcement system of the collection of Income Tax, Social Security Contributions and Final Settlement System was introduced. This includes a new report so that FSS data capture can be gauged, audited and monitored.

Social Security Section

During 2001, the newly-formed Section focused on:

- the systematic enforcement of Class II contributions, payable by self-employed and self-occupied persons.
- the development and testing of new software for the validation and enforcement of Class I contributions.
- the development of a new system of individual validation of SSC whereby every individual and employer will have a Social Security Account.

Control Issues

Opportunities were identified for improvement in the following areas:

- Lack of control over use of department's general use vehicles.
- Lack of managerial control over inventory items.

Compliance Issues

Untraceable Departmental Files

No departmental file was kept in respect of purchase of chairs from a particular company which was paid Lm2,215 during the year under review.

No Formal Contracts

(i) Consultants

No letters of engagement were in existence as regards two consultants.

(ii) Ex-Inland Revenue Employees

During the year under review, the department engaged three former Inland Revenue employees to render services in connection with ex-officio assessments. No formal agreements were entered into stipulating the terms of employment. The department stated that payments related directly to the number of ex-officio assessments that were completely finalised.

Local Purchase Order (LPO) issued after receipt of Invoice

Twelve (12) purchase orders or 22 per cent out of 55 vouchers verified which required an LPO, were drawn up after the respective purchases had been effected and the department invoiced.

Misallocation of Expenditure

Four (4) or seven per cent out of the 55 vouchers examined were not charged to their respective account or sub-item number. Three out of the 4 misallocations reported were rectified in the recommended account number. The division is regularising its position considering that misallocated expenditure amounted to a high rate of 22 percent for Financial Year 2000.

V.A.T. Fiscal Receipts

From the 55 vouchers audited, 6 suppliers did not forward to the department V.A.T fiscal receipts relating to 8 payments (i.e. 15 percent). An amount exceeding Lm17,500 is not covered by an official V.A.T. receipt and it may result in V.A.T. collections not being passed on to the V.A.T. Department.

Suppliers were requested by the Department to regularise matters and issue the V.A.T. receipts.

Log-Books

A sample check was carried out of log-books of 5 general-use vehicles in respect of transportation made during the first two months of 2001. Although there was an improvement in the record-keeping of log-books compared to previous years' audits, the instances outlined hereunder, continue to demonstrate that the department is not complying with the relevant regulations;

- Several times, mileage records were written only once, at the beginning of the day, even though more than one journey was carried out.
- On other times, tachometer reading records for the whole day were not recorded.
- Instead of the tachometer reading increasing with every journey made, sometimes mileage records remained stable for different journeys performed.
- On 3 different days tachometer records of a particular vehicle decreased instead of increased according to the journeys performed.
- For the period 25th January 2001 to 28th January 2001 mileage reading of one vehicle increased while not in use.
- There were several instances where no signatures were obtained from authorised persons.
- On some occasions one signature was made so as to cover more than one journey towards different destinations, sometimes even for journeys carried out on different days.
- Other instances, the driver signed for journeys made and not the officer making or authorising the journey.
- General-use vehicles did not always commence their first (morning) journey from the department.
- Although there were times when the end-of-day destination took place at the department as the requirement states, on other occasions the end-of-day destination took place elsewhere.
- Sometimes the journey destination was not written clearly. Instead arrows and dots often replaced such records.

- Fuel purchased was seldomly recorded in the Log-Books concerned. On the other hand, when fuel issued was recorded, it was not always appropriately noted, recording either the commitment number only or writing 'Diesel' and not the actual amount spent.
- 2 from the 5 log-books reviewed, were not updated as required.

Because of the above irregularities,

- control for the consumption of fuel and use of general use cars is hindered;
- the officer in charge would not be able to certify that journeys were carried out on official duties;
- proper comparison between the journey destination and related tachometer reading mileage is not possible;
- the officer has to refer to Local Purchase Orders and/or Payment Vouchers to obtain details as to the amount of fuel consumed during a period of time by one particular general-use-car;
- the officer in charge would not be able to certify, on a monthly basis, that journeys were carried out on official duties.

Inventory

- (i) Two items were entered on the inventory list without having a value. It was remarked that 'No Invoice' was available when the inventory items were included in the list.
- (ii) Certain payment vouchers relating to items of inventory falling under audit sample were not taken on charge in the Inventory Ledger. No reference of these items was made in the Monthly Return of New Inventory.
- (iii) Lack of or incorrect Asset Identification Number Classification.
- (iv) Some items in three rooms checked were either not mentioned in their room lists but found in the room, or vice-versa.
- (v) No inventory room list was found in three rooms.

The above irregularities effect the level of managerial control that could be exerted over inventory items falling under the division's responsibility.

Recommendations

Compliance Issues

Services Rendered to Department – No Formal Contracts

The department is to regularise the engagement of the officers by entering into a formal agreement stipulating:

- Duties of the officers.
- The maximum number of hours these officers are engaged for.
- The rate per hour, stating clearly whether the rate is inclusive or exclusive of V.A.T.

Local Purchase Order issued after receipt of Invoice

Goods and services are to be covered by a Local Purchase Order upon placing of an order. This will ensure that authorisation for the purchase is not vitiated.

Misallocation of expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item as stated in MF Circular 3/2000. If the proper account is short of funds a virement should be raised.

V.A.T. Fiscal Receipts

The Department is to continuously inform, on a quarterly basis, the V.A.T. Department regarding those suppliers who failed to submit a V.A.T. receipt following payment of supplies of goods and/or services as stipulated in MF Circular 5/2002. Every effort is to be made to enforce the principle that official V.A.T. receipts are obtained from suppliers. The department is to continue to report defaulters to the V.A.T. Office.

Log Books

- Correct mileage records should be written for every journey made.

- The signature of officer making/authorising the journey is to be obtained for every journey made.
- The destination of every journey carried out on an official duty should always be appropriately recorded.
- Vehicles are to be left at the Inland Revenue Department. Thus, beginning and end-of-day journeys are to read "IR Department".
- The log-books are to be updated, with the amount spent in the column 'Petrol Issued', following the purchase of fuel.
- The log-books are to be examined by the Head of Department, or an officer authorised to do so, on a monthly basis, and cases of irregular use of cars duly reported. (Public Service Management Code - Sections 8.2.4 and 8.2.5)

Inventory

- Update Inventory Ledger with every purchase or relocation of inventory items.
- Assign the appropriate Asset Identification Number Classification to each inventory item.
- Provide updated and signed Room Lists to each room within the division's blocks.

Management Comments

On 6 February 2002 the Director Administration and Enforcement of the Inland Revenue Department - Cost Centre 1 - was asked for his comments. These comments were received on 27 February 2002 following a meeting held to discuss the audit report. Most of the recommendations were agreed to and action taken accordingly. It was further remarked that:

- The department is in the process of entering into a formal agreement with the 3 ex-Inland Revenue department employees.
- Since October 2001, an officer has been detailed to check log-books, tachometer readings and other details. Since then, major

improvements have been recorded in the record keeping of log-books and compliance with regulations. Instructions have been given for more frequent checking of log-books.

- The department is not in a position to ascertain the fuel consumption of each car accurately therefore rendering the effective control of petrol very difficult.

Capital Transfer Duty Branch

Background

The Capital Transfer Duty Branch within the Department of Inland Revenue, falls within the Ministry of Finance. For accounting purposes, the Inland Revenue Department has been sub-divided into two cost centres. The Capital Transfer Duty (CTD) Branch is allocated to Cost Centre 2.

The CTD is responsible for the administration of:

- The duty payable on the transfer of immovable property following sale and death or donation where applicable.
- Duty collected in respect of share transfers, insurance policies, bank credit cards and other various documents.
- Granting permission for the acquisition of immovable property by foreigners.
- Advancing money on pledges of precious metal through 'Il-Monti' attracting interest at 5 percent per annum.
- Controlling the manufacture and sale of gold and silver articles through the assaying of articles manufactured in Malta and the application of official control marks on every article of gold and silver manufactured or imported in Malta.

The price of gold and silver, on which valuations made by this Office are based, is determined daily on the values quoted by the Central Bank of Malta. Adequate legislation is being drafted to cater for the modern needs of the jewellery industry.

For the year under review, the CTD processed, amongst others, 12,147 notaries deeds, 241 returns of chargeable transmissions following death or donation, 333 permits for foreigners (out of 450 applications received) and 7,642 pledges accepted.

During 2001, extensive restoration and refurbishment works continued. Progress was also registered as regards the implementation of the computerisation programme for all sections.

Key Issues

Monte di Pieta

Of particular interest is the operation of the Monte di Pieta. According to an extract from the 2001 'Annual Reports of Government Departments' interest received from pledges amounted to Lm36,543 while the total expenditure to run this particular unit amounted to Lm78,017. The amount of advanced money outstanding as at 31 December 2001 did not tally with that shown on the Statement of Advances made by Government for 2001. The difference amounts to Lm1,118.

Control Issues

Opportunities for improvement were identified (in internal control) in a number of areas:

- Lack of managerial control over inventory items.
- Lack of control over use of department's general use vehicle.
- Lack of control when accounting for and effecting payments.

Compliance Issues

Local Purchase Order issued after receipt of Invoice

Seven (7) purchase orders out of 45 (i.e. 16 percent) vouchers verified which required an LPO, compared to 23 percent of the previous year, were drawn up after the respective purchases had been effected and the department invoiced. Non-adherence may result in not having enough funds to honour the actual expense. Furthermore, adequate authority is not obtained prior to the purchase.

Misallocation of Expenditure

Twelve (12) out of the 45 vouchers examined (i.e. 27 percent), were not charged to the respective account or sub-item number. It was noted that the department is regularising its position. In fact the incidence amounted to a lower percentage rate than the high rate of 45 percent reported for the Financial Year 2000.

As a consequence, the amount quoted in the Financial Report would not reflect the actual amount relating to the particular item of expense. This also hinders an effective comparison of budgeted as against actual expenditure.

V.A.T. Fiscal Receipts

Out of the 45 vouchers audited, 12 suppliers did not forward to the department V.A.T fiscal receipts relating to 13 payments (i.e. 29 percent). The value of these payments amounted to Lm11,668.

Suppliers may declare incorrect income, which may result in V.A.T. dues not passed to the V.A.T Department.

VAT Fiscal Receipts re Engineers' Professional work at the Department

An exercise was carried out to verify whether engineers, engaged by the department to provide professional valuation services, forwarded VAT fiscal receipts following payment by the department. Professional fees are set at Lm5 (excl. vat) for each valuation of immovable property carried out.

From the 25 engineers who provided valuation services during 2001, it resulted that:

- 12 engineers did not forward a VAT fiscal receipt. Total annual payments made amounted to Lm27,811. Although 3 of these engineers stated that they are exempt, they did not feature on the List of Exemptions of the VAT Department.
- 10 engineers forwarded some of the VAT receipts. Out of Lm32,792 payments issued, Lm12,311 were not covered by a fiscal receipt.
- 3 engineers forwarded all the VAT fiscal receipts for payments amounting to Lm18,498.

Settlement of Invoices not raised in the Department's name

2 payments (5 percent) were raised in respect of invoices not specifically addressed to the Capital Transfer Duty Cost Centre. These invoices may not relate to works approved and carried out according to the instructions of the department.

Vehicle Log Book

An improvement in the record keeping of the general use vehicle log book, when compared with previous years' audits, was observed. However, the instances outlined hereunder indicate that the department is still not complying with the standing regulations. Defaults encountered were:

- (i) In the majority of cases, mileage records were written only once, even though more than one journey was carried out. It is not clear whether the reading referred to the beginning or end of the day.
- (ii) There were instances where instead of the tachometer readings increased with every journey made, mileage records decreased.
- (iii) Several instances, no signatures were obtained for the entire day's journeys from authorised personnel.
- (iv) On some occasions a single signature signified the approval of various trips to different destinations, sometimes even for journeys carried out on different days.
- (v) The vehicle rarely ever commenced the first journey from the department. It was noted that, the beginning of the day destination of the four months examined all read, except for two days, title of entitled officer to use a fully expensed car. Once user is benefiting from a fully-expensed vehicle no reason is given why vehicle pertaining to that office is not being used.
- (vi) Occasionally, the end of day destination took place elsewhere and not at the department.
- (vii) Instances were found where no records were kept of journeys carried out or the reason for non-use.
- (viii) Contrary to the provisions of the Estacode, fuel purchased was not always recorded in the Log Book.

In view of the above irregularities,

- control for the consumption of fuel is hindered,
- the officer in charge would not be able to certify that journeys were carried out on official duties,

- the officer in charge has to refer to local purchase orders/payment vouchers to obtain details as to the amount of fuel consumed during a particular period by the general-use vehicle.

Inventory

- (i) The CTD is not equipped with an inventory ledger or database. The only records that were available and which detailed items of inventory, were the Inventory Room Lists.
- (ii) Room Lists of the Computer Section, Laboratory, Second Floor and Ground Floor were not available.
- (iii) Room Inventory Lists featured inaccuracies in allocating the Asset Identification Number Classification.
- (iv) A number of inventory items were not allocated the Asset Identification Number Classification.
- (v) Room Lists were not updated.

The above irregularities effect the level of managerial control that could be exerted over inventory items falling under the department's responsibility.

One of the major tasks in the implementation of accrual accounting is to ascertain that inventory records are updated at all times. The absence of an up-to-date, complete and accurate Fixed Assets record has a serious bearing on stock valuation.

Recommendations

Local Purchase Order issued after receipt of Invoice

Goods and services, where applicable, when bought are already covered by a Local Purchase Order upon placing of an order. This will ensure that authorisation for the purchase is not vitiated.

Misallocation of expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item. This was also emphasised by virtue of

MF Circular 3/2000 that stated *“it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded”*.

VAT Fiscal Receipts

The Department is to continuously inform, on a quarterly basis, the V.A.T. Department regarding those suppliers who failed to submit a V.A.T receipt following payment of supplies of goods and/or services. Every effort is to be made to enforce the principle that official V.A.T. receipts are obtained from suppliers and attached to the respective payment voucher as detailed in the TR Circular 6/2000 and MF Circular 5/2002.

Settlement of Invoices not raised in the Department's name

Prior to effecting payments, it is to be ensured that the invoices are properly addressed to the department in respect of a particular commitment.

Vehicle Log Book

The exact mileage covered during each journey performed is to be recorded in the log book and signed by the officer making the journey. This is essential to enable certifying officers to exercise proper control over the issue of fuel. The log book is to be examined by the head of department or an officer authorised to do so, on a monthly basis, and cases of irregular use of cars duly reported. (Public Service Management Code: 8.2.4.1)

No government-owned vehicle may be used for journeys that are not on official business. Moreover, general-use vehicles are to be left at the Department. Thus, beginning and end-of-day journeys are to read 'CTD'.

Inventory

The exercise outlined in MF Circular 14/99 and subsequent MF letter dated 17th July 2000 should be immediately undertaken and the task finalised.

Inventory Ledger is to be duly updated with every purchase or relocation of inventory items. Asset Ledger must be updated with all relevant details at procurement stage taking note of the cost and date of purchase.

Management Comments

Most of the recommendations were agreed to by management.

It was further remarked that:

- Due to urgent repairs and the nature of expenditure, the local purchase order had to follow the receipt of invoice.
- Suppliers were chased to forward the fiscal receipt. Those who still failed to comply were reported to the VAT Department.

Treasury Department

Background

The Treasury is made up of three sections namely Government Accounting Operations, Finance and Administration, and Salaries and Pensions. This department, in conjunction with Budget Office at Ministry of Finance, has a primary statutory and administrative role in the implementation of a standard and efficient accounting system throughout Government Departments as provided by the General Financial Regulations 1966.

As a member of the *ad hoc* Task Force, the department is currently contributing towards the required preparations leading to the changeover to accrual accounting.

Key Issues

1. Government Accounting Operations

Financial information posted on Government's Website

In view of the ever-increasing demands, from both local and foreign entities for data dissemination, all the financial publications of the Treasury Department were made available on the Internet with effect from September 2001.

The Financial Report

The 2000 Financial Report, published in June 2001, contained a number of changes from those published in previous years. Changes included:

- the introduction of a table showing the deficit figure, as a result of the fact that the Financial Report has increasingly become the main publication used in deriving Central Government's Debt and Deficit figures according to European System of Accounts (ESA) 95 methodology;
- the introduction of the previous year's figures relating to Sinking Fund Investments in order to determine flows;

- a statement by the Accountant General on the department's performance for the year;
- a list of departments that failed to comply with the various Circulars issued by the Treasury and/or breached provisions of the Financial Regulations 1966.

Cash Flow Projections

A computer system was developed in-house for the better management of cash. After reviewing the business processes within the department, the system was implemented early in 2002.

Bank Reconciliation

Following the system analysis carried out by MITTS together with the department during 1999, a system to address the Bank Reconciliation process was developed during the last quarter of 2001.

2. Finance and Administration

Public Debt Office

During 2001, there was an overwhelming increase in demand for Treasury Bills and Malta Government Stocks by the household investor. Various innovations were introduced to meet the needs of the investing public in general, such as:

- Publication of Calendar for Treasury Bill and Bonds Issues;
- Fixed Rate Treasury Bill Auctions;
- Provision of facilities at banks, stockbrokers and other financial institutions during stock issues. In the case of Treasury Bills, the use of faxed offers was introduced;
- Capital repayments of stocks on maturity are sent to stockholders in time for them to rollover or encash their holdings on the due date;
- Launched a programme to encourage the investing public to use the 'direct credit' facility. During the year, 6027 out of 58824 (i.e. 10.2 percent) stockholders opted for this system.

3. Salaries and Pensions Section

Salaries Section

Following a proposal by the department, an agreement was reached between the unions representing Government employees and the Management and Personnel Office to incorporate Treasury and Public Works employees, paid wages on a fortnightly basis, in the regular monthly payroll.

The Section continued to strive for a paperless office system and a significant reduction in printing was achieved. Records of the paylists covering 1996-2001 were transferred onto electronic storage.

Pensions Section

A major task executed by the section involved the computation and payment of differences in gratuities and pension arrears arising from the notional salary structure devised for the years 1996-2000. The exercise involved 2,766 pensioners. A similar exercise was carried out in respect of officers seconded with public entities.

Control Issues

Petty Cash Book not maintained

Tests were carried out to ascertain the correctness of the petty cash imprest system for one month chosen at random. It resulted that the department does not keep a Petty Cash Book. Receipts are attached to the relative form replenishing the departmental balance of Lm60.

This irregularity hinders the department's control over refunds made and the possibility of verifying that the balance as per Petty Cash Book tallies with balance of petty cash in hand.

Name and Grade of Officer authorising expense and related payment not specified

27 cases related to instances where the name and grade of the officer authorising the expense and/or payment were not specified on the Local Purchase Order and/or Payment Voucher. Resort to the specimen signatures register had to be made in order to identify the officer signing the respective documents.

In addition, opportunities for improvement were identified in the following areas:

- Lack of control when accounting for and effecting payments
- Lack of control over use of department's general use vehicles
- Lack of control over inventory items.

Compliance Issues

Untraceable Departmental Files

An opinion could not be formed on 3 payment vouchers, amounting to Lm 4086, since the relative departmental files could not be traced.

However, on further investigation it resulted that these expenses related to the advertising of stocks issues. A call for tenders was not deemed necessary once advertising was carried out direct by the Department through the local media.

Professional services rendered to department – No formal contract

During Financial Year 2001, the department paid Lm739 in respect of legal advice for the processing of Treasury Stock and pensioners' files (causa mortis). The fee for each file processed is set at Lm3 (excl. VAT). Prior to effecting payment, details on the invoice are certified correct by the Public Debt Section at the department.

The recommendation to enter into a formal agreement for the legal service has not yet been taken up and the service is still not covered by any written agreement.

Local Purchase Orders (LPO) issued after receipt of Invoice

Thirteen (13) out of 34 payment vouchers (i.e.38.2 percent) had their Local Purchase Orders issued following the receipt of the invoice from the supplier. The department has still to regularize its position even when the irregularity exceeded to 44 percent for Financial Year 2000.

The LPO is the main tool for ensuring that the relative expense falls within the approved budget. Non-adherence may result in not having enough

funds to honor the actual expense. Furthermore, adequate authority is not obtained prior to the purchase.

Misallocation of Expenditure

Misallocation of expense of procured items was high. 11 out of 34 (i.e. 32.4 percent) payment vouchers verified were not charged to their respective account or sub-item number. The department's situation worsened considering that misallocated expenditure amounted to 21.3 percent for Financial Year 2000.

Unless the proper account is debited, the amount quoted in the Financial Report would not reflect the real amount relating to the particular item of expense. Moreover, an effective comparison of budgeted as against actual expenditure cannot be made.

VAT Fiscal Receipts

From the 34 payment vouchers audited, 10 payments were forwarded to exempt suppliers. However, out of the remaining payments, 17 suppliers did not forward to the department VAT receipts relating to 18 payments (i.e. 75 percent). An amount of Lm10,633 may result in VAT collections not being passed on to the VAT Department.

In addition, it was noted that a 'NIL' return was submitted to the VAT Department for the period January to March 2001. Following verification, it resulted that there were instances, during this period, where suppliers did not submit the relative fiscal receipt.

Arrear Charges

The department did not obtain Ministry of Finance's approval to effect 2 payments, invoiced during Financial Year 2000, out of funds approved for the year under review. These payments related to purchase of winter uniforms and legal processing fees in respect of treasury stock files.

Funds for the year 2001 may have been used to pay invoices of the previous financial year without prior approval from Ministry of Finance.

Settlement of invoices not raised in the department's name

Four (4) out of 34 payments (i.e. 11.8 percent) were raised against invoices not specifically addressed to the Treasury Department. These invoices

may not relate to works approved and carried out according to the instructions of the department.

Vehicles' Logbooks

A sample check of logbooks of 2 general use vehicles was carried out with respect to the first 4 months. An improvement over last year's audit was registered with respect to the upkeep and record keeping of the logbooks. Records on loose sheets were replaced with proper logbooks early in 2001.

Notwithstanding the above, the following are shortcomings encountered:

- Several times mileage records were written only once, at the beginning or end of the day, even though more than one journey was made.
- Other times, tachometer reading records for the whole day were left unrecorded.
- Instead of the tachometer reading increasing with every journey made, sometimes mileage records remained stable for different journeys performed.
- There were instances where tachometer records of both vehicles decreased instead of increased.
- There were cases where daily tachometer records increased considerably compared to the journeys performed.
- There were several instances when no signatures were obtained from authorised persons for the whole day's journeys.
- Although there were times when the end-of-day destination took place at the department as the requirement states, on various occasions the end-of-day destination took place elsewhere.
- Logbooks did not properly specify details of the journey destination. Apart from the first journey record, the 'From' column was never considered thereafter as being the starting point of every other journey made. On the other hand, records in the 'To' column were maintained as required.

- Contrary to Estacode provisions, fuel issued was not always appropriately taken note of in the logbooks, recording either the commitment number only instead of the actual amount spent or recording it under the wrong column.
- Logbooks are not certified at the end of the month by the officer-in-charge transport as being made on official business.

As a result of the above irregularities:

- Control for the consumption of fuel is hindered
- The officer in charge would not be able to certify that journeys were carried out on official duties
- The officer has to refer to local purchase orders/payment vouchers to obtain details.

Inventory

- Out of the 168 items of inventory subjected to a physical inspection, 120 items could not be physically verified since the location of 25 items could not be identified and the remaining 95 items were already transferred to Treasury's Department new premises.
- Inaccuracies resulted in allocating the Asset Identification Number Classification.
- The Inventory Ledger was not being updated with additions. Inventory items included in the payment vouchers examined were not taken on charge.
- Room Lists of the Officer in charge Salaries Section, Accounts Consolidation Section and DAS Team were not available.
- There were instances where the physical items did not match the inventory as per Room Lists since:
 - the items of inventory mentioned in the Room List were not physically found

- items of inventory physically found were not entered in the Room List
- inventory items mentioned in one Room List but physically located in another room.

The above irregularities effect the level of managerial control that could be exerted over inventory items falling under the department's responsibility.

Recommendations

Control Issues

Petty Cash Book not maintained

The department is to maintain a Petty Cash Book as stipulated in the General Financial Regulations 1966.

Name and Grade of Officer authorising expense and related payment not specified

It should be ensured that Local Purchase Orders and Payment Vouchers are complete in all respects.

Compliance Issues

Professional services rendered to the department – No formal contract

The department should regularize the engagement of the officer by entering into a formal agreement stipulating:

- the rate per file, stating clearly whether the rate is inclusive or exclusive of VAT
- duties of the officer.

Local Purchase Order (LPO) issued after receipt of Invoice

Whenever possible, goods and services are to be covered by a LPO upon placing of an order. This will ensure that proper authorisation for the purchase is not vitiated.

Misallocation of Expenditure

Items of expense are to be properly accounted for as stipulated in MF Circular 3/2000 stating that *“it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded”*. If the proper account is short of funds a virement should be raised.

VAT Fiscal Receipts

The department is to continuously inform, on a quarterly basis, the VAT department regarding those suppliers who failed to submit a VAT receipt following payment of supplies of goods and/or services. Moreover, the department is to discontinue procuring stores and /or services from defaulters until the matter has been rectified. (MF Circular 5/2002 relates)

Arrear Charges

The department is to adhere to the requirements of the General Financial Regulations 1966 wherever it is stated that: *“Any claims which remain unavoidably unpaid at the end of a financial year shall not be defrayed from the vote of the subsequent year unless authority is obtained from Ministry of Finance for their being paid as arrear charges on the accounts of the financial year to which they refer.”* (Sec 74 (1)).

Settlement of invoices not raised in the department's name

Prior to effecting payments, the officer in charge expenditure is to ensure that the invoices are actually due by the Treasury.

Vehicles Logbooks

The exact mileage covered during each journey performed is to be recorded in the logbooks and signed by the officer making the journey. This is essential to enable certifying officers to exercise proper control over the issue of fuel. The logbooks are to be examined by the head of department, or an officer authorised to do so, on a monthly basis, and cases of irregular use of cars duly reported.

No government owned vehicle may be used for journeys that are not on official business. Moreover, general use vehicles are to be left at the department. Thus, beginning and end-of-day journeys are to read 'Treasury'.

Inventory

The exercise outlined in MF Circular 14/99 and subsequent MF letter dated 17th July 2000 should be immediately undertaken and the task finalised.

The Inventory Ledger is to be updated with every purchase or relocation of inventory items. Asset Ledger must be updated with all relevant details at procurement stage taking note of the cost and date of purchase.

Management Comments

Most of the recommendations were agreed to and action taken accordingly. In its reply, the department remarked that:

- There were instances where payments were delayed on the least suspicion that service providers would not issue a fiscal receipt.
- All expenses relating to petty cash are recorded on the DAS. Moreover, all receipts are attached to the Allocation Report issued from the system. This department does not see the need for maintaining a Petty Cash Book proper since an electronic format of such a ledger exists on DAS.
- Although any shortcomings in the upkeep of the inventory are not justified, one has to bear in mind that during the year 2001 and first six months of 2002, the Treasury was in the process of moving to the new premises. It should be noted that the department's inventory records are now updated and according to the established codification.

Treasury – Payroll

Compliance Issues

Salaries - Terminations

A sample of 69 government employees, whose employment was terminated during 2001, was selected from the list of terminations sent to NAO, by the Office of the Prime Minister.

- It was found that 14 out of the 69 (i.e. 20.3 percent) government employees whose employment was terminated were incorrectly paid by Treasury.
- In various cases, the termination dates as per OPM list varied from those recorded by Treasury following departmental instructions.
- One employee who resigned during the year under review is still marked as 'suspended' in the Payper (Payroll Personnel) system instead of being marked 'deleted'. Treasury records in respect of 3 employees were adjusted to read 'deleted' during financial year 2002, even though their employment ceased during 2001.

Salaries – Unpaid Leave

A sample of 36 government employees, who were granted unpaid leave during 2001, was selected from returns sent to our offices by various government departments.

- It was found that 2 out of the 36 employees (i.e. 5.6 percent) were incorrectly paid by Treasury.

Recommendations

Immediate action is to be taken by Treasury Department to rectify any miscalculations and to recover any overpayments.

Treasury is to delete the named employees who are no longer in Government employment from the Payper programme immediately upon termination of employment.

Management Comments

To date, no reply was received from the Treasury Department to our report dated 11th September 2002.

Department of Contracts

Background

The basic function of the Department is that of ensuring adherence to the Public Service Procurement Regulations of 1996 by all Government Departments and Public Entities. These regulations provide a comprehensive framework for the procedures to be followed in the publication, adjudication of tenders and award of the contracts.

During the year 2001 the General Contracts Committee met 102 times.

Fourteen objections were submitted by aggrieved tenderers in Terms of the Third Schedule of the Public Service (Procurement) Regulations. These complaints, all accompanied by the mandatory deposit equivalent to 1 percent of the relevant tender estimated values, were dealt during public hearings.

The total value of contracts awarded by the Contracts Department in 2001 was approximately Lm 34,500,000. This amount does not include contracts awarded by Enemalta Corporation, Water Services Corporation, Maritime Authority, Malta Freeport Corporation. The latter contracts are, however, awarded following clearance by the General Contracts Committee in accordance with the Regulations.

Key Issues

Malta-EU

During 2001, the Department continued with its efforts to align the Public Service (Procurement) Regulations with the EU *Acquis*. The progress made on the harmonisation process, apart from the implications relating to 'Free Movement of Goods,' were discussed at a meeting held with a high-level EU delegation.

The second report submitted in early 2001 by the consultancy firm acting as adviser to the Department dealt with the effect of EU Directives on Public Procurement and the resulting impacts on the duties and responsibilities of the Department as the main Contracting Authority. Following several meetings, a final draft of the *Public Contracts Regulations 2002* was drawn up and forwarded to the Permanent Secretary, Ministry of Finance. A copy was also submitted to the EU Directorate.

Draft amendments and additions to the Public Service (Procurement) Regulations 1996 aimed at the setting of the Public Contract Appeals Board were approved by the Minister of Finance and are now awaiting legal vetting by the Attorney General.

In October 2001, a new EU Unit within the Department was set up. It is responsible to ensure that the procurement procedure relative to contracts financed from EU pre-accession funds would be consonant with the EU Practical Guide to EC External Aid.

Control Issues

Opportunities were identified for improvement in the following areas:

- Control regarding accounting for and affecting payments
- Control over use of department's general use vehicles.

Compliance Issues

Local Purchase Orders raised after receipt of Invoice

Two (2) local purchase orders out of twenty-three (23) (i.e. 8.70 percent) vouchers selected from the sample for verification were found to have been issued after the suppliers' invoices were sent to the department. Authorisation and approval prior to the purchase of goods and/or services were not obtained.

Misallocation of expenditure

Out of fifty-five (55) payment vouchers checked, four (4) vouchers (i.e. 7.27 percent) were found to have been allocated to a wrong Item/Account number. This distorts the actual expenditure as shown in the Financial Report issued by the Treasury. Furthermore, comparisons of budgeted against actual expenditure are also distorted.

VAT Fiscal Receipts

Out of the 33 vouchers requiring a fiscal receipt, 8 payment vouchers (i.e. 24.24 percent) were not covered by a fiscal document. This may result in VAT collected not being passed on to the VAT Department.

Fuel Consumption Entitlement

Fuel consumption entitlement for the official car exceeded the maximum allotment of 150 litres per month on three occasions.

Vehicles' logbooks

Verification was carried out on 2 logbooks out of 3 general use cars available at the Department. It resulted that the logbooks examined were not properly kept as the following details were missing:

- the journey details are not properly recorded;
- the purpose of the journey is not entered;
- signature of officer using one of the vehicles is missing;
- local Purchase Order numbers and issue of petrol are not recorded on the logbooks;
- logbooks are not certified at the end of each month by the officer-in-charge transport certifying that the journeys were performed on official business.

It should be stressed that unless logbooks are properly kept, the Department would not be in a position to exercise proper control on the issue of petrol and ensure that vehicles were used on official business.

Notification of Inventory Items to Auditor General

The provisions of MF 14/99 were not being followed. It was noted that the Auditor General was not being furnished with the list of items purchased during the year on a six-month basis, neither were the purchase voucher number and its date recorded in the Departmental Inventory Database.

Below-the Line accounts

- a) ***Tenderers Guarantees and***
- b) ***Retention of Monies***

Two (2) receipts amounting to Lm 7,462.13 in respect of forfeited Bank Guarantees were not credited to *Tenderers Guarantees* B/L account. One receipt for Lm 4,365.91 was credited to Below-the-Line account *Tenderers Complaints*

and the other receipt for Lm3096.22 was credited to Below-the-Line account Retention of Monies.

As at 31st December 2001 the closing balances in the two accounts were Lm 37,500 and Lm 272,423 respectively.

The department should have transferred unutilised funds to Revenue considering that:

- The opening balance of Lm 5,303 in the Retention of Monies account was a penalty incurred for works carried out to replace bad workmanship by a particular company. This amount was deducted from the respective bank guarantee and no objection was filed.
- Lm 266,078.63 were received from Water Services Corporation for sale of unallocated stores – Ex-Central Section Supplies and credited to Retention of Monies account.

Recommendations

Compliance Issues

Local Purchase Orders raised after receipt of Invoice

Local Purchase Orders should be raised upon placing of an order with the suppliers. This will ensure that authorisation prior to the purchase is not vitiated.

Misallocation of expenditure

Expenditure is to be allocated to the proper account as stipulated in MF Circular 3/2000 stating that “*it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded*”. If the proper account is short of funds a virement should be raised. More accuracy in the preparation of estimates should ensure enough funds to meet expenditure.

VAT Fiscal Receipts

The Department of Contracts is to ensure that suppliers who have been paid for goods and/or services provide a Fiscal Receipt. The Department should discontinue procuring stores and/or services from defaulters until the matter has been rectified. The VAT Department should be kept informed, through quarterly statements, as envisaged in MF Circular 5/2002.

Moreover, fiscal receipts received from suppliers are to be attached to the relative original Payment Vouchers.

Fuel Consumption Entitlement

The Department should ensure that the monthly maximum non-cumulative fuel consumption is not exceeded by entitled personnel as stipulated in MF Circular No. 5/98.

If fuel entitlement is fully utilised this is to be brought to the attention of the beneficiary before the department issues a Local Purchase Order to refuel.

Vehicles' Logbooks

All general-use vehicles should have a logbook filled in with all the necessary details. Every logbook is to be examined by the Head of Department or an officer authorised by him, on a monthly basis, and cases of irregular use of cars duly reported. – The Public Service Management Code Sections 8.2.4. and 8.2.5.

When issuing fuel, the quantity of fuel, the value and the Local Purchase Order number, should be recorded on the logbooks for ease of reference. This will enable certifying officers to exercise proper control over the issue of fuel.

Below-the-Line Accounts

An exercise should be carried out by the Department to transfer from Below-the-Line account *Tenderers Guarantees* to Revenue, any surplus amounts against which there are no pending claims.

The department should determine whether there is still the need to keep the Below-the-Line account *Retention of Monies* open and transfer funds to Revenue.

During the course of the audit it resulted that there were no pending issues in respect of this account.

Management Comments

The Department of Contracts acknowledged receipt of our report in the reply dated 18th April 2002. Our recommendations were agreed to and action taken accordingly.

However, we were not satisfied with explanations forwarded with respect to:

1. the over consumption of fuel allotment by the Director General
2. the transfer of any surplus of funds to Revenue in the Below-the-Line accounts
3. issuing of LPO's prior to procurements.

Ministry for the Environment

- Manufacturing and Services Department**
- Central Districts Office**
- Building and Engineering Department**
- Environment Protection Department**

Revenue: Manufacturing and Services

Department

Background

The *Manufacturing and Servicing Department (MSD)* operations are carried out from its main site at Marsa and the new Kordin Workshops.

The main sources of revenue of this department are from the activities of MSD Marsa, MSD Kordin, and MSD Workers' Co-operatives, government departments and local councils being the major clients.

Key Issues

Customers are committed to pay the actual cost of the works, including the cost of labour, which in many instances turns out to be excessive. This is leading to many invoices being disputed and remain unpaid. In general, amounts owed to the department are not properly followed up and controls are lacking, thus preventing their collection. At times these become statute barred.

Control Issue

- Effective debt control

Compliance Issues

Discrepancy between amount quoted and/or invoiced and amount collected

All the receipts of cash takings that were examined had been entered in the Cash Book. Most of the charges that were made out to customers compared well with the cost of the works carried out though there is still scope for improvement in this regard. Discrepancies had been noted in two (2) out of the fifty four (54) cases (i.e. 4 per cent) examined.

Total cash receipts of the two (2) cases in question were short of the quoted and/or invoiced amount Lm789, and related to completed works of a minimum value of Lm2,846. It could not be verified if works delivered included an item on one invoice at the quoted price of Lm1,625, and which the customer accepted. This would raise the completed works value to Lm4,471 and the shortfall in payment to Lm2,414. MSD conceded to reduce the amounts claimed to Lm2,057, a level acceptable by the customers, including one who had been refusing to pay his commitment in respect of one particular item on the premise that works ordered were not delivered in full.

MSD had been following the legal advice of the Works Division lawyer that any alternative action the department could have contemplated to take against the debtors was probably barred by prescription.

Recommendations

An effective procedure should be adopted for the efficient collection of debts from customers. To this end compliance by heads of department with section 46 of the General Financial Regulation, 1966, is advisable. Heads of department would be unnecessarily taking the responsibility upon themselves if they do not report to the Accountant General (copying the Auditor General) any failure on the part of an accounting officer, for whom the former are answerable, to collect any sums receivable by him.

The standard rates the department applies when quoting prices for specific orders from customers have to be continually revised to reflect current costs. Due diligence must also be exercised when quantifying the order being priced as well as control by the responsible officers over the usage of materials procured and the efficiency of the workers during the progress of the works. Unless checked any of these variables can adversely affect the quoted price and give rise to understated amounts invoiced. Conversely, overcharging customers with labour cost would give rise to disputes. Consequently, the accumulating revenue in arrears require more effective follow-up procedures for their collection, as well as sounder controls for any timely legal action that may be necessary.

Management Comments

Management failed to reply to our reports and recommendations.

Revenue: Central Districts Office

Background

The primary role of the *Construction and Maintenance Department* (CMD) is to develop, improve and maintain in an acceptable standard and condition the urban and rural environment of the island and to serve as one of the effective links between the Division and the public. The Central District Office (CDO) is a Unit under the direct responsibility of CMD.

In 2001 the CDO carried out works for Local Councils and government departments. The primary function of the CDO Unit is the repair of pavements, embellishment, maintenance of roads, clearing of culverts, construction of boundary walls and other ancillary works.

For 2001 the audit had been limited to services provided to Local Councils.

Key Issues

The actual cost of services rendered, the amount invoiced and the revenue that is eventually collected could not be satisfactorily related to each other. The discrepancy between the actual and standard cost is mainly attributable to the excessive actual labour cost. In addition, local councils are stalling their payments owed to this Unit. Not all the waiving of payments for services provided by the government to Local Councils could be verified as this had not always been documented.

Control Issue

The invoicing method in use has to be improved.

Compliance Issues

Certification invoice not tallying with final billing

In two out of 46 cases (i.e. 4 per cent) the amount on the works order certification invoice did not tally with the works order final billing. In one of the two instances the cost of manufacturing and fixing of cast-iron poles which was not carried out by the CDO was included in the final billing. Furthermore,

in four (4) other cases (9 per cent), the works order certification invoices did not include the amount to be invoiced to the local council.

Incorrect amount invoiced

A management fee equal to five per cent (5 per cent) of the estimated cost of an order by a customer is normally included in the quotation. Such fee, however, had been deducted from amounts invoiced to local councils, together with the value of the material supplied by the client where applicable. In the sample taken for our audit, we also found a total overstated amount on three invoices of Lm1,823.

Works not invoiced

Patching works for the order price of Lm544 had not been invoiced to a particular Local Council. The claim that the job was meant to be a free of charge could not be supported by documented references.

Variance between actual cost and actual amount invoiced

During our review, major discrepancies were noted in the works order cost, the works order price and the actual invoiced amount. In fact for the forty-six (46) jobs checked the total works order cost was Lm43,954, the total works order price Lm34,273 and the total amount invoiced Lm19,598.

Recommendations

Better monitoring of the works order cost is recommended to render it more realistic particularly with regard to labour efficiency. This will reduce the difference between the works order cost and the works order price to a more acceptable level.

Any waivers to Local Councils are to be evidenced in writing.

Claims for payment of services provided to local councils are to be followed up regularly so as not to let them fall in arrears.

Management Comments

Management failed to reply to our reports and recommendations.

Revenue: Sale of Maps and Survey Sheets

Background

During 2001, besides the undertaken design projects the Building and Engineering Department (BED) provided architectural and consultancy services to the various ministries and government departments including the sale of maps and survey sheets or site plans.

For the requested maps and plans the BED issues requisition notes on unofficial 'slips of paper' for payment at the cash office of the indicated charge. On collecting the map or plan the customer presents the official receipt to the officer at the BED who also takes note on the corresponding requisition note of the receipt number.

Key Issues

Since no stock records are available the completeness of the reported sales of maps and site plans cannot be verified.

Control Issues

- Lack of control on access to the stock of maps and plans.
- Requisition notes are filed in various places within the department and are not being stored in an order that would enable quick and easy reference to this source of prime entry.
- No records of stock in hand and the movement (sales) thereof.
- No physical stock take had ever been carried out.

Compliance Issues

Lack of stores security controls

Other sections within the BED currently have uncontrolled access to the maps and plans in store.

Cash takings cannot be verified by reconciliation with stock records

No records have been kept of the total maps sold each year since purchase; there is no indication of the number of maps left in stock. Furthermore, before cash takings are verifiable by reconciliation with the outward movement of stock items it could not be said that the department is fully accountable in this regard.

Recommendations

First, a stock taking exercise of the three types of maps and plans i.e. Malta West, Malta East and Gozo should be carried out as early as possible. Stock items can be arranged by category if it is beneficial to the department to determine the precise quantities in each category. Assigning a serial number to every stock item would also improve the organization of the store. Subsequent physical stock takes should be carried out at least once a year, adjusting stock records accordingly and reconciling sales from stock records with cash receipts.

Secondly, an officer is to be designated to assume responsibility of the stock control system in accordance with the pertinent provisions of the General Financial Regulations, 1966.

Finally, continuous update of the stock records on every sale needs to be supported by reference to the preprinted number of the corresponding official requisition note.

Management Comments

Management failed to reply to our reports and recommendations.

Environment Protection Department

Background

The expenditure budget of the Environment Protection Department for 2001 was Lm 1.99 million against an actual expenditure of Lm 1.7 million made up of Lm 1.2 million in Personal Emoluments, Lm 322,000 Operational and Maintenance Expenses and Lm 155,000 in Programmes and Initiatives. Although Revenue was estimated to reach Lm 25,000, the sum actually collected during the year amounted to Lm 30,252.

The ex-Environment Protection Department has been, up to the 28th February 2002, under the portfolio of the Ministry of Environment. Since 1st March 2002, the department ceased to operate as a separate entity and its functions were transferred to the Malta Environment and Planning Authority – MEPA which has a distinct Directorate, that of Protection of the Environment. The MEPA falls under the Ministry for Home Affairs and the Environment.

Key Issues

Although the revenue and expenditure accounts of the ex-Environment Protection Department in respect of period 1st January 2001 to 28th February 2002 are stored within the Ministry for Home Affairs and the Environment, these are kept in sealed envelopes with no detailed indication as to the contents of the envelopes. Those concerned were made aware of this state of affairs but the position has not changed. This hindered the carrying out of the audit for year 2001.

Recommendations

It has to be pointed out that Treasury Circular 6/2000 dated 3rd February 2000 deals with the archiving of departmental transactions processed by the Treasury. The said circular states, inter alia, that *“accounts officers should feel free to decide on the way they keep their records provided that these are kept in such a way so as to facilitate easy access whenever required”*.

Ministry for Tourism

– Ministry for Tourism

Ministry for Tourism

Background

The Ministry for Tourism sets policy, co-ordinates the efforts of the public and private sectors in the interest of the tourism industry. It works towards the development and enhancement of Malta's product and strives to ensure that the industry offers value for money whilst achieving maximum economic returns.

Key issue

Three hired vehicles are still being made use of after office hours by personnel who by the nature of their duties are not entitled to a fully expensed vehicle. The issue was also raised in last year's audit report.

Control Issues

Opportunities for improving controls were identified in the following areas:

- Payment vouchers not covered by fiscal receipts.
- Lack of control over fuel consumption, use of government owned transport and no proper record-keeping of vehicle log books.
- Incomplete inventory ledger.

Compliance Issues

Payment vouchers not covered by a fiscal receipt

From the 163 vouchers audited, 105 should have been covered by a fiscal document, however, 62 payments (i.e.59 per cent) to 38 different suppliers were not covered by a fiscal receipt.

Payments for purchases not covered by an official V.A.T. receipt may result in V.A.T collections not being passed on to the V.A.T Department.

Lack of control over fuel consumption and no proper record-keeping of vehicle log books.

- i) No proper mileage records are kept, thus control over the consumption of fuel and use of general cars could not be exercised;
- ii) On a number of occasions no signatures were obtained from authorised persons to cover the trips made during the day. Officer in charge would not be able to certify that journeys were carried out on official and/or authorised duties unless passengers could be identified.

Incomplete Inventory Ledger

The inventory ledger has been compiled, however it is still incomplete. It lacks details such as cost of the asset and date of acquisition. Room lists have not yet been drawn up but it is the management's intention to compile these lists once the department moves to new premises by the end of July 2002.

Recommendations

Payment vouchers not covered by a fiscal receipt

The department is to ensure that all suppliers issue either a tax invoice or a fiscal receipt and to submit to the V.A.T. Department a list of defaulters on a monthly basis, (quarterly with effect from March 2002 as per MF Circular 5/2002). During 2001 the Department did not comply with this requirement. Compliance commenced during 2002.

No proper record-keeping of vehicle log books.

The correct mileage covered during each journey is to be recorded in the logbook and signed by the officer making the journey.

Unless records are kept as stipulated in the Public Service Management Code, the responsible officer cannot exercise proper control on the issue of fuel and use of vehicles.

Incomplete Inventory Ledger

One of the major tasks in the implementation of accrual accounting is to ascertain that inventory records are updated at all times. The absence of an up-to-date, complete and accurate Fixed Assets Ledger has a serious bearing on accrual based accounting.

The Inventory Ledger must be updated with all relevant details at procurement stage when it is relatively easy, as their cost and date of purchase are known.

Management Comments

Audit report was reviewed by the Director of Tourism and conclusions were forwarded to the National Audit Office. Our comments were mainly noted and actions promised to address shortcomings. However, management did not give valid reasons for the use of fully expensed vehicles that are kept after office hours.

Ministry for Transport and Communication

- Ministry**
- Civil Aviation**
- Licensing and Testing**

Ministry for Transport and Communications

Background

The Ministry for Transport and Communication is responsible for various sections, namely, departments of Civil Aviation, Roads, Licensing and Testing and Wireless Telegraphy, and the following entities, namely, Public Transport Authority, Malta Maritime Authority, Malta Communications Authority (incorporating the Telecommunications Regulator) and Traffic Control Board.

The departments of Civil Aviation, Roads and Licensing and Testing fall under separate vote. This section deals solely with the vote incorporating the Wireless Telegraphy, Public Transport, Malta Maritime and Malta Communications.

The Wireless Telegraphy department is responsible for the administration and enforcement of the Wireless Telegraph Ordinance. It ensures that all radio communication services in Malta operate efficiently, without causing harmful interference and that users abide by the conditions of their licence. During the year in question, the department initiated the adoption of the New Wireless Telegraph Licensing and Administration system. The total processed licences were 17,169 and the corresponding revenue amounted to around Lm1,731,000.

The Public Transport Authority had been set up by Parliament in 1989 to provide, secure, and promote the provision of a properly integrated, economical and safe public transport system. According to the financial Estimates of 2001, the Authority intends to set up an IT/Project Management section whose responsibilities will include systems administration, development and support, as well as analysis and design of transport services. The Authority will also make a provision for the new Bus Ticketing Machines in the capital expenditure estimates.

The objectives of the Malta Maritime Authority are, amongst others, to administer and operate ports and yachting centres efficiently and regulate matters relating to merchant shipping including the administration and enforcement of the Merchant Shipping Act 1973. Presently, the MMA is continuing the port development infrastructure which includes the construction of a second berth at Cirkewwa.

The Malta Communications Authority Act assumed the legal responsibilities of the regulatory powers. The principal aims of this Authority

are to bring about the liberalisation of the telecommunications sector and to ensure amongst others the separation of the regulatory and operational functions.

Key Issues

During the course of the audit, the new billing system of the Wireless Telegraph System Accounting Module was also reviewed. Various issues were raised and discussions held with the personnel concerned. Furthermore, it was agreed that when the testing of the module be completed, another review would be undertaken.

Compliance Issues

Purchasing Procedure

Out of the sixty-eight payment vouchers examined, eleven (i.e. 16 percent) were raised after the supplier invoices were produced.

Authorisation and approval prior to the purchase of goods are not being obtained. Furthermore, prices of goods cannot be ascertained prior to delivery.

Misallocation of Expenditure

Out of the one hundred and twenty seven payment vouchers examined, eighteen (i.e 14 percent), were not charged to the respective account or sub-item number.

As a consequence, the amount quoted in the Financial Report would not reflect the real amount relating to the particular item of expense. This also hinders an effective comparison of budgeted as against actual expenditure.

Fiscal Receipts

Out of the one hundred and twenty seven payment vouchers audited, ninety-seven required a fiscal receipt. Of these, nineteen (i.e. 20 percent) had no receipt attached to them.

Suppliers may declare incorrect income and in which case V.A.T. dues may not be passed to the V.A.T department.

Misallocation of Revenue

There were two instances involving substantial payments of licence fees which were misallocated to the wrong revenue account.

Recommendations

Purchasing Procedure

Local purchase orders should be raised upon placing of the order with the suppliers.

Misallocation of expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item. This was also emphasised by the Permanent Secretary, Ministry of Finance by virtue of MF Circular 3/2000 dated 25th January 2000 that stated *"it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded"*.

Fiscal Receipts

Fiscal receipts are to be attached to payment vouchers as is directed in Treasury Circular 6/2000. The Department is to continuously inform, on a monthly basis, the V.A.T. Department regarding those suppliers who failed to submit a V.A.T receipt following payment of supplies of goods and/or services. Every effort is to be made to enforce the principle that official V.A.T. receipts are obtained from suppliers.

Petty Cash

The petty cash book should be numbered and at the end of the month should be properly balanced. Moreover, petty cash vouchers are to be copied prior to being sent to Treasury for reimbursement.

Revenue not properly allocated

It is imperative that revenue should always be properly accounted for in the appropriate account.

Management Comments

The director's (Corporate Services) comments included;

- The Officer in charge Accounts was directed to comply with the proper purchasing procedure.

- The recommendation regarding misallocation of expenditure was noted and shall be followed as required.
- A person is now in charge to control fiscal receipts from suppliers.
- Officer in charge Accounts was directed not to order stores or services from defaulters.
- The recommendation on for the misallocation of revenue noted and shall be rectified henceforth.

Department of Civil Aviation

Background

The functions of the Department in its role of a regulatory body are to ensure that all aviation activities are carried out safely and in conformity with international standards which Malta has to meet as a result of its membership in International Civil Aviation Organization (ICAO), European Civil Aviation Conference (ECAC), Eurocontrol and Joint Aviation Authorities (JAA). The Department maintains contact with these organisations through active participation in international meetings.

The Department continued to ensure the airworthiness of Malta registered aircraft as well as the technical capabilities and medical fitness of aircrew; to monitor the technical operation of aircraft owned by Air Malta, Medavia and other aircraft operators.

The JAA carried out an audit of the Department's Personnel Licensing and Medical sections early in 2001. It is also responsible for issuing licences or certificates of validation to pilots, air traffic controllers and aircraft maintenance engineers.

In order to continue to cope with its regulatory work, expatriate Airworthiness Surveyors were engaged in September/October 2001. A Maltese Airworthiness Surveyor completed his formal training in mid-2001 and is now engaged in on-the-job training.

In addition, during 2001, the department continued with its plans to procure new computers, to replace obsolete equipment, and to standardise the computer software in use.

Key Issues

European Union

During 2001, the Department was actively involved in the preparation of legislation to adopt the *acquis communautaire* and took part in the consultations on access negotiations as well on technical meetings.

The following legislation was enacted:

- Air Navigation (Noise Certification and Operation of Aircraft) Order, 2001

- Civil Aviation (Denied Boarding Compensation) Regulations, 2001
- Statistical Returns in respect of Carriage of Passengers, Freight and Mail Regulations, 2001
- Code of Conduct for Computerised Reservations Systems Act, 2001
- Definition and use of Compatible Technical Specifications for the Procurement of Air Traffic and Management Equipment and Systems Regulations, 2001.

In addition to the above, legal notices on Airport Economic Regulations and on the Allocation of Slots at Airports were published as part of the privatisation exercise of Malta International Airport plc.

Approval of Aircraft Flight Simulators

L.N. 176 of 1990, Section 12, states that *“Upon making an application for the approval of an aircraft flight simulator, the applicant shall pay the sum of Lm 500.”* During 2001, out of seven approved aircraft flight simulators, only one approval was invoiced and paid. This resulted in missed revenue of Lm 3,000.

Passenger Service Charge

The Lm10 fee paid by passengers on flights originating in Malta (except for flights that depart and return within 24 hours) could not be verified against the total number of tickets sold to departing passengers from Malta. During 2001, Airport Tax collected amounted to Lm 1,733,720 compared to Lm 1,863,232 for 2000.

It has already been pointed out in the Audit Examination for Financial Years 1999 and 2000, that no effective audit trail exists to verify that all the money due is in actual fact passed on by the Airlines to the Department.

During meeting *No 50 of the Public Accounts Committee held on 5th July 2000*, the Permanent Secretary, Ministry for Transport and Communications, agreed to implement the recommendations. However to date there is no progress to report.

Control Issues

Vehicles' logbooks

The following shortcomings were identified as requiring improvement in internal control:

- Government-owned vehicles' logbooks are not being certified by the officer-in-charge transport ensuring that the journeys were performed on official business. Moreover, the Fuel Requisition Issue Note number and the amount of fuel supplied were not recorded on the logbooks.

Compliance Issues

Local Purchases Order raised after receipt of Invoice

Two (2) local purchase orders out of 29 (i.e. 6.90 percent) examined were found to have been issued after the suppliers' invoices were produced. Consequently, authorisation and approval prior to the purchase of goods were not obtained.

Misallocation of expenditure

Out of fifty-nine (59) payment vouchers checked, we found that five (5) vouchers (i.e. 8.47 percent) were allocated to a wrong Item/Account number. This distorts the actual expenditure as shown in the Financial Report issued by the Treasury.

VAT Fiscal Receipts

Out of the 32 vouchers requiring a fiscal receipt, 13 payment vouchers (i.e. 40.63 percent) were not covered by a fiscal document. This may result in VAT collected not being passed on to the VAT Department.

Fuel Consumption Entitlement

Fuel consumption entitlement for one of the official cars exceeded the maximum allotment of 150 litres per month on six occasions.

Fourth Quarter Payment to Eurocontrol

The fourth quarter payment due to the international organisation was posted and accounted for twice.

After checking other documents and reports, it resulted that payment was effected once. The double accounting of the same transaction in the DAS was reversed on 11th December 2001.

Transportation of personal goods from UK to Malta

An Airworthiness Surveyor was refunded Lm 1,500 (the maximum amount refundable as stated in the engagement/agreement) in respect of the costs of transportation of his personal goods from overseas to Malta. Besides, the Department paid an additional Lm 300 for Customs Deposit as not all the documents were presented at the time of the clearance of the goods.

However, on drawing the attention of the officer-in-charge about this overpayment, the Surveyor refunded the amount of Lm 300 in February 2002.

Recommendations

Key Issues

Approval of Aircraft Flight Simulators

The Department should ensure that the fee of Lm 500 is collected immediately upon submission of an application.

Passenger Service Charge

The Civil Aviation Department, being the regulator, can carry out spot checks at the Airlines Offices to verify the correctness of the respective Monthly Declarations.

Alternatively the airlines could be requested to have their monthly/quarterly returns certified by their Auditors.

Control Issues

Vehicles' logbooks

At the end of each month, the logbooks are to be certified by the officer-in-charge Transport that the journeys were performed on official business as laid down in the Public Service Management Code Section 8.2.9.3.

The Fuel Requisition Issue Note numbers and the amounts of fuel supplied should be recorded on the logbooks when issuing fuel for ease of reference and to exercise proper control over the issue of fuel to vehicles.

Compliance Issues

Local Purchases Order raised after receipt of Invoice

Local Purchase Orders should be raised upon placing of an order with the suppliers. This will ensure that purchase does not take place prior to it being authorised.

Misallocation of expenditure

Expenditure is to be allocated to the proper account as stipulated in MF Circular 3/2000 stating that “*it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded*”. If the proper account is short of funds a virement should be raised. More accuracy in the preparation of estimates should ensure that there are enough funds to meet expenditure.

VAT Fiscal Receipts

The Department of Civil Aviation is to ensure that suppliers who have been paid for goods and/or services provide a Fiscal Receipt. The Department should discontinue procuring stores and/or services from defaulters until the matter has been rectified. The VAT Department should be kept informed accordingly as envisaged in MF Circular 5/2002.

Fuel Consumption Entitlement

The department should ensure that the entitlement to a maximum non-cumulative fuel consumption of 150 litres per month of one of the official cars is not exceeded, thus complying with MF Circular 5/98.

Fourth Quarter Payment to Eurocontrol

The balances and the transactions of the accounts in the Nominal Ledger should be checked to minimize mistakes that may occur.

Transportation of personal goods from UK to Malta

The department should ensure that any refunds of money due to government are collected without undue delay.

Management Comments

The Department of Civil Aviation acknowledged receipt of our report. In most cases the Department advised that it has taken action to rectify the weaknesses outlined in the said report. However, the following issues are still unresolved:

- A proper audit trail of the Passenger Service Charge collected by the respective airlines. This issue was discussed during the audit examinations for financial years 1999 and 2000.

- Proper follow up of collection for the use of the Aircraft Flight Simulators.
- The over consumption of fuel allowed to one of the official cars.

Department of Licensing and Testing

Background

The Licensing and Testing Department, vote 36, falls within the Ministry for Transport and Communication. This section is responsible for the **driver** training, testing and licensing, **motor vehicle** registration, testing and licensing and **other** related services. During the year 2001, the LTD installed two computerised systems, namely, the Driving Licence and the Vehicle Roadworthiness Test (VRT). Whereas the latter being for the implementation of the second phase of the VRT planned for the year 2002, the Driving Licence System is expected to cater for the introduction and reform of the driver training and testing.

Control Issues

Opportunities were identified for improvement in a number of areas:

- The software 'VERA' was unable to cater for and miscalculated the revenue due to the department.
- End of Day Cash Report for statistical purposes as generated by the 'VERA' was not correct in that certain transactions were missing.
- Missing audit trail when calculating registration tax.
- Lack of internal control in quantifying the weight of sales of shredded aluminium plates.
- Lack of control over inventory items.
- Lack of control over use of department's vehicles.

Compliance Issues

Local purchase order issued after receipt of Invoice

Seven purchase orders out of forty-four (i.e. 16 percent) which required an LPO, were drawn up after the respective purchases had been effected.

Fiscal Receipts

Out of the forty-four payment vouchers audited, thirty seven (i.e. 84 percent) required a V.A.T fiscal receipt. However, two suppliers (5 percent) failed to comply in contravention of Treasury circulars 11/95 and 12/97.

Inventory

Out of the five selections no singular item was taken on charge. All the items purchased (i.e. 100 percent) did not show in the departmental inventory database. Moreover, no inventory room lists were found in each room. These lists, which were never updated, were found in a folder with the Inventory Ledger.

The level of managerial control that could be exerted over inventory items falling under the department's responsibility could be adversely effected.

Vehicles in Use

Two general use vehicles were hired from third parties. These vehicles were leased for a long term period with an annualised expenditure exceeded the Lm2,500 mark established by in the Tendering Procedures. The departmental files were not traced and no verification could be undertaken to establish whether a case for tenders was adopted as stipulated in the procedure laid down by Legal Notice.

Vehicle Log Books

Standing regulations stipulate proper record-keeping of log books. Defaults encountered were:

- No mileage records kept at the end of each trip, thus losing control over the consumption of fuel and use of general cars;
- No signatures at all were obtained from authorised persons, or log book signed at the end of the day to cover all the trips effected during the day, thus officer in charge was unable to certify that journeys made were carried out on official duties;
- No control exists as regards whether general use vehicles are being made use of after office hours by personnel who are not entitled to a fully expensed vehicle.

Misallocation of Revenue

Out of the thirty-one vehicle licences checked, there was one case (i.e. 3 percent) where Vehicle Licences collected as shown in DAS and in the accounts cash book did not tally with that shown in the VERA cash.

Recommendations

Commitment (GSPO) issued after receipt of Invoice

All goods and services purchased are to be covered by a Local Purchase Order upon placing of an order. This will ensure that authorisation for the purchase is obtained as stipulated in regulations.

VAT Fiscal Receipts

V.A.T. receipts are to be attached to payment vouchers as is envisaged in Treasury Circular 6/2000 dated 3rd February 2000. The Department is to continuously inform, on a monthly basis, the V.A.T. Department regarding those suppliers who failed to submit a V.A.T receipt following payment of supplies of goods and/or services. Every effort is to be made to enforce the principle that official V.A.T. receipts are obtained from suppliers.

Inventory

The exercise outlined in MF Circular 14/99 dated 24th November 1999 and which should have been completed within one year, should be immediately undertaken and the task finalised with the least possible delay. One of the major tasks in the implementation of accrual accounting is to ascertain that inventory records are updated at all times. The absence of an up-to-date, complete and accurate Fixed Assets record has a serious bearing on accrual based accounting.

The Inventory ledger is to be duly filled and updated with every purchase or relocation of inventory items. The Asset Ledger must be updated with all relevant details at procurement stage when it is relatively easy, as their cost and date of purchase are known.

Vehicles and Log Books

It is to be ensured that a log book is kept for each vehicle and the exact mileage covered during each journey performed with such vehicle is recorded in the log book and signed by the officer making the journey. This is essential

to enable certifying officers to exercise proper control over the issue of fuel to vehicles. Every log book is to be examined by the head of department from time to time and cases of irregular use of cars duly reported. (Public Service Management Code: 8.2.4.1)

No Government-owned vehicles may be used for journeys that are not on official business. The allotment of a car for the exclusive use of any individual officer whose duties do not entail almost entirely field work is against the Public Service Management Code: see 8.2.3, 8.2.7.1

Vehicles are to be left at the Department. Thus, beginning and end-of-day journeys are to read 'LTD Garage'.

Revenue

All detailed vehicle documents necessary for the calculation of the Registration Tax are to be included in the relative vehicle files.

Revenue not properly allocated

Revenue should always be properly accounted for in the appropriate account as otherwise estimates cannot be based on correct past collection.

VERA Computerised System

The department should closely monitor the conversions of vehicle status. Additional testing should be done by MITTS on the VERA system to determine the cause and the frequency of errors. Corrective action should be taken accordingly.

MITTS should also consider to do more testing on the 'End of day Reconciliation Report' issued by the VERA system. This is recommended in order to determine the cause of errors and to rectify the problem. The department should monitor reports to ensure the correctness of information and records kept.

MITTS should rectify the user ID in the VERA system. The department should continuously check daily VERA reports to ensure the correctness of information and records kept.

Management Comments

Management failed to reply to our report.

Ministry for Economic Services

– Commerce Division

Commerce Division

Background

The Commerce Division is the combination of the former Departments of Trade and Industry, the present Industrial Property, and includes also the Small Business Efficiency Unit. The Division intends to develop into a single service interface with government, focussing on the needs of the self-employed, small enterprises and craft industries.

Key Issues

Operations Review

As a result of the Operations Review carried out by the Ministry for Economic Services, the Departments of Trade and Industrial Property were amalgamated into a new **Commerce Division**, with new designations becoming *Trade Services Directorate* and *Industrial Property Registrations Directorate* respectively. The Department of Industry was closed down and a new department, the *Small Business and Crafts Directorate*, was set up. A new directorate, the *Policy and Regulatory Services Directorate*, was also formed to take responsibility for functions carried out by the previous departments.

The main administrative functions and operations of the **Trade Services Directorate** for the period under review included:

- processing and issuing of 16,567 import and 1,424 export licences for goods listed in the Schedules to the Importation (Control) Regulations 1969 and the Exportation (Control) Regulations 1948 respectively;
- issuing of internal trade licensing to bakers, auctioneers and processors of tomatoes in terms of the relative regulations;
- processing of 119 requests from Malta Financial Services Centre in connection with projects' proposals by non-resident promoters;
- administration of levies pending their planned phasing-out in 2003;

- controlling of exports of dual-use items and technology in line with the EU Council Regulation requirements;
- monitoring the development in European Union trade measures concerning quantitative import restrictions and surveillance measures;
- scrutinising 264 complaints lodged with the Consumer Affairs Unit with respect to price verification.

On the other hand, the **Industrial Property Registration Directorate** is responsible for the registration of Trademarks in accordance with the Trademarks Law 2000 and the registration of Industrial Designs and Patents in conformity with the Industrial Property (Protection) Ordinance (Chapter 29). This Directorate is also involved in the updating and upgrading of the law on Copyright.

The first phase of the refurbishing works at the ground floor of Lascaris Building was completed during 2001.

Computerisation

The Industrial Property Registration Directorate has completed the computerisation of the Trademark system. Discussions are being held for the upgrading of the software and the introduction of a computerised system for patent and design registration procedures.

Rent and Sale of Factories

The Division receives the proceeds of all revenues generated by Malta Development Corporation relating to all factory rentals and sales. However no details, such as the name of the factory, the amount of the lease and the due dates, are attached to remittances forwarded by Malta Development Corporation.

The Division is therefore unable to keep track of all revenues that should be received and verify correctness of amounts forwarded by Malta Development Corporation, as no form of audit trail is available.

Control Issues

The Attestations and Certificates Account

It was noted that when an application is submitted personally for Exemptions from Levies, and for any other reason the DAS system is not

functioning. A manual receipt is not issued instead of a DAS receipt.. However, a DAS receipt is mailed to the applicant at a later date, based on the particulars taken at payment stage.

Patent and Trademark Fees

Both the New Trademark Applications Register Book and the Renewal Trademarks Register Book are not pre-numbered. This adversely affected our verification of the actual payment and its remittance to the Central Bank.

The Trademark Computer System has many limitations, such as limited information generated in standard reports and problems in issuing *ad hoc* reports. The present computer system cannot generate a list of new applications and/or a list of renewals, detailing the registration number and the date, and the renewal date.

Moreover, the receipt number and the actual date of payment are neither recorded in the Books nor inputted in the system.

Missing documentation and lack of references on Payment Vouchers

On several occasions, it was noted that no file references were recorded on the payment vouchers where the relative documents were missing. As a result, examination of such vouchers could not be easily carried out and searching for the relative files was rather time-consuming.

Three (3) payment vouchers being payments to foreign organisations had no invoices or other relative documentation attached to them. However, on drawing the attention of the officer-in-charge, verification was carried out through documents in the respective files.

Compliance Issues

Remittances to Bank

It was noticed that money collected was not being remitted immediately to the Central Bank of Malta. This goes against the provisions of Financial Rules and Regulations.

Local Purchases Order raised after receipt of Invoice

Three (3) local purchase orders out of the sample of 32 (i.e. 9.38 percent) examined for verification were issued after the suppliers' invoices were sent to

the Division. Consequently, authorisation and approval prior to the purchase of goods were not obtained.

Misallocation of Expenditure

Out of sixty-four (64) payment vouchers checked, six (6) vouchers (i.e. 9.38 percent) were charged to the wrong Item/Account number. This distorts the actual expenditure as shown in the Financial Report issued by the Treasury. Furthermore, comparisons of budgeted against actual expenditure are also distorted.

VAT Fiscal Receipts

Out of the 47 vouchers requiring a fiscal receipt, 27 payment vouchers (i.e. 57.45 percent) were not covered by a fiscal document. This may result in VAT collected not being passed on to the VAT Department.

Advertising Patents and Trademarks Below-the Line Account

New Trademark Applications are registered at the Industrial Property Registration Directorate for a charge of Lm 45. An additional Lm 5 in respect of advertising fee for the publication of the new registrations is charged. The latter amount is credited to a below-the-line account called Advertising Patents and Trademarks. Payments due to the Department of Information, local newspapers and advertising agencies are effected from this account.

The attention of management was drawn to explore the possibility of transferring to Revenue any surplus of funds.

Recommendations

Key Issues

Rent and Sale of Factories

The Division should build up its own database of all rentals due and sale of factories so as to check that revenues are received in full from Malta Development Corporation.

Furthermore the Division should request the Malta Development Corporation to have all the relevant details attached to the remittances made by Malta Development Corporation.

These two measures should serve as a check that all revenues are being received in full and on time.

Control Issues

The Attestations and Certificates Account

When a DAS receipt cannot be printed immediately, an official manual receipt should be issued. Moreover, a DAS receipt should be issued as soon as possible, thus enabling the amount to be remitted to Central Bank without delay. The latter should be cross-referenced to the manual receipt.

Patent and Trademark Fees

Details such as page numbers, receipt numbers and their dates should be recorded on the New Trademark Applications Register and on the Trademark Renewal Register Books.

The Computer System should be enhanced for the present day requirements. The system should be able to generate reports, such as lists of new applications and of renewals.

Missing documentation and lack of references on Payment Vouchers

All payment vouchers should be supported with the necessary documentation. If for any reason this is not possible the corresponding file numbers should be recorded on the payment vouchers for ease of reference.

Compliance Issues

Remittances to Bank

It was noticed that money collected was not being remitted immediately to the Central Bank of Malta in breach of the Financial Rules and Regulations.

Local Purchases Order raised after receipt of Invoice

Local Purchase Orders should be raised upon placing of an order with the suppliers. This will ensure that authorisation prior to the purchase is not vitiated.

Misallocation of expenditure

Expenditure is to be allocated to the proper account as stipulated in MF Circular 3/2000 stating that *"it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded"*. If the proper account is short of funds a virement should be raised. More accuracy in the preparation of estimates should ensure enough funds to meet expenditure.

VAT Fiscal Receipts

The Commerce Division is to ensure that suppliers who have been paid for goods and/or services provide a Fiscal Receipt. The Division should discontinue procuring stores and/or services from defaulters until the matter has been rectified. The VAT Department should be kept informed, through quarterly statements of defaulters, as envisaged in MF Circular 5/2002.

Advertising Patents and Trademarks Below-the Line Accounts

After all the payments due for advertising fees in respect of new trademark registrations are effected or provided for, any surplus of funds in this below-the-line account should be transferred to the Consolidated Fund as Revenue.

Management Comments

The Commerce Division advised that recommendations are to be implemented, thus rectifying the weaknesses outlined in the said report. However, the following pending issues remain:

- a) Although the Division is not in a position to build a database of all factory rentals due and effected factory sales, MDC has agreed to give details of factory rent and sale proceeds received on behalf of the Commerce Division. Data will be forwarded with remittances passed on to the Division.
- b) The recommended details to be inserted in the Trademark Registers should be in place following contacts with M.I.T.T.S.
- c) It seems that no Fiscal Receipt is due to Commerce Division in respect of the three substantial Payment Vouchers relating to the transport of flour bags to Gozo, since payment represents a Government subsidy on transport costs. The suppliers of these transport services, if anything, owe a fiscal receipt to their respective consignees.
- d) The Advertising Patents and Trademarks Below-the-Line Account is very active. If the remaining balance of Lm 13,000 had been passed to Revenue, the Division would have had no opening balance for year 2002. On the other hand, the Division have received no instructions from Treasury to pass any part of aforementioned amount to Revenue. Budget Office of the Ministry of Finance have been consulted, following our Report, and it can be confirmed that there are no instructions from their end either.

Conclusion

As regards the last two comments by the Division, the National Audit Office is not satisfied because:

- Fiscal receipts should have been issued irrespective of the fact that transportation services enjoy Government subsidies and considering that the Commerce Division is not VAT registered. This position was confirmed by the Department of VAT.
- The Division, after identifying the outstanding payments due for advertising fees, should transfer to Revenue any surplus of funds in the Advertising Patents and Trademarks Below-the-Line Account.

Ministry for Home Affairs

- Notary to Government**
- Police Department**
- Correctional Services Department**
- Civil Protection Department**
- Registration Department**

Notary to Government - Expenditure

Background

This department is responsible for the:

- Custody and safekeeping of deeds *inter vivos* and *causa mortis* published by Notaries Public. The public may request Legal or informal photocopies of the deeds against a fee.
- Signing and publication of deeds to which the Government or parastatal entities are a party. The main deeds drawn up on behalf of government relate to government grants advanced to farmers and fishermen, sponsorships granted to employees of various departments undertaking courses of study local or abroad and property acquisitions made by the Housing Authority. Notarial fees are charged for the drawing up of the deed.

Control Issues

Opportunities were identified for improvement in the following area:

- The Goods and Services Purchase Order (GSPO), invoices and payment vouchers (P.V.) in respect of the purchase of fuel for the department's general use car do not always specify the quantity of fuel required. Furthermore, no entries of the quantity of fuel supplied and the date of replenishment are entered in the vehicle logbook.

Compliance Issues

Testing was carried out to examine whether the section complied with:

- The General Financial Regulations 1966
- MF Circular 14/99

GSPO issued after receipt of invoice

Nine payments representing 5.67 percent of the sample chosen had their relative GSPO issued after receipt of the invoice from the supplier.

Cost or value of inventory items not always quoted

The fixed asset database register does not contain the cost or value of some assets, as stipulated in MF Circular No. 14/99 para.2.3 and “Appendix A” para.9. Instead, a note “nk” (not known) is quoted in the cost/value column.

Recommendations

Control Issues

The GSPO and P.V. are to include the exact amount of fuel supplied.

The vehicle logbook should state: the date, the amount of fuel taken as well as the odometer reading.

Compliance issues

GSPO issued after receipt of invoice

GSPO's should invariably be raised at the time the supply/service is requested. In cases where the invoice differs from the GSPO, an amended GSPO should be drawn up. This amended GSPO should still be authorised.

Cost or value of inventory items not always quoted

The department should realistically value all assets. This is important so that the Balance Sheet is not distorted when the Government adopts the accruals accounting system. A zero cost is to be given to assets that do not have a market value.

Management Comments

The Director agreed with NAO's recommendations. It was stated that as regards the finding on the Inventory the department is part of a pilot project. In view of lack of Human Resources this exercise may have an adverse impact on its performance.

Department of Police – Gozo District

Background

- The main mission of the Gozo District Office is to promote and maintain law and order and to ensure safety and security. This is mainly achieved by deploying staff judiciously to consolidate the fight against crime and improve community life
- A fleet of motor vehicles patrols the island and performs other transport as considered necessary in the running up of a localised police force
- The department is also responsible for the collection of fees and charges relating to Trading Licences, Weapons, Wines and Spirits, Clamping and Towing and other fees.

Control Issue

Opportunities were identified for improvement in the following area:

- The cash book ledger sheets are not pre-numbered.

Compliance Issues

Manual Receipt Books

Two exhausted consecutively numbered receipt books were on the counterfoil register book, but where not presented.

Returned Counterfoil Books

Three counterfoil books were returned to the General Head Quarters without having been examined by the Auditor General.

Receipts not recorded immediately

Receipts relating to fees charged on lost I.D. cards and on affidavits are not recorded in the Cash Book that same day. Replacement of receipts are

issued by the I.D. cards section whilst the relative entries in the cash book are carried out at a separate building – the Gozo District Office.

Motor Vehicle Log-Books

Fuel supplied, journeys carried out and mileage readings were not always appropriately recorded in the log-books.

Recommendations

Control Issue

- Pages in manual cash-books are to be pre-numbered. Pre-numbering should preferably be carried out by an officer other than the cashier.

Compliance Issues

Manual Receipt Books

Safekeeping of exhausted counterfoil receipt books should be improved upon to avoid the risk of these being misplaced.

Returned Counterfoil Books

Counterfoil books are to be forwarded on demand to the Auditor General for examination before sent to Head Quarters.

Receipts not Recorded Immediately

Receipts should be recorded in the Cash Book and balanced with the daily cash collected on the same day they are issued.

Motor Vehicle Log-Books

- The log-books are to be forwarded to the officer i/c transport periodically for verification as to whether:
 - All the details required in the log-books are legibly recorded and appropriately signed
 - Fuel consumed and mileage/kilometers covered reflect actual journeys
 - Mileage reading corresponds with that of the tachometer.

- The vouched log-books should be endorsed by the officer in charge after being satisfied of their correctness.
- Any irregularities are to be reported to the Police Superintendent to take remedial action accordingly.

Management Comments

Management comments were not received by the date this publication went to print.

Department of Correctional Services – Expenditure

Background

The Department's objective is that of providing rehabilitation services to inmates with a view to help offenders re-integrate themselves into society.

The department is bound to provide medical and educational services to inmates, together with other basic necessities. The firm providing the medical service was contracted after a call for tenders.

Control Issues

Opportunities were identified for improvement in a number of areas:

- A weakness in the internal control system relating to the payment of Medical Services exists. The month of February was selected to test the system. It was revealed that the firm, giving the service, did not supply the agreed 60 medical hours, but only 45.5 hours.
- No formal contract of service was drawn up between the department and the:
 - dentist
 - teaching staff, which was supplied by a combination of 20 teachers and instructors.

The above mentioned staff are employed with the department on a part-time basis.

Compliance Issues

Payment Voucher

A sample of 184 payment vouchers revealed that 8.2 percent had their relative GSPO issued after receipt of invoice. These related to foodstuffs and other items.

Motor Vehicle Log-Books

Log-books were not always appropriately updated in relation to fuel supplied, journeys carried out and mileage readings.

Fully Expensed Car to Unauthorised Personnel

Two (2) fully expensed cars have been granted to officers without an official authorisation.

Fully Expensed Car

In 5 out of a sample of 6 months, fuel supplied to fully expensed car exceeded the maximum limit for the month.

Inventory

The department does not keep an inventory ledger as per MF Circular 14/99.

Recommendations

Control Issues

- A copy of the monthly medical timesheet prepared by the Officer in charge Medical Intervention Room should be forwarded to the accounts section at the end of each month. The accounts section should check that the hours recorded correspond to the monthly number of hours stipulated in the agreement.
- The engagement of part-time officers should be regularised by entering into a formal contract of service. The agreement covering the service of teachers and instructors should stipulate:
 - The maximum number of hours each is engaged for
 - The rate per hour, stating clearly whether it is inclusive or exclusive of V.A.T. (if applicable).
 - Duties to be carried out.

A retainer agreement should be entered into between the department and the dentist.

Compliance Issues

Payment Vouchers

The purchase of goods and services should be covered by a GSPO upon placing of an order.

Motor Vehicle Log-Books

- Every week the log-books are to be forwarded to the officer i/c transport, to verify whether:
 - All the details required in the log-books are clearly recorded and appropriately signed
 - Fuel consumed reflect mileage/kilometers covered
 - End of week mileage reading corresponds with that of the tachometer.
- The vouched log-books should be endorsed by the officer in charge after being satisfied of their correctness.
- Any irregularities are to be reported to the Assistant Director (Finance & Administration) or in his absence to the Director, to take the necessary action.

Fully Expensed Car to Unauthorised Personnel

Approval for the entitlement of a fully expensed car to the mentioned officers should be sought from the Ministry of Finance.

Fully Expensed Car

Fuel consumption limits imposed on fully expensed cars by the Ministry of Finance should be adhered to.

Inventory

The department should strive to acquire the required personnel via contacts with the Ministry for Home Affairs. In the meantime, the exercise could be carried out by outsourcing the task, as suggested by the Ministry of Finance.

Management Comments

The director stated that remedial action will be discussed with his superior officer on the following points:

- Regularising the engagement of the dentist
- Fully expensed cars to unauthorised personnel – since employees in the same salary scale are entitled to transport from and to their place of work

The under mentioned issues were contested:

- Regularising the engagement of part-time teachers and instructors, because:
 - The prison is a difficult place to work and leads to high turnover
 - They may need to be discharged without notice
- Fully expensed car – the car is used for messenger duties and other office errands

Department of Civil Protection – Revenue

Background

The main objective of the department is that of providing Fire-fighting and Rescue Services throughout the Maltese islands. The main functions are:

- Drawing up of contingency plans in case of natural and industrial disasters
- Establish the infrastructural set up required to ensure co-ordination between the various departments of Government, Local Councils and non-governmental organisations which can be called upon to respond in a national or regional disaster
- The organisation and coordination of training programmes to Civil Protection personnel, Government Departments and other entities that request this service.

The department's main sources of revenue are generated from the charter of a tugboat and the provision of stand-by Fire Engines.

Control Issues

Opportunities were identified for improvement in a number of areas:

- Lack of segregation of duties relating to the issue of invoices and receipts, collection of cash, drawing up of the Bank deposit slips and cash deposits in the bank
- No official written policies exist to regulate the fees chargeable for the different type of services provided
- Weak internal control system in the area of request for services and invoicing
- The control system relating to the collection of revenue from defaulters is weak. Arrears of revenue have been increasing over the years

1999 to 2001. Although increase in services given are reflected in higher revenue earned by the department, collection of charges due should not be allowed to fall in arrears.

Compliance Issues

Daily Cash Report not printed

No cash report is printed at the end of the day in order to check that the amount collected (cash in till) corresponds with the actual amount of receipts issued.

Cancelled Receipts

Three (3) cancelled receipts were not presented for examination.

Recommendations

Control Issues

- The functions of issuing invoices and subsequent payment should be separated. Cash report should be drawn up by the cashier and countersigned by a senior officer before bank deposits are made
- A manual setting out clear billing guidelines should be drawn up. It should include the type of services and materials that are chargeable, to whom addressed and the rates at which charges are to be raised.
- Every requested service has to be recorded on pre-printed and pre-numbered forms.
- Payment enforcement should be improved by sending reminders to defaulters and better follow up of payments.

Timeframes should be set for the collection of arrears. A monthly report stating the actual results against set targets should be submitted to the Head of Department on a monthly basis. The reason for non-adherence to timeframes is to be given.

Compliance Issues

Daily cash Report not printed

At the end of each day, the cashier should print a daily cash report (including the receipts number and amount) which should tally with the money in the cash till.

Cancelled Receipts

The following measures need to be taken:

- Both the original and its duplicate should be attached together as stipulated in Part C, Section 34(3) of the General Financial Regulations 1966 and marked “cancelled” on both the original and copy. Cancelled receipts are to be properly filed as evidence that the money was not collected.

Management Comments

The Director acknowledged receipt of the report submitted by the Auditor General. The report contained certain issues that were contested by the department:

- Improvement in segregation of duties – shortage of staff does not allow the department to comply.
- Advance payment for booked services – the department is of the opinion that this measure would complicate matters.
- Over the years, arrears of revenue have been rising because revenue has increased. According to the department the amount of arrears is not alarming at all.

Public Registry Department – *Presentata*

Section – Revenue

Background

The *Presentata* Section forms part of the Land and Public Registry Division. Its main functions are to:

- maintain records of all credits of cases of hypothecation on immovable property and renewals of privileges and hypothecations
- register transfers of immovable property and real rights thereon, partitions, transfers *causa mortis* and wills, and marriage settlements
- carry out searches on ownership of immovable property
- carry out searches of wills.

Control Issues

Opportunities were identified for improvement in a number of areas:

- The tariff shown on 3 out of 128 (2.35 percent) batches of enrolment extracts (Book bound) did not tally with that shown on the Income by Category report. This report is categorised according to the type of income, and mainly contains the date, receipt number, amount received and narration
- The chargeable tariff on the Reference notes was matched against the receipts stated on the Income by Category report. It resulted that 2.86 percent (in unit batches) of the Reference notes were not traced to the Income by category report, and in another 3.81 percent the receipts were issued the following day
- Orders performed via e-mail are not printed. These are saved in the computer e-mail file, which are automatically deleted once this computer file reaches its maximum memory capacity

- No adequate relationship exists between ordering, invoicing and cash collecting
- The Public Registry Department does not issue an invoice to other Government Departments which make use of its public registration services
- Three different cash tills exist, one for “Searches-General”, one for “Searches-Wills” and another for “Public Registrations”. Each officer is allowed to collect cash. The receiving officer places the cash in one common cash load. This weakens the internal control system, in that it would be difficult to identify the responsible officer, should the physical cash disagree with the cash report.

Compliance Issues

Testing was carried out to examine whether the section complied with:

- The General Financial Regulations 1966
- Legal Notice 211 of 1997 on the “First Schedule” of the Public Registry Act (Cap.56)-fees.

Cancellation of Receipts

- Cancelled receipts were not traced on several occasions.
- When a receipt is erroneously issued, it is manually cancelled from the section’s computer generated list of receipts and the total daily takings are adjusted accordingly in ink. These receipts are not shown as a reversal in the two cash reports (Receipts per section & Income by category).
- In the case of the Searches section, cancelled receipts are not forwarded to the accounts section for verification (original and copy), but are kept by the section.

Bank Deposits

Bank deposits are not made on the same day of receipt but on the following day or later (depending on whether a Public Holiday or a weekend was included).

Chargeable Tariff

The chargeable tariff receivable from 3 hypothec notes was not calculated by the department in accordance with the “First Schedule” of Legal Notice 211/ 1997.

Recommendations

Control Issues

- The control systems relating to the first two-mentioned weaknesses can be improved by introducing the following measures, at the end of each day:
 - a Reference notes report stating the notes’ progressive number together with their respective chargeable tariff and the chargeable tariff in total should be drawn up.
 - the cashier should check that the cash in till tally with the daily receipts total and balances with the notes’ tariff total. Notes refer to the documents presented by notaries, such as hypothec notes.
- All order forms (including those originating via e-mail) are to be filed with their respective application form.
- In order to enhance the internal control system relating to the searches process function, the following procedures are recommended:
 - (a) The invoice should be printed in duplicate – the original passed on to the client upon payment, together with the original receipt. The copy is to be kept by the cashier onto which a copy of the receipt should be attached. In the D.A.S. accounting software - the receipt and income by category narration field should clearly indicate the number of the invoices that were paid.
 - (b) The individual invoice together with the copy of the receipt is to be attached to the respective order form.
- Upon presentation of a public registration note by a government entity, the registrations section should issue an invoice in duplicate chargeable to the other Government Department.

- Each and every cashier should keep his own cash-till and has to produce an income statement at the end of each the day. The total amount on the income statement should balance with the money in the cash-till. The cashier and head of section, should together endorse the cash sheet as a confirmation of its correctness.

Compliance Issues

Cancellation of Receipts

The receipt is the main document, which, confirms that money has been actually collected and therefore it is essential that copies are properly filed.

It is recommended that the following measures be implemented:

- Cancelled receipts should not be manually amended on the cash reports, but must be automatically computer generated to be shown as a reversal in the said reports.
- Both the original and duplicate should be attached together as stipulated in the General Financial Regulations 1966.
- Cancelled receipts are to be forwarded to the accounts section for verification.

Bank Deposits

Daily takings must be deposited the same day in an authorised bank account, especially if the following day falls on a weekend or a Public Holiday. Under such circumstances, the night safe of the Central Bank of Malta is to be used.

Chargeable Tariff

The cashier or any other officer within the Public Registration section should check that the tariff stated on the note is correct before collecting the cash and issuing the receipt.

Management Comments

The Director acknowledged receipt of the report and stated that instructions have been given to implement the separation of cash tills

recommended in the Control Issues and the Bank Deposits and Chargeable Tariff recommendations as indicated in the Compliance Issues. The department would strive to implement the other recommendations in the shortest possible time.

Ministry of Agriculture and Fisheries

– Ministry

**– Department of Fisheries and
Aquaculture**

Expenditure

Background

The Ministry's mission is to provide the proper climate for agriculture and fisheries to develop in such a way as to provide high quality Maltese produce, ensuring a balance between a varied and wholesome basket at reasonable consumer prices on the one hand, and providing an adequate and just income for growers, herdsman and fishermen on the other.

Control Issues

Opportunities for improving controls were identified in a number of areas:

- Commitment to buy (GSPO) not issued prior to purchase
- Payment vouchers not covered by a fiscal receipt
- No certification of vehicle log books

Compliance Issues

Commitment (GSPO) not issued prior to purchase

One hundred and sixty eight (168) purchase orders out of seven hundred and twenty seven (727) vouchers examined (i.e.23 per cent) were drawn up after the respective purchases had been effected, indicating that no approval was obtained prior to purchase.

Payment vouchers not covered by a fiscal receipt

From the six hundred and ninety seven (697) vouchers which required a V.A.T. receipt, three hundred and ten (310), (i.e. 44 per cent) were not covered by a fiscal document.

The amount which is not covered by an official V.A.T. receipt may result in V.A.T. collections not being passed on to the V.A.T. department.

No certification of vehicle log books

The log books are not being periodically certified by the Head of Department as stipulated in Public Service Management Code. This is essential to enable certifying officers to exercise proper control over the issue of fuel to Government-owned vehicles.

Recommendations

Commitment (GSPO) not issued prior to purchase

The issue of a Purchase Order/Commitment is the main tool for ensuring that the relative expense falls within the approved budget. Non-adherence may result in not having enough funds to honour the actual expense and that unauthorised items may have been purchased.

It is very important that, where applicable, goods and services are covered by a GSPO upon placing of an order. This will ensure that proper authorisation for the purchase is obtained as stipulated in regulations.

Payment vouchers not covered by a fiscal receipt

The Department is to inform, on a regular basis as directed by the Ministry of Finance, the V.A.T Department regarding those suppliers who failed to submit a V.A.T receipt following payment of supplies of goods and/or services.

Every effort is to be made to enforce the principle that official V.A.T receipts are obtained from suppliers.

No certification of vehicle log books

Every log-book is to be examined by the Department Head or his assistant in accordance with the Public Service Management Code at the end of each month and cases of irregular use of cars duly reported.

Management Comments

The department is taking steps to adhere to the pertinent regulations as recommended.

Bank Accounts

Background

The Department of Agriculture and Fisheries operates six (6) bank accounts with three (3) being held with the Central Bank and another three (3) with one of the Commercial Banks.

Accounts held at the Central Bank in the name of the Department of Agriculture and Fisheries.

(i) **Pitkali Markets**

Although this account is still open with a nominal balance, all transactions have since been transferred to one of the commercial banks.

(ii) **Potato Export**

This account covers payments to farmers and brokers for the export of local potatoes.

(iii) **Fishermen / “Pitkala”**

This account covers payments to fishermen for the sale of fish at the wholesale market and payments of commission to “*pitkala*” on the sale of fish.

Accounts listed below are held with one of the Commercial Banks in the name of the Director of Agriculture.

(iv) **“Pitkali”**

This account is being used to receive payments from hawkers and to pay out farmers every month.

(v) **Subsidy**

This account is used to pay “*pitkala*” the 1.75 per cent subsidy difference between the 6.25 per cent paid by farmers and the 8 per cent commission received by *pitkala*.

(vi) Sundries

This account is used to tackle any other items not covered by (iv) and (v).

Key Issues

No reconciliation is being made of the accounts held with banks as stipulated by the General Financial Regulations. Two of the bank accounts held with the Commercial Bank have a negative balance.

Recommendations

The provisions of the General Financial Regulations regarding bank reconciliation should be followed. The Department is to draw up a statement to reconcile the balance of the bank accounts on monthly basis. A copy of the statement is to be sent to the Accountant General for transmission to the Auditor General. Moreover, the statement is to be accompanied where possible by the bank statement. Where this is not practicable, the bank's certificate showing the closing balance of the month should be presented.

Management Comments

Management confirmed that the Department does not reconcile its records with the bank statement and that no account book is held for these accounts.

Revenue Fish Market - Account 8393

Background

Payments by fish hawkers covering purchases effected by them from the Fish Market through the “*Pitkala*” are made at the department and deposited in an ad hoc Below-the-Line account. 93.7 per cent of this intake is paid to the fishermen and the balance of 6.3 per cent is paid as commission to the “*Pitka*”.

Key Issues

A reconciliation of the below-the-line account by means of which sale of fresh fish is operated (which serves as a control account) was carried out as at 31st December 2001.

The balance of this account plus the total balance of debtors did not tally with the aggregate amount of creditors. Moreover, amount paid by a hawker was recorded in the cash book and deposited to the bank, but not recorded on the account card of the relative hawker resulting in a higher discrepancy in the account.

Compliance Issues

Receipts not recorded in cash book

Eighty (80) receipts were recorded in a Departmental Accounting System (DAS) statement and remitted to the bank but not recorded in the cash book, resulting in cash book entries not reconciling with DAS records.

Recommendations

A proper reconciliation of the below-the-line account is to be undertaken before effecting any payment. All receipts are to be recorded in the cash book so that its balance will reconcile with the DAS records.

Management Comments

A meeting was held to discuss further Fisheries comments on the report. However no conclusive submissions have as yet been received.

Malta Centre for Fisheries and Sciences

Background

The Malta Centre for Fisheries and Sciences is being developed as an entity for the service of the fishing community and fish farming community. In collaboration with foreign firms, the Centre will continue with research activities on fish vaccines and nutrition trials. Environmental monitoring together with control and monitoring of fish health also form part of this Centre's activities. Training facilities for both Maltese and foreign students and researchers will be given at the Centre.

Compliance issue

A check carried out on bank deposits effected in 2000 and 2001 revealed that twelve (12) transactions which should have been passed to Revenue, were instead credited to Below-the-Line Account – Sale of Fish. These receipts were in the form of re-imbursements and covered payments which were charged to the Recurrent Vote in the first instance and therefore should have never been credited to this Below-the-Line Account.

Recommendations

A transfer voucher is to be raised to adjust these misclassifications by crediting Revenue and debiting Below-the-Line Account.

Management Comments

Although Management has submitted his comments on NAO's report followed by a meeting to further discuss Management's reply, no conclusive submissions were forwarded as agreed.

Contribution towards Marketing Expenses

Background

Fishermen assign their catch of fish to a broker or “*pitkal*” at the Fish market. The “*pitkal*” gives an informal voucher to the fishermen, in acknowledgement. The “*pitkal*” sells the fish and issues a sales voucher to the hawker based on the gross sales of fish. A copy of this sales voucher is filed by the Fisheries Department Accounts section. This procedure is based on the Fish Marketing Regulations (Subsidiary Regulations 138.01).

The amount of gross sales is selected from the vouchers and transferred to the hawkers’ personal account cards which are kept manually for each hawker. Some hawkers pay after a few days while others take a longer period.

Payments from hawkers are deposited in a below the line account from where 93.7 per cent of the amount of gross sales of fish is paid to the fisherman and the balance of 6.3 per cent is paid as a commission to the “*pitkal*”.

A contribution of 4.4 per cent based on the value of total gross sale of fish is granted to the “*Koperativa*” as stipulated in Legal Notice 5/1992 of the Fish Industry Act (Cap 138). This is the actual expenditure incurred by government and is allocated to expenditure item 5042 “*Contribution towards Marketing Expenses*” which is being paid every 3 or 4 months.

Key issues

The actual contribution paid to the “*Koperativ*” was overpaid by Lm 9,559 when compared to what should have been paid had it been based on the sales figures kept at the department.

Control Issues

- Overpayment of Contribution towards Marketing Expenses
- Under declaration of income by fishermen

Compliance Issues

Overpayment of Contribution towards Marketing Expenses

Sales figures (shown below) obtained from the Fisheries department but from different sources do not tally.

	(a) Gross Sales on which contribution was based	(b) Gross Sales as per records at the Dept. of Fisheries	(c) Gross Sales declared by Fishermen for tax purposes
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Sales Value	1,632,706	1,415,451	1,326,739
4.4 percent Contribution based on the sales figure above	71,839	62,280	58,377

The different sales value figures in the matrix above, were derived as follows:-

Sales figure for column (a) was arrived at by working backwards, taking the 4.4 per cent subsidy amounting to Lm 71,839 received by the two Cooperative Societies and traced to their respective Payment Vouchers.

Sales figure for column (b) was based on the 6.3 per cent commission amounting to Lm 60,783.47 paid to the "Pitkal", resulting in Lm 964,817 of local sale of fish during year 2001, plus export sales of Tuna amounting to Lm 397,814 and Lm 52,820 worth of Swordfish sales kept in Cold Stores. All sales figures were provided by the Department of Fisheries.

Under declaration for tax purposes

Sales figure for column (c) in the table above, was obtained from records of sales by each "Pitkal" kept at the same department on behalf of the Fishermen, for tax purposes.

The amount of Lm1,326,739 turnover declared by fishermen for tax purposes (which records are kept by the department of fisheries), do not match

with the figures of gross sales of fish held by the same department amounting to Lm1,415,451. From this, it results in a total under declaration for tax purposes of Lm 88,712.

Recommendations

Due to the material discrepancy found in the review it is recommended that, for internal control purposes, before effecting payment from expenditure item – Contributions towards Marketing Expenses, another official in the Fisheries Department verifies the accuracy of the sales figure upon which contribution paid is based.

Management Comments

Although Management has submitted his comments on NAO's report followed by a meeting to further discuss Management's reply, no conclusive submissions were forwarded as agreed.

Ministry for Gozo

- Department of Corporate Services**
- Gozo Law Courts**
- Meals on Wheels Service**
- Ghajnsielem Day Centre**
- Incontinence Service System**
- Notary to Government**
- Land Department**
- Joint Office**
- Public Registry**
- Land Registry**
- Gozo General Hospital**

Department of Corporate Services

Background

The department's mission is to provide through the Permanent Secretary a central support service and to co-ordinate the corporate activities of the departments falling under the Ministry for Gozo.

Control Issues

Opportunities for improving controls were identified in some areas:

- Commitment (GSPO) not issued prior to purchase.
- Payment vouchers not covered by a fiscal receipt.

Compliance issues

Commitment (Good or Services Purchase Order) not issued prior to invoice

Ten (10) out of thirty-four (34) purchase orders (29 per cent) which required a prior commitment were drawn up after the respective purchases had been effected. No approval was obtained prior to purchase.

Payment vouchers not covered by a fiscal receipt

Out of the ninety-four (94) vouchers audited, thirty one (31) required a V.A.T Fiscal receipt. Twelve (12) payments (i.e.39 per cent) were not covered by a fiscal document.

Misallocation of expenditure

Nine (9) out of the ninety four (94) payment vouchers (i.e.10 per cent) verified during the audit were not charged to the correct account or sub-item number.

The amount quoted in the Financial Report would not reflect the real amount relating to the particular item of expense. This also hinders an effective comparison of budgeted as against actual expenditure.

Recommendations

Commitment (GSPO) not issued prior to invoice

The issue of a Purchase Order/Commitment is the main tool for ensuring that the relative expense falls within the approved budget. Non-adherence may result in not having enough funds to honour the actual expense and that no approval being obtained prior to purchase.

It is very important that, where applicable, goods and services are covered by a GSPO upon placing of an order. This will ensure that authorisation for the purchase is obtained as stipulated in the regulations.

Payment vouchers not covered by a fiscal receipt

Every effort is to be made to enforce the principle that official V.A.T receipts are obtained from suppliers. The Department is to inform, on a regular basis as directed by the Ministry of Finance, the V.A.T Department regarding those suppliers who failed to submit a V.A.T receipt following payment of supplies of goods and/or services.

Misallocation of expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item. This was also emphasised by the Permanent Secretary, Ministry of Finance by virtue of MF Circular 3/2000 dated 25th January 2000 that stated *“it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded”*.

Management Comments

Observations were noted and action was to be taken to address shortcomings.

Gozo Law Courts

Background

The most salient feature of 2001 has been the legal, administrative and organisational reform throughout the Courts of Justice. The former distinction between an Inferior Registry and Superior Registry (catering for both Civil and Criminal jurisdictions) is being substituted by two separate Court Registries – one Civil and one Criminal and a separate and independent Gozo Courts Registry. The principal sectional division in Gozo is between the Civil Court, the Criminal Court and the Acts section.

Following this new organisation structure, the Gozo Courts of Justice are now headed by one Director (Gozo Courts and Tribunals).

Key Issues

Individuals who are authorised to pay fines by installments are only being registered in the claims book by their name and address without entering their respective identity card number.

Control Issues

Opportunities for improving controls were identified in the following areas:

- Updating records so that defaulters could be easily traced.
- Monitor defaulters and take action to ensure that fines imposed are fully honoured within the prescribed time.

Compliance Issues

Pending Fines

Seventy five (75) fines amounting to Lm 14,302 out of a total of three hundred fifty six (356) fines inflicted during 2001 (i.e.21 per cent) which should have been paid in full, were not yet settled up till 5th November 2002. In spite

of the fact that some defaulters were even given a conviction notice, these never turned up to pay their fine. Since there is no indication that any further action has been taken by the Court to chase these defaulters, this may indicate lack of discipline and/or poor liaison between the law Court and the Commissioner of Police to chase defaulters. Besides not collecting fines imposed, the Authority of the Courts is being flouted.

It has to be pointed out that up till beginning November 2002, fines remaining unpaid covering the period 1986 to 2001 amount to Lm 35,496.

Recommendations

An efficient system should be adopted to ensure that:

- fines imposed by the Law Court are fully honoured within the prescribed time;
- defaulters are summoned and/or follow action taken to settle dues.

Moreover ID card number is to be taken as reference to the defaulter as this is the unique reference attached to an individual.

Management Comments

Report was reviewed by Director Customer Services. The recommendations were agreed with and are to be implemented at the Law Courts.

Meals on Wheels Service

Background

The Meals on Wheels Service is a joint venture between the Ministry for Gozo, Moviment Anzjani Socjali and Society of the Friends of the Sick and the Elderly in Gozo. This service provides a daily mid-day hot meal delivered to the clients' homes. A total number of 3,028 meals were delivered during 2001.

Control Issue

Opportunities were identified for improvement in the following area:

- The fuel consumption of the van used for delivering meals is more than 50 percent higher than that estimated by the manufacturer.

Recommendation

- Fuel consumption is to be controlled in such a way that it should reflect the actual mileage/kilometres covered.

Management Comments

The Director Customer Services mentioned the fact that the geographic terrain of Gozo is hilly, that the van is not new, that it is not switched off and that the equation for fuel consumption has been the same since 1999. These arguments were not considered satisfactory.

Ghajnsielem Day Centre

Background

The Ghajnsielem Day Centre is jointly operated by Local Councils in Gozo (with the exception of Nadur and Xaghra), Caritas, and the Ministry for Gozo. Several activities and services are offered at the day centre.

A payment of Lm1 per day is collected from elderly making use of the facility. This covers all expenses incurred to run the centre. Additional income is generated from outings organised monthly, raffles and tombola.

Items of foodstuff are bought at the discretion of the staff from the open market on a weekly basis. Expenses for improvement to buildings and purchase of assets are defrayed from any surplus funds. These services/purchases are authorised beforehand by the board made up of 6 members - 2 representing each of the 3 organisations. Invoices of petty amounts up to Lm50 are paid in cash. Other invoices are paid by cheque. These are endorsed by the administrator of the day centre and the principal of the Customer Services Department.

Any surpluses are deposited in a current bank account held with APS.

Control Issue

Opportunities were identified for improvement in the following area:

- It is not clear to whom the administrator of the day centre is accountable and in whose name the day centre is being operated. Consequently it is doubtful whether Government's Financial Legislation is applicable. Currently, the day centre is following no specific accounting regulations.

Recommendation

- Although it is not clear, as to which jurisdiction this day centre relates, it is recommended that operators should follow Government Financial Regulations.

Management Comments

Management accepted the recommendation and will be taking the necessary action.

Incontinence Service

Background

The Incontinence Service section provides incontinence products free of charge to persons with special needs (Scheme A) and at a subsidised price to elderly persons over 60 years of age (Scheme B).

Control Issues

Opportunities were identified for improvement in a number of areas:

- Details of persons registered under both schemes were found to be incorrect when verified against the Common Database
- Databases held for both schemes are not maintained on one uniform basis
- Different procedures are in operation for the two schemes.

Recommendations

- Details of eventual beneficiaries are to be checked with the Common Database on application. Furthermore, continuous verification is to be carried out of existing beneficiaries
- Separate lists of beneficiaries under both schemes are to be similarly maintained. These databases are to be updated every month and a back up is to be kept
- Management is to consider introducing vouchers to cover a longer period for scheme A and a shorter period for scheme B. Ideally, vouchers for identical periods are to be issued, say for 6 months.

Management Comments

The comments submitted by management were not considered satisfactory.

Notary to Government - Revenue

Background

The Department is responsible for the preparation, drafting and publishing of notarial deeds to which Government and /or parastatal entities are a party.

Key Issues

The revenue related to notarial fees and Public registry fees in 14 out of 15 notarial deeds was not collected by the department.

Control Issues

Opportunities were identified for improvement in the following areas:

- Each officer in this section is authorised to receive payment and issue receipts. The money collected is kept in one common cash till. This may lead to a situation where it would be hard to identify the responsible officer, should a cash surplus or shortage materialise
- The department issues receipts from the D.A.S. computer software. These receipts are individually recorded in a manual cash-book, thus leading to a higher risk of human error, besides duplication of work.

Recommendations

Key Issues

Every contract that carries a charge, should be accompanied by a detailed bill of the fees being charged. The bill should be consecutively numbered and issued in duplicate. The original forwarded to client and the copy kept by the department. The contract number reference should feature on both copies of the bill. A DAS receipt is to be issued upon payment of the service. The receipt should state the bill number. A copy of the invoice and receipt are to be attached to the contract, thus creating a full audit trail for any research that may be needed later.

Other government departments availing of this department's services should be charged their respective fee. Again, a detailed bill should be issued to the department concerned. Upon payment, the "Schedule of Payments" voucher should be attached to the respective bill.

Control Issues

- Each cashier should keep his own cash-till and at the end of the day has to produce a cash statement in which the total amount should balance with the money in the cash-till. The cashier should endorse the cash sheet as a confirmation of its correctness. The checking should be carried out in the presence of the head of section who must countersign the cash sheet.
- D.A.S. receipts should not be recorded in a manual cash-book. However, the computer system should be able to:
 - Allocate the receipt in the respective Revenue head and sub-head
 - Update the cash-book automatically
 - Generate a receipts' list by user report (cash sheet), specifically for the section

At the end of the day:

- The officer in charge should check that the amount shown on the cash sheet and in the cash-till correspond
- If found correct, both the cashier and officer in charge should endorse the cash sheet
- A copy of the cash sheet together with a copy of the receipts and bank deposit slips, is to be forwarded to the main cashier for verification.
- If correct, the main cashier allocates the receipts to their respective account and records the deposit (in the D.A.S. system).

Management Comments

Director Customer Services acknowledged receipt of the report forwarded by NAO and informed the department to abide by the report's recommendations.

Land Department - Revenue

Background

The Gozo Branch Office of the Land Department handles the legal aspect of the Government property management, by monitoring the property and collecting rent and leases on the said property in Gozo.

Control Issues

Opportunities were identified for improvement in the following areas:

- The computerised “Departmental Accounting System” (D.A.S.) global receipts containing the total amount of the manual receipts for the day were not always issued that same day
- Some D.A.S. global receipts were issued after the cash was remitted to bank
- A lack of segregation of duties in the revenue area exists. Issue of the individual manual receipts, collection of cash, updates in the respective manual individual ledgers, drawing up of the remittances to bank and issue of the D.A.S. global receipts are performed by the same officer.

Recommendations

Weaknesses identified may be improved by adopting the following procedures:

- (a) For every payment received, a D.A.S. receipt should be issued instead of a manual receipt. If this system is introduced there would no longer be the need to issue a D.A.S. global receipt at the end of the day.
- (b) To further enhance the internal control system, it is suggested that the:
 - i. Updates in the manual individual ledgers should be assigned to an officer other than the cashier

- ii. The cashier should carry out the task of checking the cash-sheet with the cash in till, in the presence of the officer in charge
 - iii. The cashier and officer in charge should endorse the cash-sheet after being satisfied that the mentioned amounts agree.
- (c) Until recommendation (a) is in operation, the following measures should be adopted:
 - i. D.A.S. global receipts for the daily takings are to be issued the same day money is collected
 - ii. The daily D.A.S. receipt number should be quoted under the respective sub-head in the manual cash-book
 - iii. The date of deposit should be shown in the cash-book alongside the 'TOTAL' column, (i.e. the total cash received for the day).

Management Comments

Director Customer Services acknowledged receipt of the report forwarded by NAO and instructed the department to adopt the report's recommendations.

Joint Office - Revenue

Background

The Department's objective is that of managing and administering efficiently the estate transferred to Government by the Ecclesiastical Entities in terms of the provisions of Act IV of 1992.

The department is also responsible for reconciling the value of the transferred property to compute the amount that is to be payable to, or receivable from, the church.

Control Issues

Opportunities were identified for improvement in a number of areas:

- Manual receipts are recorded on a manual cash-book and on an Excel computer spreadsheet. The two cash-books contain the same information, leading to duplication of work.
- Receipts are issued manually and not electronically, even though, the department has the facility to use the D.A.S. software. The officer in charge stated that he does not have the necessary knowledge to operate the D.A.S. software.

The D.A.S. global receipt for the deposited amount is issued by the Joint Office Revenue Section in Malta, against delivery of the bank deposit slip from the Gozo office. The deposit slips are transmitted to the Head Office twice or three times a month.

No records exist of the tenements address, tenants name and amount of annual rent payable by each tenant.

Recommendations

- Only the Excel Revenue cash-book should be maintained. It is essential that a back up of the Revenue cash book is maintained on a daily basis.

This recommendation would not be necessary should recommendation (B) below be implemented.

- The above-mentioned control issues can be improved by adopting the following measures:

(A) For every payment received, a D.A.S. receipt should be issued instead of a manual receipt. However, it is imperative that in carrying out this task, the computer system should be able to:

- Allocate the receipt in the respective Revenue head and sub-head. If the D.A.S software does not contain the adequate Revenue head and sub-heads, then the department should inform the Treasury to create such accounts before proceeding further
- Generate a receipts' list by user report (cash sheet), specifically for the section. This report should include the user name, receipt number, receipt amount and total amount.

At the end of the day:

- The officer in charge should check that the amount on the cash sheet and in the cash till correspond, and if found correct endorses the cash sheet;
- The cash sheet together with the copy of receipts and bank deposit slips, is to be forwarded to the main cashier to verify that they tally with each other;
- If correct, the main cashier allocates the receipts to their respective account and records the deposit.

Until recommendation (A) is in operation, the Gozo office has to forward to the Joint Office Malta:

- A copy of the bank deposit slip on a more frequent basis, preferably whenever cash is remitted to bank.
- A list of the receipts tallying with the deposit slip. This can be carried out by e-mailing an extract of the Excel cash book to the officer in charge at the Malta Branch. Cancelled receipts are to be shown on this extract.

(B) The department together with the head office in Malta should strive to introduce a suitable computer system. Information relating to the property in Gozo, which has been valued by the Control Committee, should be forwarded to the Joint Office (Gozo). From their end, the Gozo office should build a database of these tenements.

As a minimum, the computer system should have the following requisites:

- Information relating to tenements (i.e. address of property and name of tenant)
- Annual rent payable
- Rent paid
- Production of invoices

The debtors ledger should be in accordance with MF Circular number 10/2001, particularly to Appendix A and Annexes 1 and 2.

This computer system has to cater for the financial needs of the accruals accounting system, which will be implemented by Government in the near future.

Management Comments

Director Customer Services acknowledged receipt of NAO's report and passed it to the Director Joint Office (Malta) for any action that he may deem necessary.

The issue was not addressed by Director Joint Office by the date this publication went to print.

Public Registry - Revenue

Background

This department is responsible for the registration, transfer and hypothecation of immovable property. Other functions of the department are to perform searches relating to immovable property and wills.

Control Issues

Opportunities were identified for improvement in a number of areas:

- The department issues the receipts from the D.A.S computer system. These receipts are individually recorded in a manual cash book, thus leading to a higher risk of human error. Although the software is programmed to generate a daily transaction sheet, a manual cash book is still being used
- The ledger sheets of the manual cash-book are not numbered.

Compliance Issue

The section was examined to check whether it complied with the General Financial Regulations 1966.

Bank Deposits

A random sample of 16 days (i.e. 6 percent of the yearly working days) from the manual cash book was selected to check bank deposits. The entire sample consisted of cash amounts exceeding Lm30. These were deposited at the bank either on the next working day or sometimes later.

Recommendations

Control Issues

- When the report generating functions of D.A.S are used receipts should not be recorded anymore in a manual cash book. However, the computer system should be programmed to:

- Allocate the receipt in the respective Revenue head and sub-head. If the D.A.S software does not have this facility, then the Treasury should be requested to create such accounts
- Update the cash book automatically
- Generate a receipts' list by user report since there are more than one cashier with the section. This report should include the user name, receipt number, receipt amount and total amount.

At the end of the day:

- The officer in charge should check together with each cashier that the amount shown on the receipt list by user report correspond to the cash in the till
- If found correct, both the cashier and officer in charge should endorse the report
- The report together with the copy of receipts and bank deposit slips, are to be forwarded to the main cashier who is to verify that they correspond.

If correct, the main cashier allocates the receipts to their respective account and records the deposit in the D.A.S. system.

- Until the manual cash book is retained, ledger sheets contained in the manual cash book should be pre-numbered. Pre-numbering should preferably be carried out by an officer other than the cashier.

Compliance Issue

- Material daily takings must be deposited the same day in an authorised bank account. For this purpose, a night safe facility may be used.

Management Comments

Director Customer Services acknowledged receipt of the report forwarded by NAO and instructed the department to adopt the report's recommendations.

Land Registry - Revenue

Background

The functions of the Department are regulated by the Land Registry Act, Cap. 296. One of the responsibilities covers the registration of title to property within designated registration areas. It examines applications for ownership, including the rights attached to the property and any hypothecation before the immovable property is registered in the name of the owner.

Control Issues

Opportunities were identified for improvement in the following areas:

- The department issues receipts from the “Departmental Accounting System” (D.A.S.) computer software. These receipts are again recorded in a manual cash-book, even though D.A.S is programmed to generate a daily transaction list.
- Each officer is authorised to receive payments and issue receipts. Money collected is kept in one cash till. If a cash shortage or surplus occurs, it would be difficult to identify the responsible officer.

Recommendations

- The D.A.S. receipts need not be recorded in a manual cash-book. However, the software is to be programmed to:
 - (i) Allocate the receipt in the respective Revenue head and sub-head. If the D.A.S software does not contain the adequate revenue head and sub-heads, then the Ministry should contact Treasury to create such accounts
 - (ii) Update the cash-book automatically
 - (iii) Generate a receipts' list by user report (cash sheet), specifically for the section.

- Each cashier should keep his own cash-till and has to produce a cash statement at the end of the day. The total amount in this statement should balance with the money in the cash-till. The cashier should endorse the cash sheet as a confirmation of its correctness, preferably in the presence of the head of section.

Management Comments

Director customer services acknowledged receipt of report forwarded by NAO. The department did not agree with the recommendation of providing a cash till to each cashier, on the grounds that amounts receivable are not considerable and no errors were as yet made when receiving cash.

NAO suggested that in light of this, the department should consider the possibility of utilising only one cashier.

Gozo General Hospital - Stores

Background

The Stores Section at the Gozo General Hospital (GGH) is responsible for the receipt, storage and issue of Expendable and Permanent items, Uniforms, Provisions, Maintenance and Spare Parts. The officer in charge is assisted by a storekeeper for each of the type of stores. The latter is also responsible for the daily updating of the ledgers and bin cards.

Key Issues

The following findings emerged repeatedly:

- Slow-moving/unserviceable/obsolete items stocked in large quantities
- 50 percent of the sample of spare parts, 40 percent of maintenance, 24 percent of permanent and 10 percent of expendable items are slow-moving
- Expendable items retained in wards in excess of requirements

The quantity of obsolete, unserviceable and slow-moving items are creating logistic problems. Various perishable store items are being kept in corridors and even in a structurally dangerous building known as Detox.

Control Issues

Opportunities were identified for improvement in a number of areas:

- Store items are not coded
- Records are still kept manually in ledgers
- Loose stock sheets were found inserted in binders
- Re-order levels, re-order quantities, consumption rates, maximum and minimum stock levels are non-existent
- Printed requisition forms are not bound and/or pre-numbered

- Spare parts of scrapped or sold machinery are still retained unnecessarily
- Unserviceable items have been outstanding for a Board decision. No action has been taken to date
- Items marked '*Off Charge*' in loans register are not recorded as such on bin cards and in ledgers
- Wards/sections/maintenance personnel order directly from suppliers without the knowledge of stores' personnel
- Discrepancies between physical quantities and bin cards/ledgers
- No separate ledger sheets and bin cards are being kept for the same items having different sizes.

Compliance Issue

Stocktaking Reports

A stocktaking report relating to the year-end stock take performed for expendable items and spare parts was not made available. This is in contravention of the General Financial Regulations 1966 Section I para. 111(1).

Recommendations

Key Issues

It is recommended that a Board of Survey be set up to investigate all items stored with the aim of identifying both slow-moving or unserviceable items and whether these may be sold, scrapped or used alternatively. The Board's recommendations should be implemented within a set tight timeframe so that much needed storage space would be made available. Until then, an alternative place must be assigned for the storage of nappies and items currently deposited inconveniently in the corridor and at a condemned building.

Expendable items should be distributed only according to the requirements of the wards/sections concerned upon the receipt of a requisition. Should the system of a quota be retained, it is advisable that quotas are revised

periodically after verifying by means of inspections that overstocking is being experienced. In this way, the practice of the retention of excess stock will be drastically reduced.

Control Issues

- STORIT software should be introduced so as to do away with manual registers. This will also cater for coding store items
- Re-order levels/quantities, minimum/maximum stock levels and consumption rates are to be introduced to control stock levels and related expenditure
- Pre-numbered requisition forms for control purposes are to be introduced
- Unserviceable and obsolete items are to be disposed of with the least possible delay to regain valuable space
- Items issued from stores on loan are to be marked as such on bin cards and in ledgers
- Orders for supplies are to be channelled through stores personnel
- Discrepancies are to be identified and the necessary adjustments effected
- Bin cards should be used for the different sizes of store items.

Compliance Issue

A planned annual stock take should be carried out every year as stipulated in the General Financial Regulations 1966. Discrepancies should be reported to the Minister as per Section I para. 111(2) of the Regulations and corrective necessary action taken.

Management Comments

No management comments were received on these points:

- Slow moving items stocked in large quantities. Slow moving items identified from the samples taken consisted of 50 percent of spare

parts, 40 percent of maintenance, 24 percent of permanent and 10 percent of expendable items

- Store items not being coded
- Records kept manually in ledgers
- Re-order levels, re-order quantities, consumption rates, maximum and minimum stock levels being non-existent
- Items marked 'Off charge' in loans register not being recorded as such on bin cards and in ledgers
- Wards/sections/maintenance personnel ordering directly from suppliers without the knowledge of stores' personnel
- Discrepancies between physical quantities and bin cards/ledgers
- No separate ledger sheets and bin cards being kept for the same items having different sizes
- Lack of documentation regarding the annual stock take

As regards the loose stock sheets found inserted in binders, management is contesting the NAO's findings.

In the case of the remaining findings, with the exception of spare parts of scrapped/sold machinery and unserviceable items, the replies are not considered satisfactory.

Gozo General Hospital - Inventory of Medical Equipment

Background

A Senior Pharmacy Technician is responsible for the compilation and maintenance of the Gozo General Hospital Inventory. His duties also include general functions in the Hospital pharmacy.

The inventory database and room lists are held electronically in spreadsheet format. When new items of inventory are purchased, copies of the relevant invoices are forwarded to the senior pharmacy technician in order to update records.

The exercise is a follow up of an audit carried out in March 1996. A report featured in the Annual Audit Report 1998. In April 2001, the Hospital authorities informed the Ministry for Gozo and the National Audit Office that “the compilation of the Inventory of Medical Equipment and Instruments at the Gozo General Hospital (including the Gozo Mental Hospital) has now been completed according to the latest instructions of the MF Circular No. 14/99 dated 24th November 1999.”

Key Issue

The inventory database still requires fine tuning and updating.

Control Issues

Opportunities were identified for improvement in a number of areas:

- Discrepancies were identified when a physical check against inventory records was carried out
- Movement of inventory items from one location to another is not recorded on the database
- No back-ups of data are made, risking losing important information should hardware/software crash.

Compliance Issues

Incomplete Inventory Ledger

Certain fields were left blank. From the database it resulted that 93 percent of the entries had no assigned value and only 6 percent had their purchase date recorded. Furthermore, in three instances the room lists still have to be drawn up, whilst the items shown on six room lists could not be traced to the inventory ledger.

Inventory items not permanently marked

Items are not marked with their respective asset identification number. 63 percent of the total number of assets recorded in the database were not attributed a serial number and a brand name. While performing the physical examination of inventory items, it was difficult to classify items of the same brand when the serial number was missing.

Other Shortcomings

No electronic copies of the inventory ledger were forwarded to this Office and to the Director of Customer Services as stipulated in standing directives issued by the Ministry of Finance. Furthermore, management never carried out a sample check of the inventory since the completion of the database.

Recommendations

Control Issues

- A list of discrepancies is to be drawn up and a board nominated to investigate and report to the Head of Department
- Movements of inventory items are to be duly reported to the person responsible for maintaining the inventory ledger
- The officer entrusted with the maintenance of inventory records is to keep back ups of data secured in a different location.

Compliance Issues

Incomplete Inventory Ledger

The inventory ledger and room lists are to be brought in conformity with the relative Finance circular as a matter of priority. Room lists should be kept

up to date and must be visibly hung in every room. Failing to complete the inventory database, it will not serve its purpose of ensuring a more effective asset control.

Inventory items not permanently marked

Inventory items should all be indelibly marked with the respective identification number. The inventory ledger is to be up to date at all times.

Other Shortcomings

The provisions of MF Circular 14/99, where it addresses the shortcomings mentioned above, are to be scrupulously followed.

Management Comments

All points raised were accepted by management. Steps are being taken to rectify the highlighted shortcomings.

Gozo General Hospital - Revenue

Background

The Procurement Office caters for all functions relating to the collection of cash. The collection and recording of revenue from sale of medicines, lending of medical aids, hospital and ambulance fees falls within the duties of the officer in charge.

Revenue collected is recorded in a manually analysed cashbook under the respective heading, even though DAS has been in use throughout 2001.

Key Issues

Unsuitable Location

The cashier also assists the principal with the stores and loans of medical aids. This officer is located at the stores which are distant from the main hospital building, where medicine is dispensed and foreign patients are admitted.

Unavailability of an Electronic Point of Sale (EPOS) System

Payment can only be settled by cash and cheques since credit and debit cards are not accepted at the hospital. This certainly hampers the collection of fees due from foreign patients, who opt to pay with credit/debit cards.

Control Issues

Opportunities were identified for improvement in a number of areas:

- Lack of effective communication between paramedical staff and the Procurement Office, leads to late receipt, or even non-submission of Return of Foreign Patients Forms (RFPFs). This hinders the timely issue of bills and collecting charges due
- Missing patients' personal details on the RFPFs
- No distinction in the procedures between Ward and Casualty patients.

Compliance Issue

Return of Arrears

No return of arrears is being submitted, as stipulated in the General Financial Regulations 1966 Section 49(2). Failing to submit a return of arrears will not give a true picture of the revenue still to be collected.

Recommendations

Key Issues

Unsuitable Location

The cashier should be situated at the main hospital building.

Unavailability of an Electronic Point of Sale (EPOS) System

EPOS will minimise risks of non-collection of bills, knowing that foreign patients admitted to hospital will unlikely be in possession of enough local currency to settle their dues. It is recommended that the possibility of introducing EPOS be discussed with the least possible delay. Moreover, to safeguard loss of revenue it should be explored as to whether deposits should be requested prior to treatment.

Control Issues

- In view of the introduction of the Patient Billing System in Malta, management is to liaise with the Ministry of Health with a view to eventually install the computer system also in Gozo
- It is to be emphasised to the hospital staff to record all personal information required upon admittance. Should a computerised system be introduced, all fields would be mandatory
- The new billing system, if introduced, should distinguish between ward and casualty cases. This leads to an appropriate approach to the relevant case. In ward cases, the patient or his relative, could be informed that payment would be due following treatment.

Compliance Issue

Return of Arrears

A database is to be maintained to monitor the existing and newly accrued arrears. A return of arrears of revenue should be drawn up and submitted on a yearly basis.

Management Comments

The comments forwarded by management were not considered satisfactory, except for complying with Section 49(2) of the General Financial Regulations 1966 as regards to the submission of the return of arrears.

Gozo General Hospital - Expenditure

Background

The Hospital's Accounts Section is responsible for processing payments by means of payment vouchers (PVs), monitoring funds and arrears charges, accounting for virements and excesses, and other duties relative to the financial reporting function. DAS was used throughout the year 2001.

Key Issues

40 percent of the transactions examined included Goods/Services Purchase Orders (GSPOs) raised after the date of invoice. Furthermore, inadequate filing of PVs and the relevant documentation led to 20 percent of the sample of PVs requested for examination not being traced. PVs and supporting documentation are kept in batches at the Treasury Department Gozo Branch, together with those of other departments. Batches are only referenced by month.

Compliance Issue

Authorisation

The purchase of a gearbox for an ambulance, valued at more than Lm900, was not properly authorised in terms of the Public Service (Procurement) Regulations 1996 – Regulation 11(a)(iii).

Recommendations

Key Issues

Goods/Services are to be ordered by means of a GSPO, unless a letter of acceptance has been issued. This is proof that the purchase has been duly authorised. Furthermore, it is a management tool of controlling effectively the availability of funds.

All the necessary documentation should be adequately filed by date and batch order. A list of these batches should be kept in a manner that facilitates the identification of PVs.

Compliance Issue

Authorisation

It is advisable to seek authority prior to commissioning the works or requesting the purchase of goods. Regulations are to be closely followed for a more efficient control system, even in those cases where it is evident that there is only one supplier.

Management Comments

The reply forwarded regarding GSPO's issued after the date of invoice was not satisfactory. On the other hand it was reported that the untraced PVs were eventually found.

Gozo General Hospital - Laundry Service

Background

An agreement was signed between the Gozo General Hospital (GGH) and a Contractor for the provision of laundry services. The agreement, which is renewable monthly, was signed in February 2000.

Conditions of the contract include the following:

- The hospital must keep a central store large enough to hold a two days' supply of linen
- The collection of dirty linen and the transportation of clean linen back to the stores are to be performed by the Contractor on a regular basis
- Hospital personnel are obliged to transport the linen from and to the wards
- Clean linen must be handed over to the wards utilising a top-up system as per preset quotas
- Contractor is to provide laundry bags and trolleys for the hygienic collection of dirty linen
- Delivery notes of all laundry consignments to be signed by representatives of the hospital and the Contractor as a control measure for the issue of invoices
- Prices quoted are as per list attached to the agreement.

Key Issues

The major deficiencies noticed were the lack of timeframes imposed for the return of clean linen. No penalty clauses and no timeframes are included should the Contractor fail to provide the required services.

Control Issue

Opportunities were identified for improvement in the following area:

- A two days' supply of linen is not deemed adequate. This supply would be exhausted if the Contractor fails to consign the clean linen in time due to faulty machinery or in any other adverse eventuality.

Recommendations

Key Issues

A specified timeframe for the delivery of clean linen to the hospital reflecting best practice should be introduced.

The inclusion of penalties for lack of prompt service or for abandonment of the contract should also be included, as well as requesting a bank guarantee from the Contractor for the duration of the contract.

Control Issue

- The two days' supply of linen is to be adequately prolonged.

Management Comments

Management accepted all points raised and will be taking the necessary action to address all weaknesses.

Gozo General Hospital - Below the Line

Account - Loans of Medical Aids

Background

The Procurement Office at the Gozo General Hospital is responsible for all monies received at the Hospital for services rendered. Duties relevant to the operation of the below-the-line account include maintaining the relevant records, notifications to holders of loaned medical equipment, and refunds on return of the medical aid loaned.

One officer is responsible for collecting and recording revenue and the return of medical aids on loan.

Key Issue

Retention of Medical Aids

A significant number of medical aids issued several years ago are known to be still in circulation. Medical aids are loaned to patients on certification from the hospital's medical practitioner. However, no specific retention period is specified, giving rise to a situation of "providing" rather than "lending" medical aids. Medical aids are important assets for the hospital, due to the fact that demand for such equipment is high. It is known that patients in need of wheelchairs are subject to a waiting list.

Medical Aids Forms

Most of the manually-filled forms were subject to illegible handwriting, and instances were found where the identity card number was missing. Personal details are important for the eventual recovery of the medical aids.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Medical aids issued between 1989 and 1999 have still not been returned

- 8.5 percent of the sample of patients who are known to be in possession of a medical aid were found to have passed away
- 23 percent of the sample of witnesses (persons responsible for the collection of medical aids) have changed address. No notifications of the change of address were received by the hospital authorities.

Recommendations

Key Issues

Retention of Medical Aids

The hospital's medical practitioner should certify the retention period of a medical aid, so as to avoid instances whereby a medical aid is loaned for an unnecessarily long period of time or for life. A clear policy is to be drawn up, always leaving room for justified exceptions. Such a practice should eliminate artificial shortages.

Medical Aids Forms

Processing of medical aids forms should be computer generated by means of which details are to be keyed in and printouts produced. Fields are to be mandatory in order that all details are submitted and a full audit trail possible.

Control Issues

- A review of all pending forms is to be carried out to ensure retrieval of all the medical aids on loan
- Administrative procedures are to be put in place to obtain updated details and facilitate retrieval of medical aids no longer needed

Management Comments

All points raised were accepted by management. Steps are being taken to rectify the highlighted shortcomings.

Ministry of Health

– Health Department

– St. Luke's Hospital

– Sir Paul Boffa Hospital

Health Department - Expenditure

Background

The Accounts Section is responsible for all payments relating to the expenditure of fourteen cost centres. All transactions for the year 2001 were carried out using the Departmental Accounting System (DAS).

Although the accounts section is situated in the same building housing the Government Pharmaceutical Services in Gwardamangia, all the documents relating to expenditure are kept at the Ministry of Health in Valletta.

The audit covered only the following five cost centres:

Permanent Secretary's Office

Director General's Office

Public Health

Institute of Health Care

Nursing Services

Key Issues

Improper filing

Relevant records (Payment vouchers – PVs, Goods/Service Purchase Orders – GSPOs, Invoices, VAT receipts) are kept in batches and placed in envelopes. No indication of the batch contents feature on the envelopes except for the month. The inefficient filing system led to 26.2 percent of the documentation requested for examination not being made available.

This area of concern has already been raised in an audit carried out for the year 2000.

Drawing up and certification of GSPOs

Cases were encountered in three of the Cost Centres where goods/ services were received prior to the issue of the relative GSPOs. One cost

centre resulted in 2 percent of non-compliance, whilst the incidence of non-compliance was 31 percent in the other two Cost Centres.

A number of GSPOs processed by three Cost Centres were not certified that the goods/services had been actually received. Non-compliance with this directive was 5 percent, 29 percent and 37 percent of the transactions examined.

These areas of concern have already been raised in an audit carried out for the year 2000.

Compliance Issues

Unauthorised Procurement

The procurement of cabling works amounting to more than Lm26,000 was not appropriately authorised, in terms of Regulation 11(b) of the Public Service (Procurement) Regulations 1996.

The purchase by a direct order of a photocopier amounting to Lm1,900 lacked the required authorisation in terms of the Public Service (Procurement) Regulations 1996 Regulation 11(a)(ii). Documents relating to this purchase were not made available.

A GSPO for about Lm290, raised for the purchase of a telephone system, was not signed by an authorised officer.

Misallocation of Expenditure

A number of expenses were not posted to the proper account. In the case of four Cost Centres examined, the incidence ranged from 2.4 percent to 7.3 percent of the transactions audited.

Recommendations

Key Issues

Improper filing

All the necessary documentation should be filed in date and batch order. Moreover, a list of these batches should be kept to facilitate the audit trail of all the batches sent to and subsequently returned from the Treasury Department.

All untraced PVs are still required for examination.

Drawing up and certification of GSPOs

Good management practice demands that covering authority should be sought prior to commissioning the works or requesting the purchase of goods, as it is a management tool to effectively control the availability of funds. Furthermore, if receipt of goods has been certified in the relative file, this must be referenced to facilitate a full audit trail.

Financial regulations are to be followed for a more efficient control system.

Compliance Issues

Unauthorised Procurement

The provisions of the Financial Administration and Audit Act, the General Financial Regulations and subsequent Legal Notices, MF and Treasury Circulars should be invariably complied with in all cases.

Misallocation of Expenditure

All items of expenditure must be appropriately posted in the account. Failing to comply will inevitably distort the comparative amounts of budgeted and actual expenditure.

Management Comments

The comments submitted were not considered fully satisfactory. A meeting was held with Ministry's officials in this regard. Further comments were requested, highlighting any actions taken to address areas of concern and submitting all necessary details.

Health Ministry officials were still tracing the unrepresented PVs.

Health Department - Revenue

Background

The revenue section has the responsibility of collecting all revenue received at the various outstations of the Health Department. The revenue consists of licence fees from pharmacies, private clinics/hospitals, tatoists, dentists, medical diagnostic labs, podologists and physiotherapists, sale of medicines from government dispensaries, and income from foreign patients' hospital fees, deratting of vessels, staff salaries overpayments and other payments.

All monies received at the section are entered in a main cashbook on a daily basis. Money is remitted on a daily basis to the Central Bank (CBM). One DAS receipt is generated for the total shown in the main cash book.

Key Issues

As the Department gives several types of services, it was registered with the VAT Department. Following amendments to the VAT legislation, the only services that require the issue of a fiscal receipt are the cleaning of graves and sale of medicine. In view of this, from the year 2001 fiscal receipt books have been withdrawn from the relative outstations.

A number of pharmacies, dentists and private clinics/hospitals are operating with a licence but without having paid for it. No action is being taken to collect the relevant fees.

Cash is being unnecessarily retained at outstations overnight. Furthermore, no proper safeguards are taken on movement of receipt books leading to a number of untraced receipt books.

Control Issues

Opportunities were identified for improvement in a number of areas:

- Licence fees are falling in arrears due to the lack of control over the issuing of the respective licence
- Reminders sent to licencees are not adequately filed

- Payment for deratting certificates is being collected with delays of up to 3 months from the issue of the certificate
- Payments for overtime are requested over and above the rates quoted in Legal Notice 68/89
- The revenue section is unable to trace private clinics/hospitals that have not paid for their licence
- Receipt books and cash collected at outstations are sent to the revenue section irregularly
- Receipt books and cashbooks are being improperly used as follows:
 - illegible handwriting
 - a loan item issued with a fiscal receipt instead of a general receipt
 - fiscal receipts extensively used by billing section for reasons other than sale of medicines and cleaning of graves, notwithstanding instructions from the VAT Department
 - the cashbook at the IPD 'B' excludes receipt dates
 - the serial code is entered instead of the receipt number
 - two cashbooks currently in use by IPD 'A'
 - the cashbook at the revenue section kept manually
 - columns in the cashbook do not include the account number relative to the service given
 - corrections in the cashbook performed but not signed
 - cashbook does not distinguish payment made by cheques from cash payments
 - cash receipt entries are grouped
- Receipt books are not systematically filed, resulting in 30.8 percent of the total sample of receipts requested being untraced
- 39.25 percent of the total number of receipts examined could not be traced from the daily remittances
- Discrepancies were found between the total cash receipts listed in the cashbook and the totals remitted to the bank as per weekly remittance sheet

Compliance Issues

Deposits to Bank

Cash collected from outstations is not being remitted daily to the revenue section, resulting in an amount being retained overnight in the office safe. Also, the revenue section fails to remit revenue collected from outstations at the end of the day. Instances were met where cash was banked six days later in breach of Ministry of Finance instructions.

Recommendations

Control Issues

- Fees are to be paid when the licences are issued. The relative Legal Notice should reflect this position, establish a payment period prior to the commencement of the licenced year (say between 01 November and 31 December) and include deterrents for defaulters
- Reminders to licencees should be systematically filed
- The Legal Notice relating to deratting of ships should be amended in such a manner as to include a charge for man-hours worked on overtime. Payment of deratting certificates is to be monitored so as to collect monies due immediately
- The revenue section is to have available a database of clinics/hospitals to ensure prompt payment
- Outstations are to be instructed to send the cashbook, receipt books and monies to the revenue section on a daily basis
- Details on receipt books/cashbooks must be clearly recorded to facilitate processing. One cashbook is to be utilised at one time and subsequently sent to the revenue section once it is exhausted
- The cashbook at the revenue section should be kept electronically and in such a manner that additional details can be entered for easy referencing. Back ups as necessary are to be kept
- Changes made in the cashbook should be initialled where applicable

- Outstations are to be instructed about the proper use of general and fiscal receipt books
- Receipt books are to be stored by source, date and receipt number
- Each daily remittance must be attached to the weekly remittance as appropriate to facilitate the process of identifying cash receipts when effecting deposits
- The principle of intact and reconciling amounts lodged with the bank to cash collected on a weekly basis, are aimed at controlling the cash handling functions. This reconciliation should be performed every week and certified by two officers.

Compliance Issues

Remittances of monies to Bank

It is recommended that remittances of cash be performed on the same day that cash reaches the revenue section. The use of a bank night safe should be considered.

Management Comments

The reply forwarded regarding the reconciliation of the revenue cashbook with the weekly remittances has been accepted. However, such reconciliations are to be simplified so that examining officers from NAO and IAID can easily carry out their duties.

All the missing receipt books requested for examination are still required. In future, the auditee's response should be received directly from the Director Finance and Administration (DFA), and not consist of a covering letter together with an internal memo from the section under examination.

In general, the comments forwarded by the DFA were not considered satisfactory.

Following a meeting with the DFA and his assistant, further comments were to be forwarded, highlighting any actions taken and submitting all necessary details requested in a number of findings.

Additional correspondence was received in connection to the following:

- Prepayment of pharmacies' and clinics' licence fees cannot be enforced by the Director Public Health, and that the majority of pending licence fees have been settled
- Receipt books are being sorted out and untraced receipts made available
- Deratting certificates are issued after the required inspection of vessels. However, no comments were forwarded regarding the untimely payment of such certificates once they have been issued.

St. Luke's Hospital - Billing Section

Background

The billing section is responsible for issuing bills and receiving payment/deposits for the following services:

- treatment given to foreign patients other than those that are exempt through reciprocal agreements signed between Malta and other countries;
- loans of medical aids, e.g.: wheelchairs, crutches, etc.;
- other miscellaneous services such as:
 - medical tests provided to company employees;
 - affidavits;
 - overpayment of Health employees' salaries;
- safe custody of money belonging to patients.

The section makes use of software known as Patient Administration System (PAS), which was introduced in July 2001. It is manned by eleven employees, eight of which work on a 24 hour shift basis at the Casualty Section. The system can also be accessed by paramedical staff in wards solely to register and discharge patients.

The audit focused only on hospital treatment to foreign patients admitted directly to ward.

Key Issues

Notwithstanding the facility offered by the system of registering and discharging patients, paramedical staff at wards still used the manual Return of Foreign Patients Forms (RFPFs) and the personal medical files for this purpose. This is leading to a situation where the billing section is not aware that patients have been discharged. Consequently, patients are not billed prior to discharge and loss of revenue results.

Control Issues

Opportunities were identified for improvement in a number of areas:

- The PAS system is not being fully exploited as follows:
 - Invoices had to be raised manually because details were not entered in the PAS
 - Foreign patients admitted to casualty are invoiced manually
 - Receipts are not generated from the system but are raised manually
 - The cash book is drawn up manually
- The report generator is not programmed to issue:
 - a list of foreign patients admitted during a specified period
 - a list of invoices issued during a specified period
 - a copy of every invoice issued
 - a list of arrears of revenue of hospital fees
 - reports for statistical purposes other than for receiving payment
- All staff members within the billing section have full access to the cash till and have the same duties of issuing invoices, receiving cash and reconciling the cash till
- Deficiencies noted from a sample of foreign patients treated include:
 - 6.25 percent of the invoices raised on the date of discharge are still pending
 - 9.3 percent of the patients received past treatment for which no payment had been effected
 - 18.8 percent did not settle their bills
 - 34.3 percent revealed that the billing section issued the invoice between oneday and fifty-five days after the patients' discharge date
 - 46.2 percent of the payments by patients have been effected at the Revenue Section Health Department Valletta. This entails the added burden of having to liaise with the billing section to record payments effected
 - 65.7 percent of the patients obliged to pay did not provide the necessary personal information on admission.

Compliance Issue

Disbursement of monies

Cash is handed over to the revenue section three times a week. This leads to a situation where cash is kept in the office safe overnight, in breach of para. 6.1 of MF Circular 8/2002.

Recommendations

Control Issues

- A cut off date is to be established for the abolition of the manual system
- The report generator of the system is to be enhanced to provide the necessary reports
- Functions of authorisation, execution, custody and recording within the billing section must be segregated, and each responsible official is to have clearly defined duties
- The system is to be fine-tuned so that it includes all the functions necessary for recording, identifying and following up patients' progress in hospital to secure payment
- Patients having previous unsettled bills should be made to settle such bills prior to admission
- Patients should be requested a deposit or a credit card upon admittance to hospital, and full settlement prior to discharge
- EPOS system is to be introduced to ensure prompt payment
- All personal information required should be taken upon admittance to hospital, and all fields in the system should be mandatory. Only then will responsibility be shifted from paramedical to clerical staff.

Compliance Issue

It is advised that such a situation is remedied as soon as possible. There is no reason why cash should not be handed over to the revenue section or deposited every day at the Central Bank.

Management Comments

In general, the comments forwarded on the 22nd March 2002 were not considered satisfactory. As a result, a meeting was held with management. The following issues emerged:

- The EPOS system has been introduced and deposits are being requested on admission of a patient
- Segregation of duties will be implemented
- Cash is to be deposited on a daily basis
- Staff is unaware of the reporting facilities of the PAS. In fact, the majority of reports highlighted can be produced from the system. It was concluded that further training will be given to staff on this matter.

A follow-up visit was carried out on the 25th October 2002. The following activities have not yet been introduced:

- No changes have been implemented to ensure that functions within the Billing section are segregated
- The daily cash intake is deposited every morning. However, cash is still being left overnight in the office safe.
- No additional training has been provided to staff. The system's report generator is not being utilised to improve the control function.
- Although receipts are now being generated from the system, the manual receipts are still being issued concurrently.
- The cash book is being drawn up manually.
- No cut off date has been established to abolish the manual system.

Further correspondence on these matters has been taken up.

St. Luke's Hospital - Electrical and Maintenance Stores

Background

The Electrical and Maintenance Stores (EMS), situated at St. Luke's Hospital (SLH), is responsible for the receipt, storage and issue of:

- Expendable items – i.e. paint, electric bulbs, etc
- Permanent items – i.e. drills, heaters, etc
- Spare Parts – i.e. parts for hospital equipment

The staff complement consists of four employees; an officer in charge and three storekeepers, each responsible for the three categories of stores housed therein. The latter individuals are also responsible for entries in the respective ledgers and bin cards. Separate ledgers are kept for the different categories of store items.

During the course of the audit, the stores were preparing to introduce an electronic stock control system.

Key Issues

Storage space available at EMS is not sufficient to cater for all the items stocked. As a result, apart from the main premises, there are stores in a number of additional rooms. The system of storage lacks the requisite orderliness conducive to effective stores management. Several items are placed on the floor without protection against humidity. Unserviceable items are occupying valuable storage space. Quantities of the same items are being stored in different locations.

Control Issues

Opportunities were identified for improvement in a number of areas:

- Access through the garage door of the main stores, utilised for delivery of spare parts, is being left open and unattended, thereby constituting a risk which may lead to abuse
- Permanent items are issued without being signed for, resulting in ledgers not being updated and creating artificial discrepancies between the actual quantities and book balances
- Bin cards are not kept with the respective store items but at the storekeeper's desk
- Bin cards are not raised for permanent items and spare parts
- No separate ledger sheet and bin card are used for items stocked in mixed sizes.

Compliance Issue

Documentation regarding stock takes

Interim periodic reports regarding stock taking performed were not made available. This is in contravention of the General Financial (Amendment) Regulations 1999 Section 1 para. 111(1).

In the absence of comparing book balances against actual stock, it would be difficult to identify slow moving, deteriorated or obsolete items, as well as discrepancies occurring during the year.

Recommendations

Key Issues

Suitable premises are to be provided to ensure the proper storage of items. This should ensure enhanced handling of store items. It is important that the conditions present in these storage locations be such as to prevent deterioration.

Furthermore, unserviceable items are to be stored separately from moving stock, and a Board of Survey is to be set up to report on action to be taken to address the situation.

Control Issues

- Access is to be restricted to authorised personnel
- Handing over of permanent items is to be vouched for at the time of collection. Updating of the ledger is to be effected as soon as possible after delivery
- A bin card is to be drawn up for each item of stores and kept near the respective item.

Compliance Issue

Documentation regarding stock takes

Interim count records are to be kept and all physical checks fully reported to the Permanent Secretary and the Auditor General. It is to be ensured that through a continuous stock take system all items are counted at least once a year. Relative documentation is to be appropriately filed and any discrepancies identified as they arise.

Management Comments

Management accepted all points raised and will be taking the necessary action to address all weaknesses.

Sir Paul Boffa Hospital - Expenditure

Background

The duties of the Procurement Section at Sir Paul Boffa Hospital (SPBH) include issuing quotations/tenders and their follow-up, raising Goods Requisition Orders (GROs) and payment vouchers, processing payments and forwarding all the related documentation to Treasury. All transactions during 2001 were carried out using the Departmental Accounting System (DAS).

Only one clerk mans the section. The relevant authorisations pertinent to this section are carried out by the Hospital Administrator.

Key Issue

Drawing up and certification of GSPOs

30 percent of the sample chosen Goods/Service Purchase Orders (GSPOs) were found to be raised after the date shown on the relative invoice. Without the timely issue of the GSPO, it is impossible to verify the availability of funds prior to placing an order.

62 percent of GSPOs lacked a certification indicating that goods/services had been actually received.

Compliance Issues

Misallocation of Expenditure

9.6 percent of the payments effected were not posted to the proper account.

Insufficient documentation

Two transfer vouchers for payment to other Government Departments, were not accompanied by the relevant documents justifying such payments. These were a payment of Lm18,680 to the Land Department for rent of the hospital's premises and a payment of Lm4,409 to the VAT Department for the purchase of equipment.

Recommendations

Key Issue

Drawing up and certification of GSPOs

Goods/Services are to be ordered by means of a GSPO unless a letter of acceptance has been issued. This is proof that the purchase has been duly authorised and a management tool indicating that funds are available.

Good management practice warrants the appointment of an official delegated with the responsibility of certifying receipt of goods and/or authorising payments. If this certification is given in a file, the file number and minute should be quoted.

Compliance Issues

Misallocation of Expenditure

All items of expenditure must be accounted for in the correct account. This will enable the proper execution of comparing between Budgeted and Actual Expenditure.

Insufficient documentation

In order that an effective audit trail is established, relevant invoices and other documents justifying payments are to be attached to the payment vouchers in accordance with the General Financial Regulations.

Management Comments

Management accepted all points raised and will be taking the necessary action to address all weaknesses.

Ministry of Justice and Local Government

- Law Courts**
- Local Councils**

Law Courts - Expenditure

Background

The role of the administration of the Courts of Justice is to:

- provide and improve the administrative support to the Judiciary;
- maintain and improve working relations with the legal profession, promote a customer care service and develop an effective communication with the public;
- manage financial resources in a cost effective manner;
- keep working methods under review and consider new ways to secure value for money and;
- take all necessary steps to ensure the timely collection of revenue and reduce arrears of revenue.

Key Issues

The compilation of inventory records on the lines stipulated in MF Circular 14/99 (directing that records should be updated by the end of year 2000), was still in the initial stages and no progress up till end of October 2002 has been made.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Commitments to purchase not issued prior to actual purchase.
- VAT fiscal receipts not collected.
- Lack of compliance with standing transport regulations and no proper record-keeping of vehicle log books.

- No control over the use of vehicles and fuel consumption.
- Inventory ledger not updated.

Compliance Issues

Commitment (GSPO) not issued prior to Purchase

Thirty-five purchase orders or 33 per cent out of one hundred and six which required a Commitment (Purchase Order), were drawn up after the respective purchases had been effected.

The issue of a Goods or Service Purchase Order is the main tool for ensuring that the relative expense falls within the approved budget. Non-adherence may result in not having enough funds to honour the actual expense. Furthermore, adequate authority is not obtained prior to the purchase.

Misallocation of Expenditure

Eleven (11) payments or 5 per cent out of the two hundred and eighteen (218) payment vouchers verified were not charged to their respective expenditure item. The amount quoted in the Financial Report published by the Treasury would not reflect the real amount relating to the particular item of expense. This also hinders an effective comparison of budgeted as against actual expenditure.

V.A.T. Fiscal Receipts

From the 199 vouchers that were applicable to have a VAT receipt, 85 suppliers did not forward to the department VAT receipts relating to 129 payments (or 65 per cent). The total amount of more than Lm 260,000 if not covered by an official VAT receipt may result in VAT collections not being passed on to the VAT Department.

Vehicle Log Books

The department has not complied with the standing transport regulations and proper record-keeping of log books. Defaults encountered were:

- i) Out of 16 Logbooks that should have been presented for audit:
 - Only six (6) logbooks carried details of the Car Registration Number to which these relate;
 - Three (3) other logbooks, could not be related to any vehicle since no Registration Number is quoted;
 - No logbooks were presented in respect of the remaining seven (7) self-drive cars (or 44 per cent of the whole fleet of hired cars).
- ii) The mileage records were written only once, at the beginning or at the end of the day, even though more than one journey was made. Other times tachometer reading records for the whole day were not registered.
- iii) No signatures were obtained from authorised persons, neither were log books signed at the end of the day to cover all the trips effected during the day.

Recommendations

Commitment (Purchase Order) not issued prior to Purchase

It is part of the internal control function to ensure that, where applicable, goods and services are covered by a Purchase Order upon placing of an order. This will ensure that authorisation for the purchase is obtained as stipulated in regulations.

Misallocation of expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item as provided for in the Financial Regulations. This was also emphasised by the Permanent Secretary, Ministry of Finance by virtue of MF Circular 3/2000 that stated *“it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded”*.

VAT Fiscal Receipts

V.A.T. receipts are to be attached to payment vouchers as is envisaged in Treasury Circular 6/2000. The Department is to continuously inform the

V.A.T. Department regarding those suppliers who failed to submit a V.A.T receipt following payment for supplies of goods and/or services. Every effort is to be made to enforce the principle that official V.A.T. receipts are obtained from suppliers.

Vehicle Log Books

A log- book is to be kept for each vehicle and proper mileage recorded therein.

Every journey made should be recorded giving correct mileage and destination. The signature of officer making/authorising the journey should also be obtained.

Government-owned vehicles cannot be used for unofficial business. The allotment of a car for the exclusive use of any individual officer should not be allowed unless the duties of such officer consist almost entirely of field work and is so authorised. Every log-book is to be examined by the head of department from time to time and cases of irregular use of cars duly reported

Inventory

The exercise outlined in MF Circular 14/99 and which should have been completed within one year, should be immediately undertaken and the task finalised with the least possible delay. One of the major tasks in the implementation of accrual accounting is to ascertain that inventory records are updated at all times. The absence of an up-to-date, complete and accurate Fixed Assets record has a serious bearing on accrual based accounting.

Inventory ledger is to be duly filled and updated with every purchase or relocation of inventory items. Asset Ledger must be updated with all relevant details at procurement stage when it is relatively easy, as their cost and date of purchase are known.

Management Comments

Audit report was reviewed by the Director General and Registrar of Courts together with the respective members of staff and conclusions were forwarded to the National Audit Office. Comments were noted and action is to be taken to implement recommendations submitted to ensure that the above shortcomings are addressed.

Law Courts - Cash Office

Background

The Deputy Registrar of the Law Courts records fines imposed by Magistrates in the “Prime Note” Register kept in the respective Magistrate’s Hall. Subsequently, the amount of the fine is also recorded in the Hall Register kept at the Cash Office. This register has the function of a Claims Book. Fines are paid at the Cash Office. Payments effected by the guilty party, whether in full or in part, are noted in the Hall Register. The return of arrears that has to be submitted to the Accountant General in terms the General Financial Regulations 1966 is compiled from these Registers.

Key Issues

The weak enforcement procedures for the settlement of fines imposed and the correct documentation for the settlement thereof, are the two main areas of concern.

Control Issues

Opportunities for improving internal controls were identified in a number of areas:

- Fines paid later than the period decided by the Court.
- Fines not recorded in the Hall Register.
- Fine amounts entered in the Hall Register different from the sentence delivered by the Court.
- Fines inflicted during 2001 still outstanding.

Compliance Issues

Fines paid later than the period granted by the Magistrate

A random sample of 123 cases was selected from seven Halls. Fines imposed by the respective Magistrate were examined to verify whether these

were settled as imposed. In 35 cases or 28 per cent of those selected, fines were paid after the due date. This indicates that there is a serious lack of control in the enforcement process.

Fines not recorded in Hall Register

Sixteen (16) fines inflicted in five Halls were not recorded in the Hall Register by the Deputy Registrar. Unless fines are recorded in the Hall Register, the officers in charge at the Cash Office of the Courts cannot trace the actual amount of the fine. Moreover, as a result, records cannot be relied upon and sentences delivered by the Courts cannot be executed.

Fine Amounts different from the sentence delivered

The amounts in respect of seven (7) cases entered on the Prime Note/Hall Register differed from the fines imposed by the Magistrate. Internal control in the proper recording of sentences in the Hall Register is weak and this weakness in the system may lead to abuse.

Fines inflicted during 2001 and are still pending

Five hundred eighty-eight (588) cases involving fines inflicted in 2001 were outstanding up to September 2002. These fines should have been settled, however there is no indication that any action has been taken to chase these defaulters.

Irregularities at the Cash Office

Background

The 1999 Annual Audit Report made reference to the serious irregularities that came to light at the Cash Office of the Law Courts. A Board of Inquiry in terms of the Inquiries Act XIX of 1977 was set up by the Ministry of Justice. All findings reported were confirmed by the Board who recommended that further investigations be carried out by the Police and that the cancelled traffic fines were to be reactivated.

Developments

The Commissioner of Police requested and was given a copy of NAO's report by the Director General. Furthermore a meeting between the Police and the Director General took place in May 2001. However Director General could not say whether or not the Police concluded the investigations.

The Director General stated that with the present level of staffing, the exercise of identifying and reactivating tampered fines cannot be undertaken and added that it is highly unlikely that staff will ever be identified for this task.

The irregularities detected during the audit (44 tampered with traffic fines have since been recouped) were the result of a test check that covered only the month of October 1999.

Recommendations

Fines paid later than the period granted by the Magistrate

An adequate system should be introduced whereby it is ascertained that fines are paid within the time prescribed by the Court.

Fines not recorded in Hall Register

All Court fines and modalities to settle should invariably be entered in the Hall Register once it is the only source of information at the Cash Office that management can use to ensure sentences delivered are executed.

Fine Amounts different from the sentence delivered

Once the Hall Register is the main source of information regarding Court fines which is handed to the Cash Office, any incorrect information would mislead the latter as to the amount the defaulter has to pay. It is very important to ensure that all details, particularly the “quantum” of the fine, are correctly entered in the Hall Register and the “Prime Note” Register.

Fines inflicted during 2001 and are still outstanding

An efficient recording system should be in place to ensure that fines inflicted by the Law Courts are fully honoured within the prescribed time. A legal mechanism should be in place whereby defaulters are summoned to settle their dues.

Irregularities at the Cash Office

Follow up action regarding Police investigations should be taken. Moreover once the irregularities detected cover only October 1999, the matter cannot be considered as concluded before a full scale exercise is conducted on other months until that period into year 2000 when these irregularities ceased to occur. Furthermore amounts may become statute barred if no immediate action is taken to recoup the tampered with traffic fines.

Management Comments

The Audit report was reviewed by the Director General & Registrar of Courts.

Steps are being taken in the right direction to improve internal controls as regards to fines not found in the Hall Registers. However, since this is the main source from where the Arrears of Revenue are compiled, any amounts not entered and which may have remained unpaid, have a bearing on the list of debtors. A reconciliation exercise was further recommended by the NAO to ensure that all amounts due have been included in the Arrears of Revenue.

The "Return of Arrears of Revenue" of the Law Courts as at 31st December 2001 has not yet been submitted. The figure of debtors as at 31st December 2000 stood at Lm 5,330,521.

No comments have been submitted to the NAO as to what action is being taken regarding:

- a) the fines that are being paid later than the period granted by the Court;
- b) amounts in the "Prime Note" differ from what is stipulated in the sentence delivered by the Court;
- c) outstanding fines inflicted during 2001.

Law Courts - Library

Background

Library books are made available only to Judges, Magistrates and Lawyers working at the Law Courts. Between 2000 and 2001 an expenditure of more than Lm 1,800 was incurred in the purchase of books. Borrowing cards are in use wherein the name of the person borrowing the book and its details are entered. However the general public can make photocopies from the books against a payment of 25 cents per copy.

Key Issues

The weaknesses inherent in the internal control system and the series of errors encountered are indicative of mismanagement of the Library within the Law Courts.

Control Issues

Opportunities for improvement were identified in a number of areas:

- No Catalogue of books.
- No Proper Control over the Procedure of lending the books.
- Improper upkeep of Receipts.
- No Cash records kept.
- No Regular Deposits.

Compliance Issues

No Catalogue of books

Books are not being catalogued and as a result there is no complete list of books belonging to the library. Consequently, no control can be exerted on the proper lending and return of books.

No Proper Control over the Procedure of lending the books

Although "*Borrowing Cards*" are in use, these are irregularly kept:

- i) Books borrowed were not always entered on the Borrowing Card;
- ii) There is no indication on the Borrowing Card as to when the books on loan should be returned;
- iii) Very often the borrower does not sign for the books being borrowed;
- iv) There is no control over books which have been on loan to the same person for a very long time.

Improper upkeep of Receipts

The actual sum covered by three receipts for photocopies were either detached from the receipt book or did not bear any total. Furthermore, it could not be determined whether or not charges were collected.

No Cash records kept

No cash records were kept and no daily takings were recorded. It could not be concluded whether all monies received were properly accounted for. The lack of proper records can give rise to abuse.

No Regular Deposits

No money deposits were made during the year 2001. Between 7th January and 7th March 2002 there was one deposit. The previous deposit according to records held at the Accounts Section is dated 17th May 2000.

Monies collected are not being deposited as stipulated in the General Financial Regulations.

Recommendations

Catalogue of books

A complete list of books belonging to the Library is to be compiled so that all books could be traced.

Proper Control over the Procedure of lending the books

The borrowing card should be designed to include details such as:

- i) Date when book/s is being borrowed;
- ii) Details of book/s including Title and Author's name;
- iii) Date when it is due to be returned;
- iv) Signature of borrower against title borrowed.

For control purposes Members of the Judiciary using the Library facilities are to be given a numbered borrowing card. This is opposed to the current practice of unnumbered Borrowing Cards.

Library Assistant should follow up borrowers who default on the time limit specified on their Borrowing Card.

Proper upkeep of Receipts

The receiving officer should always issue the original receipt to the client and keep its duplicate in the receipt book.

Cash records

The officer responsible for the issuing of receipts should keep a Cash Book in which all receipts should be promptly entered. The daily total should agree with the receipts issued and the cash in the office till.

Regular Deposits

The money is to be deposited at the Accounts section more frequently. The officer in charge should deposit daily any sum of Lm 30 or upwards that has been collected, provided that all collections, however small the amount, should be deposited every Friday and on the last day of the month.

Management Comments

A procedure is being adopted in compiling the catalogue of books. The registration of the lending out of books has initiated, but no details as to how the system will operate were outlined.

A card-operated photocopier is to be introduced which would help in addressing the weakness outlined in our report. However, no controls over revenue raised from this service have been introduced until the new photocopier is installed.

Management did not comment on findings relating to revenue generated to date and the lack of accountability regarding:

- a) improper upkeep of receipts;
- b) no Cash Records kept;
- c) irregular deposits.

Local Councils

Background

In terms of Section 65(1) of the Local Councils Act 1993, the audit of the local councils' financial statements was carried out on behalf of this Office by 7 private audit firms. These were appointed as Local Government Auditors after a call for application.

The financial year under review is that ending March 31, 2002. The Government allocated Lm10.24m to Local Councils.

Audit reports and financial statements of each of the sixty-eight Local Councils were to be submitted by not later than 30th June 2002.

The audit of the Local Councils' Association was carried out by a private audit firm appointed in terms of Part VI, Section 36 of the Local Councils (Association) (Amendment) Regulations, 1999. The financial year under review is that ending December 31, 2001. The Government allocated Lm30,000 to the association. The audit report had to be submitted by not later than twelve weeks from the end of the financial year.

Key Issues

Modified Reports

Fifty-four (79 percent) audit reports were qualified, thirty-five of which for one of the following reasons:

1. exclusion of the budgeted figures from the financial statements
2. incorrect accounting or unauthorised use of Special Needs Funds (SNF)
3. irregularities in fixed assets
4. local enforcement system (LES) income/debtors not verifiable
5. overstatement of debtors
6. omission of accounting entries/disclosures
7. incorrect accounting treatment
8. shortage of liquid funds

9. forecasted inability to meet financial obligations as they fall due
10. banking.

Furthermore, 11 reports were qualified for two of the above mentioned reasons, 7 were qualified for three reasons and 1 was qualified for four reasons.

Two of the above mentioned reports, which were qualified for the omission of budgets, included also an emphasis of matter as follows;

- a) current liabilities were in excess of current assets as at year end
- b) two contractors are claiming Lm83,676 in total for works carried out. No provision for any liability that may result was made in the financial statements.

Income and Expenditure Account

There were two councils whose expenditure exceeded income. The table hereunder shows the councils, the amount for the year under review and the corresponding figures for the previous year.

Local Council	Excess Expenditure as at 31 March 2002 Lm	Excess Expenditure as at 31 March 2001 Lm
Zebbug	(26,122)	(24,635)
Zabbar	(12,967)	(51,481)

Working Capital

Nine local councils recorded a negative working capital. The table opposite lists these councils, the amount for the year under review and the corresponding figures for the previous year.

Zebbug and Ghajnsielem reported a negative working capital in relation to the previous year's positive balance. Xewkija and Ghasri showed an increased negative working capital balance over that of the previous year.

In one council, although the financial statements shows a positive balance of Lm 10,190, adjustments are to be made to the debtors and creditors, resulting in a negative working capital balance of Lm19,812.

Local Council	2001-2002 Lm	2000-2001 Lm
Birgu	(13,797)	(20,216)
Bormla	(35,393)	(76,721)
Zebbug	(33,030)	12,069
Ghajnsielem	(4,662)	17,053
Ghasri	(23,164)	(1,051)
Kalkara	(173)	(8,177)
Mosta	(51,622)	(175,638)
Pieta'	(3,593)	(22,889)
Xewkija	(26,201)	(1,504)

Control Issues

Local Government Auditors identified opportunities for improving controls in a number of areas:

- receipts or invoices are not raised at all
- when issued they are not numbered or not in duplicate
- no details of cash collected from activities.

Compliance Issues

Audit Report and Financial Statements

Sixty-three reports were delivered on time. Two reports were received in July and three in August. The late submissions were due to negligence on behalf of the Local Councils.

Management Letters

Management letters were submitted highlighting audit findings and recommendations.

To date, fifty Local Councils sent a response to the management letter as required by Section 7, sub-sections (3) and (4) of Legal Notice 156 of 1993

- Local Councils (Audit) Regulations, 1993 and there were only nine instances where the reply was submitted on time.

The table below shows the areas of concern mentioned in the management letters and the number of councils raising such concerns:

Areas of Concern	No. of Local Councils
Fixed Assets	46
Tax invoice	43
Local Enforcement System	43
Tenders/Contract	35
Creditors	33
Salaries	32
Bank	28
Insurance	24
Accounts	18
Reimbursement/Allowances	15
Donations	13
Special Needs Funds	10
Purchase Orders/Requisitions	10
Petty Cash	7
Debtors	5

The following is a summary of the concerns mentioned in the management letters:

Fixed Assets

- a) Disposal of assets not authorised in the council minutes
- b) Discrepancy between details of fixed assets according to the nominal ledger and the fixed asset register
- c) Capitalisation of recurrent expenditure
- d) Wrong depreciation rates
- e) Assets expensed instead of capitalised
- f) Depreciation was calculated at end of year instead of at the end of each month

- g) Disposed of and obsolete assets are still shown in the records
- h) Depreciation is not properly updated in SAGE system
- i) Fixed asset register is not maintained or does not have the necessary detail as stipulated in the Financial Procedures 1996
- j) Fixed assets purchased during the year were not tagged
- k) Items of low value included in the asset register
- l) Wrong classification of assets
- m) Expenditure in the form of a donation shown on the fixed asset register
- n) The council rents property containing assets on the premises belonging to the landlord which are not recorded as such in the lease agreement.

Tax invoice

- a) Tax invoice/fiscal receipts not always available or not addressed to the council.

Local Enforcement System

- a) Income due to other local councils from contraventions is not being entered regularly in the system
- b) Reconciliation problems with reports issued from Datatrak
- c) Unidentified bank deposits relating to contraventions
- d) Fines paid at the Licensing and Testing Department are deposited into the councils' bank account once a month
- e) Reports generated for a specific time range vary when printed at a future date
- f) LES debtors according to the councils' records do not tally with those on the LES system
- g) Debtors list includes amounts which have been outstanding for more than one year
- h) Contraventions recorded when banked and not when receipted.

Tenders/Contracts

- a) The minutes of meetings referring to discussions on the selection process do not clearly indicate the council's recommendations or otherwise
- b) A copy of the contractor's insurance was not available
- c) Not all documents were available in accordance with the tendering procedures
- d) Performance guarantee was less than 10 percent of the cost of the tender in accordance with tendering procedures
- e) No bid bond was presented or its value was less than that specified in the Procedures
- f) No performance bond was requested
- g) Payment for services or works was effected without being appropriately certified
- h) The period for the submission of tenders was not in accordance with the Procedures
- i) Public call for tender not made or quotations obtained instead
- j) No contract manager was engaged for certifying works
- k) Contract awarded to a contractor whose tender had expired
- l) No contract signed when a new tender was awarded
- m) Quotations not obtained for expenditure over Lm500
- n) No letter of acceptance was sent to the successful bidder after a call for tender/quotation
- o) No contract management fee was deducted
- p) Helpers to operate a day centre are employed without contract on an individual basis at rates agreed upon instead of after a call for application
- q) Schedule of tenders not signed in accordance with the tender procedures
- r) Payments not certified by contract manager
- s) The non collusive certificate requested from all tenderers was not signed

- t) New tenders for period contracts not issued in time
- u) No tender filing system
- v) Extension of contract not approved by council or contractor not formally informed in writing.

Creditors

- a) No adjustment made to long outstanding amounts no longer in dispute
- b) Creditors' list includes balances in dispute
- c) Reversal of amount entered twice
- d) Creditors' ledger not reconciled against creditors' statements
- e) Supplier statements are not requested regularly
- f) No credit notes received for deductions made to invoices
- g) Part of an amount in dispute has not been entered under creditors but included under contingent liabilities.

Salaries

- a) Payments to the Inland Revenue (IR) Department not effected on a monthly basis
- b) Statutory bonuses not included in the Income Tax FSS returns
- c) Discrepancy between councils' records and the returns prepared for the inland revenue
- d) Mayor's remuneration incorrect or incorrectly classified in the FSS returns
- e) FSS returns not sent on time
- f) Errors in details on FSS returns
- g) Executive Secretary overpaid
- h) Incorrect NI and FSS payments accompanying FSS returns
- i) No written request and authority for overtime
- j) Unutilised vacation leave paid for instead of accumulated as per collective agreement

Bank

- a) Bank reconciliation is not properly carried out or not carried out monthly
- b) Cheques not deposited within the validity period
- c) Considerable amounts kept in current and savings accounts instead of in fixed accounts
- d) Withholding tax charged by bank on interest not contested
- e) Cash not deposited on a daily basis
- f) Debit card retained notwithstanding instructions to the contrary

Insurance

- a) Health insurance includes councillors, employees and their respective families
- b) Insurance policy covers persons who carried out work for the council but were not council employees
- c) Assets are overvalued or undervalued for insurance purposes
- d) Details of assets on insurance policies do not agree with those on the fixed asset register
- e) Insurance claims left outstanding

Accounts

- a) Prepayments and accruals not accounted for at year end
- b) Adjustments were necessary by the auditor at year end
- c) Transactions recorded on a cash basis
- d) Transactions after April 1 entered before the year end procedure was carried out
- e) The accounts were not ready on time
- f) Divergences in the chart of accounts used by local councils
- g) Schedule of Special Needs Funds not reflected in the financial statements
- h) Different amounts shown in the financial statements and in the notes thereto.

Reimbursement/Allowances

- a) re-imbusement of expenses is not being carried out in accordance with financial procedures
- b) Mobile phone and mobile phone cards given to councillors
- c) Monthly allowance given for the use of personal transport to the secretary and/or to councillors.

Donations

- a) Donations in cash and/or in kind were made to various entities not listed under Schedule 8 of the Local Councils Act
- b) Two fax machines were donated to councillors. This was not reflected in the council's records.

Special Needs Funds

- a) The SNF bank account does not show the correct balance
- b) SNF were used for recurrent expenditure
- c) Payments for projects covered by SNF were paid for from the operating bank account
- d) Remaining SNF were transferred to the operating bank account

Purchase Orders/Requisitions

- a) Purchases not supported by a purchase order/request

Petty Cash

- a) Petty cash payments exceeded Lm10
- b) Petty cash is maintained at Lm30 and the money is kept in the secretary's pocket.

Debtors

- a) No action has been taken to recover or write off amounts which are long overdue
- b) Prepayment not recorded

- c) Debtors in respect of commission on shop licenses could not be verified.

Other Concerns

Although the following concerns occurred in only one council, their materiality warrants mention:

- a) A physical cash count carried out by the auditor resulted in Lm13,079 in cash and cheques of which Lm795 are stale cheques;
- b) One of the projects (resurfacing of road) was estimated to cost Lm20,000 but actually amounted to Lm49,962;
- c) A heritage route project split into 3 phases, will be costing the council LM148,173 more than the original tender price. The tender procedures state that when the value of the tender exceeds 20 percent, the council has either to terminate the contract after the completion of a phase and issue another call for tenders or issue a call for tenders for the remaining phase/s;
- d) Notwithstanding that the Planning Authority refused the necessary permits for the construction of a football pitch, the council proceeded with the works;
- e) Refuse collector vehicle repairs exceeded the amount originally tendered for by Lm900, of which according to the minutes, only Lm150 were authorised as additional expenditure;
- f) A bass drum costing Lm300 and a *bandalora* costing Lm330 are listed as office furniture and fittings but are not kept at the council's office;
- g) Lm200 was spent on football kits;
- h) An amount of Lm12,230 was paid for alterations and improvements to the property rented as a day centre from the ex-vice mayor. To date, the council invested Lm26,739 on improvements to this property. The rental agreement does not give the right for reimbursement of any capital expenses upon expiry;
- i) A payment of Lm725 to the Planning Authority was made on behalf of a *bocci* club for the demolishing and rebuilding of the club's premises;
- j) Work was carried out on private plots that do not fall under the

council's jurisdiction. This consisted of cleaning and building of a boundary wall;

- k) Another contractor is detailed when the current one cannot cope with the collection of bulky refuse. The contract manager might be involved in a conflict of interest as he happens to have the same address, VAT and telephone number on his letterheads as those of the alternate contractor;
- l) Community and hospitality expenditure of Lm12,055 are considered to be too high;
- m) A payment or payments for extra hours worked was made directly to government workers following agreement between them and the council.

Other Matters

Previous Year's Weaknesses

Five local councils addressed all weaknesses highlighted in the management letter for the previous financial year. The weaknesses were only partially addressed in another 50 whilst 13 failed to address any.

Mid-Term Audit

Qrendi Local Council requested a mid-term audit during the year under review on the termination of employment of the executive secretary. The auditor's opinion contained an emphasis of matter due to amounts totalling Lm83,677 in dispute with contractors. No provision for any liability that may result was made in the financial statements.

Local Councils' Association

The audit report of the association was qualified for the omission of budget figures. Although the financial statements revealed a surplus income over expenditure and a positive working capital balance, the following points emerged from the management letter:

- a) Accounting records are not computerised
- b) Trial balance does not include the accounts relating to the balance sheet items

- c) A full set of financial statements was not prepared
- d) Invoices were not in the name of the association
- e) No call for tender was issued for expenditure exceeding Lm2000
- f) Total amounts of cost and accumulated depreciation according to plant register did not agree with those on accounting records
- g) Assets were not tagged according to the register's code
- h) A formal rent agreement has not yet been signed
- i) Quarterly accounts are prepared on cash basis instead of on accruals basis.

Amendments to Current Legislation

Amendments that were recommended by NAO and agreed with the Department (including the drawing up of Performance Indicators) have not yet been addressed.

Recommendations

NAO's request not to include budget figures in the specimen audit report and financial statements has not been addressed. This was felt necessary as it is not in accordance to accounting standards for budgets to form part of the financial statements. Had this been timely adjusted, 44 out of the 54 qualified audit reports would not have been qualified for this reason.

Shortcomings in the software (Datatrak) used in the L.E.S are still evident notwithstanding that the matter was already reported last year (vide Annual Audit Report 2000, page 157).

Most weaknesses highlighted in this report are the effect of weak internal controls. Had the Local Councils' Support Unit, first recommended in 1998 during NAO's investigation of the Paola Local Council and supported both by the Government and Opposition during the debate at PAC's meeting of October 24, 2001 been set up, the mechanism to address these shortcomings would have been operational by the time of the publication of this report.

Budgets for capital projects are drawn up primarily to assist councils in controlling and monitoring the resources utilised during the budget period. It is therefore recommended that the variances that occur are discussed by council and corrective action decided upon in time to ensure that financial accountability is being practiced.

