



Report by the Auditor General

Public Accounts 2002



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

J. G. Galea
Auditor General

National Audit Office
December 2003

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.

For further information about the National Audit Office, Malta please contact:

Address:	National Audit Office Notre Dame Ravelin Floriana CMR 02 Malta
Telephone:	(+356) 21224013/4/5
Fax:	(+356) 21220708
E-mail:	nao.malta@gov.mt
Website:	http://www.nao.gov.mt



Report of the Auditor General

**Public Accounts
2002**



Table of Contents

Guide to using this Report	6
Executive Summary of Findings	7
Audit Opinion	11
Audit Opinion on the Public Accounts of the Government of Malta to the House of Representatives	12
Financial Report 2002	15
Analysis of the Financial Report 2002	16
Corporate Issues	43
Arrears of Revenue 2002	44
House of Representatives	55
House of Representatives – Expenditure and Inventory	56
Office of the Prime Minister	57
Office of the Prime Minister – Expenditure and Inventory	58
Ministry for Social Policy	59
Department of Social Security – Revenue	60
Department of Social Security – Sickness Benefit	61
Department of Social Security – Unemployment Benefit	63
Department of Social Security— Age Pension, Old Age Allowance, Carer's Pension, Disability Pension, Pension for the Visually Impaired	65
Below-the-Line Accounts: – Funds of the Welfare Committee, Occupants of State Funded Beds	67

Ministry of Education 71

Department of Youth and Sports – Expenditure, Revenue and Inventory	72
Ex-Department of Culture – Millennium Celebrations	75
Department of Culture and the Arts – Expenditure, Revenue, Stores and Inventory	76
Department of Education – Skolasajf	80

Ministry of Finance 83

Treasury Department - Expenditure, Revenue and Inventory	84
Inland Revenue Department: Income Tax – Expenditure, Revenue and Inventory	89
Inland Revenue Department – 15% Final Withholding Tax (Follow-up Audit)	93

Ministry for the Environment 97

Gzira Pumping Station – Stores and Inventory	98
Contracts and Procurement Section: Mriehel Stores – Stores and Inventory	101
MSD Corradino Garage - Stores and Inventory	105

Ministry for Tourism 109

Ministry for Tourism – Log Books	110
ITS – Learning Resource Centre, Catering Equipment and Other Inventory	112
ITS – Revenue and Expenditure and Miscellaneous Matters	115

Ministry for Transport and Communications 119

Wireless Telegraphy Department – Revenue and Below-the-Line Account	120
--	-----

Ministry for Economic Services 123

Consumer and Competition Division – Expenditure, Revenue and Inventory	124
Malta Development Corporation – Factory Rentals	126

Ministry for Home Affairs 129

Joint Office – Expenditure	130
Joint Office – Systems Evaluation	132
Corradino Correctional Facility – Stores	135
Police Department – Arrears of Revenue	137

Police Department: Gozo District – Revenue	138
Citizenship & Expatriate Affairs – Revenue	139
Government Property Division – Expenditure	140
Ministry of Agriculture and Fisheries	143
Ta' Qali <i>Pitkali</i> Markets in General	144
<i>Pitkali</i> Market Scheme	147
Ministry for Gozo	151
Gozo Education Division – Revenue and Inventory	152
Gozo Information Division – Inventory	154
Gozo Law Courts – Revenue	155
Gozo Museums – Revenue	156
Gozo Public Library and Gozo Lending Library – Inventory	157
Gozo General Hospital – Stores (Provisions)	158
Gozo Passports Office – Revenue	161
Projects and Development Dept : Dawwara Nursery, Experimental Farm, <i>Pitkalija</i> , Civil Abattoir and Cold Stores – Expenditure, Revenue Stores and Inventory	162
Projects and Development Dept.: Works Branch, CMU and MSS – Expenditure, Stores and Inventory	167
Ministry of Health	171
Ministry of Health – Expenditure	172
Human Resources Department – Scholarships	175
Below-the-Line Account – Nurses / Patients Fund SVPR	177
Ministry of Justice and Local Government	179
Ministry of Justice and Local Government – Expenditure and Inventory	180
Law Courts: Civil Court Second Hall – Expenditure and Revenue	182
Law Courts – Cash Office	183
Law Courts – Revenue (Superior Registry)	185
Law Courts – Log Books and Inventory	186
Law Courts – Court Deposits	187
Office of the Attorney General– Expenditure, Revenue and Inventory	190
Local Councils – Financial Statements	192

Ministry of Foreign Affairs	201
Ministry of Foreign Affairs – Expenditure and Inventory	202
Embassies – Revenue and Expenditure	204
Embassies & Official Residences – Inventory	206
Protocol Division – Revenue	208
European Union Directorate – Expenditure and Inventory	210
Other Reports	213
Implementation of Benchmarking in Government Departments	214
Property (Stores) Management	218
Renting of Property for Social Housing Purposes	224



Guide to using this report

This report 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 report 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 General's Audit Opinion on the Public Accounts and other relative information, this report is divided into Ministerial Portfolios, each containing one or more departments or sections, which, were the subject of our review. Each audit report has the following structure:

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.

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 report 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 flows in the order as outlined above.

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 2002**, 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 following were the main issues:

- An amount of Lm4.6 million in respect of 2002 was actually received in 2003 and credited to revenue in the year under review; (page 16)
- Although the Public Account held at the Central Bank of Malta (CBM) has not been reconciled since June 1992, considerable progress has been made to reconcile the balances. The **Bank Reconciliation System** went 'live' on the 14th October 2002 taking the opening balance of the Public Account as shown by the CBM. The CBM statement of the Public Account ended with a closing balance of Lm 15,824,194 as opposed to the closing balance reported in Part 1 (page 1) of the Financial Report 2002 of Lm 14,158,033 as on the same date. (pages 35, 36)

Arrears of Revenue, approximately amounting to Lm363 million as at 31 December 2002, is still an area where significant improvement can be registered, considering the inefficient procedures for the collection of debt, weak enforcement procedures for the settlement of fines and lack of correct documentation for the settlement thereof. (page 44)

The **Malta Development Corporation's** ability to collect arrears due of factory rents and the monitoring function over companies in receipt of various aids needs to be strengthened. Companies sampled failed to fully honour their commitments. (page 126)

The Director of Agriculture has a bank account for the administration of funds of the **Pitkali Market Scheme**. This account is not being charged with stale cheques and the related funds are being retained by the bank against General Financial Regulations. Under normal circumstances, the Director would be obliged to reverse such funds to the Public Account. In

the foregoing manner in which the scheme is being administered the Director has lost control over the net debtors of the scheme. (page 147)

The custodianship of money on behalf of others at the **Law Courts** amounted to over Lm7 million at the end of financial year 2002. No records identifying the owners of the monies held in various below-the-line accounts were readily available. (page 187)

Six **Local Councils** recorded a negative working capital whilst three had an excess expenditure over income as at 31 March 2003. Audit reports of fifty-two Local Councils were qualified. The most widespread shortcomings reported during the year under review were already highlighted in previous financial years. Other concerns of a more serious nature occurred in separate councils. (page 192)

Eighty-seven per cent of payors of withholding tax are not complying with the requirements of Legal Notice 51 of 2002 and Act II of 2002, resulting in late remittances to the **Inland Revenue** amongst other shortcomings. (page 93)

Although the **Social Security Department** has a system where one assessor determines the amount of benefits to be given and another verifies its correctness, over- and under- payments in the distribution of benefits were still encountered. These errors are evidence that the verification process is not being carried out effectively. (pages 63, 65)

All property transferred from the Church to the State had to be validated and registered by the **Joint Office** by the end of the year 2003. This exercise has been completed only in 5 Ecclesiastical Entities out of more than 100. Serious shortcomings were also identified in the systems and operations of the Department. (page 132)

Recommendations made in June 2000 by a Board of Enquiry set up to investigate gross irregularities detected by NAO at the Cash Office of the **Law Courts**, have not been fully addressed. The recommendations included investigations by the Police, reconstruction of cash books and reactivation of cancelled fines. (page 183)

There is still widespread disregard to the requirements of the Financial Rules and Regulations by Ministries and Departments. Most of the weaknesses have already featured in the Report of the Auditor General of previous years. The most common concerns are as follows:

Expenditure

- Lack of segregation of duties in the procurement process up to the receipt and certification of goods;
- Non adherence to Procurement Regulations and controls over purchases;
- Payment Vouchers not covered by VAT fiscal receipts;
- Expenses not charged to their respective account or sub-item number, hindering an effective comparison of actual expenditure against that budgeted.

Revenue

- Mandatory books of accounts and records not maintained or not presented for audit, hindering control over funds;
- The completeness of records could not be ascertained in various revenue generating departments due to inadequate audit trail and unreceipted revenue;
- Lack of segregation of duties in the revenue collecting cycle and delay in remitting receipts, increasing the risk of manipulation and adversely affecting the liquidity of Government.

Transport

- Non-compliance with standing regulations, particularly inadequate record-keeping and monthly certification of general use cars' log-books, resulting in lack of proper controls 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 17 July 2000, adversely affecting asset valuation under the accrual based accounting.

Stores

- Mandatory annual physical stocktaking not performed or reports not made available by various stores, creating difficulty in identifying slow moving, deteriorating or obsolete items as well as not identifying discrepancies occurring during the year;
- Insufficient audit trail of store issues, variances between physical as against recorded balances and store items not properly coded, showing lack of accountability and non-existence of the basic elements of stock control;
- Procedure for write-offs not in line with General Financial Regulations.

Cash and Bank

- This Office contends that although lack of control over cash and bank balances resulting from missing receipt books and unauthorised cancellation of receipts was not consistently encountered, their nature and effect warrant mention. The reconciliation of bank account balances was also ignored in a number of instances.

Audit Opinion

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

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 2002. 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 attain reasonable assurance that accounts are free from material misstatements.

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.

The Audit Report covers only matters which have been examined on a risk, systems and sample basis by the National Audit Office. The opinion does not cover or draw conclusions upon areas that have not been examined.

Opinion

In my opinion, proper and consistent application of internal controls and compliance with a number of regulations and procedures need to be addressed by the Executive. This is necessary for financial control, financial management and budgetary purposes.

Audit examinations carried out have revealed the following issues of particular concern for 2002:

- Government's Public Account still not formally reconciled with the Central Bank account since June 1992, although progress has been made in this respect;
- An amount of Lm4.6 million in respect of 2002 was actually received in 2003 and credited to Revenue in the year under review;
- Certain departments lack the resources to control their operations fully;
- Departments generally lacking awareness of importance of performance indicators to monitor control on their operations;
- Deficiencies in the control and lack of adherence to regulations relating to government transport;
- Advances made through the Treasury Clearance Fund remaining outstanding for several years;
- Lack of proper inventory and stock control;
- Certain revenue generating departments lack sufficient controls to ensure complete and accurate recording of revenues;

- Substantial amounts of arrears of revenue due to government, and the incomplete or inaccurate recording thereof;
- Weak internal control systems across departments and government entities affecting adversely the collection of revenues and safeguarding of assets;
- High non-compliance with legal requirements by the majority of payors of withholding tax, defying the objective of introducing adequate controls on remittances and resulting in late payments of withholding tax by the entities concerned to the Inland Revenue Department;
- Insufficient adherence to regulations governing payment vouchers, relating to allocation of expenditure to proper account items, receipt of VAT fiscal receipts, issue of GSPOs prior to purchase of relative items or services, and authority for arrear charge payments.

Except for the above-mentioned qualifications, as amplified in the report, 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 2002.

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 2003

Financial Report 2002

Government of Malta
FINANCIAL REPORT

2002 > **Analysis of the Financial Report 2002**

Analysis of the Financial Report 2002

Introduction

The Financial Report statements and accounts for year 2002 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 2001 and 2002, and the receipts and payments of funds created by law were laid on the Table of the House of Representatives in Sitting No. 2 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 2002 Financial Report.

Consolidated Fund - 2002

	Estimated (Original & Supplementary)		Actual	
	Lm	Lm	Lm	Lm
Opening Deficit Balance				(48,032,052)
<i>Revenue</i>				
Ordinary (incl. Grants)	735,160,000		719,802,516	
Extraordinary	99,200,000		40,590,948	
Loans	1,000,000	835,360,000	10,563,380	770,956,844
<i>Expenditure</i>				
Recurrent	(676,431,001)		(645,995,322)	
Public Debt Servicing	(77,880,000) ^{a1}		(75,657,146) ^{a2}	
Capital	(108,737,000)	(863,048,001)	(97,671,553)	(819,324,021)
Shortfall 2002		(27,688,001)		(48,367,177)
Closing Balance as on 31/12/02				(96,399,229)

^{a1} These exclude Lm2,079,000 (Estimates^{a1})/Lm2,033,607 (Actual^{a2}) 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 44 – Joint Office.

Consolidated Fund Statement – 2002

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 Statement (shown opposite) comprises the aggregate annual receipts and payments administered by Government and comparative estimates for 2002.

After the House of Representatives adopted the year 2002 Budget (Original Estimates) for an expenditure of Lm825,925,000 as authorised by Warrant No. 1 issued on 21 December 2001, and a further Lm37,123,001 as approved by Supplementary Estimates Warrant No. 2 dated 27 December 2002, it was estimated that Expenditure was to exceed Revenue by Lm27,688,001. Following the closure of the 2002 Accounts, it resulted that Expenditure had actually exceeded Revenue by Lm48,367,177.

A detailed breakdown of the Consolidated Fund as compared with the approved Budget and the 2001 figures is given in Financial Report 2002.

Revenue

Details of Revenue collected during 2002, 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 and Economic Affairs, are provided for in Part 1 (pp. xiv, xv) of the Financial Report 2002.

Major sources of revenue for Years 2000 – 2002 are given in the table below.

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

Year	Tax Revenue						Non-Tax Revenue*
	Income Tax	National Ins. Contr.	Consumption Tax	Licenses, Taxes & Fines	Customs & Excise	Total	
	Lm	Lm	Lm	Lm	Lm	Lm	Lm
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
2002	190,175	181,142	117,503	86,047	59,813	634,680	85,123

* Non-Tax Revenue for 2002 includes such items as Central Bank of Malta profit (Lm25,681,621), Rents (Lm8,663,586) and Miscellaneous Receipts (Lm6,939,678) .

Budgeted ordinary revenue for 2002 was Lm735,160,000 (against actual ordinary revenue of Lm668,620,905 for 2001). Actual ordinary revenue for 2002 amounted to Lm719,802,516, a decrease of Lm15,357,484.

Foreign Loans and Grants

Foreign loans and grants received by Government in 2002 amounted to Lm2,721,301 and Lm10,563,380 respectively. Actual revenue derived from the reimbursement of expenditure on projects financed by foreign loans and grants shows a favourable variance of Lm3,741,681 from the 2002 approved Estimates as shown below.

Grants/Loans	Budget 2002	Actual Revenue 2002	Variation	Reason for Variation
	Lm	Lm	Lm	Source: Fin. Report 2002 p. xv
GRANTS:				
E.U. Third Financial Protocol	10,000	-	(10,000)	
E.U. Fourth Financial Protocol	77,000	423,582	346,582	
E.U. – 2000/2 Pre-Accession Funds	8,456,000	2,297,719	(6,158,281)	Funds under the EU- Pre-Accession Programme for 2000/2 were only partly utilized during the year.
TOTAL	8,543,000	2,721,301	(5,821,699)	
LOANS:				
C.O.E. – S.D.F. (Tal-Qroqq Hospital Project)	1,000,000	10,563,380	9,563,380	Progress achieved on the Mater Dei Hospital has resulted in a higher resort to Council of Europe financing

Expenditure

The appropriations for expenditure during 2002 were effected by the issue of Warrant Nos. 1 and 2 by the Minister of Finance. These were appropriated under the following Statutes:

	Lm
(i) Appropriation Act (Voted Services)	556,762,377
(ii) In terms of Special Laws	289,945,375
(iii) In terms of the Constitution	16,340,249

Analysis of Appropriations

Appropriation Act (Voted Services)

	Lm
Appropriated by Act XXVIII of 2001	538,219,376
Appropriated by Act XXIX of 2002 (Second Appropriation Act)	18,543,001
	<u>556,762,377</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)	490,000
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	48,875
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)	196,100,000
g) Pensions Ordinance (Cap. 93)	26,245,000
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 Act XIII of 1981 (Cap. 280)	366,000
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)	30,000
m) Interest plus contribution to the Sinking Funds i.r.o. Local Government Stock – Registered Stock and Security Ordinance 1959 (Cap. 161)	64,723,300
n) Interest i.r.o. Foreign Loans (Development Loan Act, 1972)	7,000
o) Malta Arbitration Centre (Act II of 1996)	30,000
p) Expenses of the National Audit Office, Act XVII of 1997	* 750,000
q) Refunds under V.A.T./C.E.T. Acts	450,000
	<u>289,945,375</u>

* The salary and allowances of the Auditor General are included in these expenses. As reported upon in previous Audit Reports, this salary 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:

	Lm
The President of Malta	17,481
The Attorney General	12,531
Judges and Magistrates	553,425
The Public Service Commission	<u>25,112</u>
	608,549
In terms of Section 106 as applied to the Public Debt	<u>15,731,700</u>
	<u>16,340,249</u>

Excess of Expenditure over Estimates

Supplementary Estimates for 2002 which amounted to Lm37,123,001 were approved, at Sitting No. 843, by the House of Representatives on 18 December 2002 Act No. XXIX of 2002 (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	Actual 2001	Revised Estimates 2002	Actual 2002	Variation Actual 02/ Rev Est 02
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Vote 33: Ministry for Transport and Communications Item 30: Contractual Services	73,370	18,000	234,893	216,893
Item 5236: Guaranteed Earnings Agreement with the Public Transport Association	563,580	400,000	839,136	439,136
Vote 47: Ministry for Gozo Item 16: Allowances	1,527,699	1,325,000	1,605,013	280,013
Vote 48: Ministry of Health Item 17: Overtime	1,653,410	1,542,000	1,820,355	278,355
Vote 53: Public Debt Servicing Item 3701: Treasury Bills	8,371,664	8,999,700	9,376,232	376,532
Capital V: Ministry for the Environment Item 7044: Enhancement of public areas	100,987	140,000	608,106	468,106
Capital VII: Ministry for Transport and Communications Item 7079: Tal-Qroqq Junction	-	800,000	1,260,728	460,728
Item 7080: Road restoration project	1,889,762	2,200,000	2,403,058	203,058

Under Utilization of Appropriated Funds

As detailed hereunder, actual expenditure in connection with Item 5386: National Programme for the Adoption of the Acquis was substantially less than the budgeted amount by Lm8,037,616 compared to Lm5,414,937 for Financial Year 2001.

<i>Department</i>	<i>Budget 2002</i>	<i>Actual Expenditure 2002</i>	<i>Variation</i>
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Vote 5: Office of the Prime Minister	850,000	379,379	(470,621)
Vote 10: Ministry for Social Policy	690,000	210,702	(479,298)
Vote 16: Industrial and Employment Relations	165,000	19,323	(145,677)
Vote 17: Ministry of Education	1,879,000	1,479,707	(399,293)
Vote 22: Culture and the Arts	25,000	-	(25,000)
Vote 23: Ministry of Finance	363,000	57,189	(305,811)
Vote 27: Customs	1,272,000	1,430,126	158,126
Vote 28: V.A.T.	813,000	470,089	(342,911)
Vote 29: Contracts	25,000	10,996	(14,004)
Vote 30: Ministry for the Environment	382,000	36,805	(345,195)
Vote 31: Environment Protection	203,000	158,116	(44,884)
Vote 32: Ministry for Tourism	20,000	9,475	(10,525)
Vote 33: Ministry for Transport & Comm.	1,601,000	558,562	(1,042,438)
Vote 34: Civil Aviation	55,000	46,204	(8,796)
Vote 35: Ministry for Economic Services	1,285,000	841,149	(443,851)
Vote 36: Economic Policy	850,000	353,226	(496,774)
Vote 37: Commerce	73,000	11,679	(61,321)
Vote 38: Consumer and Competition	90,000	41,588	(48,412)
Vote 39: Ministry for Home Affairs	730,000	235,754	(494,246)
Vote 40: Police	280,000	20,084	(259,916)
Vote 42: Civil Protection	115,000	-	(115,000)
Vote 46: Ministry of Agriculture and Fisheries	1,823,000	573,436	(1,249,564)
Vote 48: Ministry of Health	1,416,000	223,188	(1,192,812)
Vote 49: Ministry of Justice and Local Govt.	410,000	251,595	(158,405)
Vote 51: Judicial	75,000	57,176	(17,824)
Vote 52: Ministry of Foreign Affairs	47,000	23,836	(23,164)
TOTAL	15,537,000	7,499,384	(8,037,616)

This Office contends that the variation may be either due to improper preparation of forecasted expenditure or else departments were 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 and Economic Affairs.

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. Hence, not all Government's assets and liabilities are included in this statement since currently the Government's reporting system is cash based, rather than accrual based.

To date, a number of Circulars (on inventory control, control of debtors and creditors, procedures for the management of cash, etc), guidelines (on asset management) and standards (Malta Government Accounting Standards) have been prepared by the Accrual Accounting Task Force, in preparation for the adoption of the accrual accounting system.

Accrual accounting information seminars and training have been provided to several hundred Government employees. Other tasks being undertaken relate to the promulgation of the circulars (eg. on stock control recording and valuation), an Impact Study on the Budget Office, restructuring of the Treasury Department, the re-engineering of the accounting function in Government and changes in the Financial Administration and Audit Act to reflect changes in accounting practices.

A pilot study on three Government Ministries by a private sector audit firm in 2003 revealed several serious shortcomings in the recording of property, plant and equipment, as well as in the recording of debtors and creditors.

Assets

The Statement of Assets, as shown in Appendix I of the Financial Report 2002, is reproduced hereunder:

		2002 Lm(000's)		2001 Lm(000's)
Public Credit				
Share Holding	132,214		155,349	
Other Investments	70,066		67,668	
Loans	<u>195,025</u>	397,305	<u>186,627</u>	409,644
Investments held on behalf of				
Sinking Funds (Local)	49,134 ¹		59,692	
Sinking Funds (Foreign)	10,452		10,645	
Trust Funds	314		283	
Court and Other Deposits	<u>472</u>	60,372	<u>194</u>	70,814
Advances				
Unallocated Stores	1,564		1,566	
Advances	124,834		120,151	
Loans	<u>-</u>	126,398	<u>-</u>	121,717
Bank and Cash				
Banks	330		242	
Cash at Treasury	-		-	
C.B.M. – Public Account	<u>13,515</u>	13,845	<u>7,085</u>	7,327
TOTAL ASSETS		597,920		609,502

¹ The following is a breakdown of Investments held on behalf of Sinking Funds (Local):

	Lm
Central Bank of Malta Deposit accounts	9,478,420
Treasury Bills	26,258,548
Malta Government Stocks	543,200
13,049,654 Ordinary Shares of 25c – Maltacom plc	<u>12,853,909</u>
	<u>49,134,077</u>

The figure of Lm543,200 for Malta Government Stocks is made up as follows:

	Lm	Lm
Opening Balance		6,938,500
July 1 Sale 6.1% MGS 2015 I	<u>(3,000,000)</u>	(3,000,000)
July 3 Sale 6.1% MGS 2015 I	<u>(50,000)</u>	(50,000)
July 5 Sale 6.1% MGS 2015 I	<u>(25,000)</u>	(25,000)
July 8 Sale 6.1% MGS 2015 I	<u>(2,252,300)</u>	(2,252,300)
July 9 Sale 6.1% MGS 2015 I	<u>(1,068,000)</u>	(1,068,000)
Closing Balance		<u>543,200</u>

The closing balance as per Financial Report 2002 should have been Lm172,200 rather than Lm543,200. The basis for the difference of Lm371,000 arises from the fact that certain Malta Government Stocks, 7.25% MGS 2005 I, 7.35% MGS 2007 I and 7.20% MGS 2008 II had been incorrectly recorded in Treasury Books at the aggregate market value of Lm5,371,000 rather than at the aggregate nominal value of Lm5,000,000, while others were recorded at nominal value. Treasury adjusted its records to rectify this error during Financial Year 2003.

This Office still contends that Treasury is to apply a uniform approach when accounting for investments quoted on the Malta Stock Exchange at market value.

Shareholding

Shareholding is being discussed under Investments on page 28.

Loans made by Government and Repayments thereof

Loans

Balances and other details of all loans issued by Government as on 31 December 2002, are summarized as follows:

	Lm
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	177,659,186
	<u>195,025,103</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 2002, thus resulting in an unchanged closing balance over the previous years, as shown hereunder:

	Lm
Malta Drydocks Corporation	7,056,000
Malta Shipbuilding Company Ltd.	10,300,000

Other Loans at III include the following:

	Lm
Housing Scheme	64,003
Aids to Industries Scheme	1,596
MGI – (i) MDC – Investment in Industry	5,289,908
(ii) Malta Shipbuilding Co. Ltd.	116,177,445
Malta Drydocks Corporation	1,039,711
Malta Drydocks Corporation	24,600,000
Gozo Ferries Ltd.	25,047,869
Water Services Corporation	3,500,000
Malta Drydocks Corporation 1999	1,890,382

New Loan Issues

New loans issued by Government during 2002, as reported in Appendix E of Financial Report 2002, amounted to Lm9,728,327. These loans were made to Gozo Ferries Ltd. (Lm4,199,347), Malta Shipbuilding Co. Ltd. (Lm5,311,566) and Malta Win Cargo Containers Ltd. (Lm217,414).

The loan to Malta Win Cargo Containers Ltd. had been issued by Government during 2001. As reported in the Audit Report – Public Accounts 2001, the loan had not been included in the

Financial Report 2001 since Treasury had not been informed in time by Malta Government Investments Limited (MGI), to be able to account for this change in the relevant Financial Year.

Loan Repayments

Loan repayments during the year under review amounted to Lm689,000 analysed as:

- Lm189,000 repaid by Gozo Ferries Ltd., on behalf of Malta Shipbuilding Co. Ltd. in respect of the 3% loan. The amount repaid represents the partial settlement by Gozo Ferries Ltd. of an amount in connection with work carried out by Malta Shipbuilding Co. Ltd. in relation to the manufacture and installation of hoistable cardeck on MV Malita;
- Lm500,000 reduction of the loan due from Water Services Corporation following authorisation from the Ministry of Finance (MF121/91/B) dated 9 September 2002. Authorisation was granted on the grounds that Water Services Corporation shall not request additional funding from Government in connection with obsolete stock, valued at Lm650,000, being transferred to the Corporation from its subsidiary, Malta Desalination Services Ltd. This transaction would be compensated through the writing off of a loan from Water Services Corporation to Malta Desalination Services Ltd.

Observations

The same observations as reported upon by this Office, in the last three years' Audit Reports, 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 to date negotiated, namely:

- 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 and Economics Affairs 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's approval.

The table on page 26 provides further details regarding loans advanced to companies not covered by an agreement stipulating terms and conditions of repayment.

The amounts of interest due at 31 December 2002 on Malta Shipbuilding Co. Ltd. 3% and 8% Loans, were incorrectly stated in the Treasury Departments loans' ledger. The amount of interest for the year of the 3% loan was added to the opening balance of the 8% loan interest and vice-versa. The figures indicated in the next page reflect the modified accrued interests at 31 December 2002, following correction of ledger.

Loans Advanced to Companies

<i>Company Name</i>	<i>Loans Advanced as at 31 December 2002</i>	<i>Interests Due as at 31 December 2002</i>	<i>Total</i>
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Air Supplies & Catering Co. Ltd.	605	73,221	73,826
Quality Shoes Ltd. (C)	54,474	Interest Free	54,474
	45,775	12,361	58,136
Libma International Construction Ltd.	39,530	Interest Free	39,530
Hannibal Civil and Mechanical Eng. Co. Ltd. (L)	36,695	Interest Free	36,695
Mediterranean Coral Fishing Co. Ltd. (L)	40,000	Interest Free	40,000
Artcane Ltd. (L)	3,000	Interest Free	3,000
Handtools Ltd. (TC)	210,612	Interest Free	210,612
Malta Decorative Glass Co. Ltd. (L)	(Loan Z) 77,386	Interest Free	77,386
Melita Knitwear Ltd. (C)	(Loan C) 77,803	146,293	224,096
	(Loan E) 50,000	Interest Free	50,000
	(Purchase of Plant & Equip) 59,727	Interest Free	59,727
	(Loan trf from MDC Bonus) 3,380	1,449	4,829
Malta Drydocks Corp. 1999 Loan	1,890,382	Interest Free	1,890,382
Gozo Ferries Ltd. *	25,047,869	Interest Free	25,047,869
Water Services Corporation	3,500,000	Interest Free	3,500,000
Malta Shipbuilding Co. Ltd. 3% Loan	90,075,208	22,956,483	113,031,691
8% Loan	26,102,238	20,702,942	46,805,180
Aids to Industries	1,596	Interest Free	1,596
TOTAL	147,316,280	43,892,749	191,209,029

C – Company ceased operations

L – Company undergoing liquidation procedures

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

* 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 to date, no developments have been reported.

Loans and Interest Written Off

The adjustment of Lm641,076 in respect of MGI- MDC- Investment in Industry relates to the writing off of loans following the Ministry's approval as detailed:

- Lm50,000 on loan advanced to MDC for loan to MIKI Ltd.;
- Lm167,500 advanced to MIMCOL in November 1988 for investment as share capital in Gozo Agricultural Products;
- Lm3,000 interest-free loan advanced to MDC for investment in Craft Glass Ltd.;
- Lm378,926 interest-free loan due from Malta Spinning and Weaving Ltd.;
- Lm40,000 loan due from Lapsi Quarry Ltd.;
- Lm1,650 loan due from Marsa Water Fittings Ltd.

Apart from the writing off of loans advanced, the Permanent Secretary, Ministry of Finance also approved the writing off of the following interest due:

- Lm51,127 interest on loan advanced to MDC for loan to MIKI Ltd.;
- Interest due from Lapsi Quarry Ltd. of Lm12,896;
- Interest due from Marsa Water Fittings Ltd. amounting to Lm708.

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

Outstanding Loan Repayments

Outstanding loan repayments and interest stood at Lm63,167,084, of which Lm50,723,339 are outstanding interest payments as at 31 December 2002. A breakdown of this figure is shown hereunder:

Beneficiaries	Loan	Interest	Total
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Hotels	6,672	3,368	10,040
Industries	2,137,074	45,300,777	47,437,850
Malta Drydocks Corp.	-	859,194	859,194
Ex-Posterity Fund	10,300,000	4,560,000	14,860,000

To date, no reply was received by Treasury requesting MGI to verify whether loans advanced to Bahhar u Sewwi and Malta Win Cargo Containers Ltd. were covered by agreements stipulating repayment terms and conditions for each loan. If agreements were entered into, then these loans were 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 2002 amounted to Lm38,810 and Lm911,251 respectively.

Investments

The estimated market value of investments as shown in the Financial Report as at 31 December 2002 was Lm192,585,622 as against Lm226,162,430 as at 31 December 2001, i.e. a decrease of Lm33,576,808.

These investments are as listed below:

	<i>Lm</i>
Shareholding	132,213,869
Court and other deposits	458,420
Custodian of Enemy Property	13,233
Sinking Funds	59,585,681
Trust Funds	314,419

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

(i) Increase in Investments

- The investment in the European Bank for Reconstruction and Development (EBRD) of 100 Subscription Shares of Euro 10,000 each (30% paid up) has appreciated to a market value of Lm125,549 by the end of year 2002 due to changes in the Euro rate of exchange. The remaining 100 Subscription Shares were 14.375% paid up due to the fifth payment of Euro 28,750 (Lm11,524) resulting in a final appreciated market value of Lm60,159. In total the investment in the EBRD has risen by Lm19,595;
- Government investment in Mediterranean Offshore Bunkering Co. Ltd. has risen during the year under review. There has been a purchase of 212,764 "B" Ordinary Shares of Lm1 each at Lm2.238 per share, amounting to an addition of Lm476,166 in the value of investment. The investment ledger has been correctly updated with the increase, but the value of investment has been overstated by erroneously including the value of 1 share owned by MGI;
- Government's investment in MITTS Ltd. has risen by Lm599,700 by the end of the year 2002 relating to an increase in authorised and issued share capital on 23 November 2000 which resulted in the allotment of 599,700 Lm1 shares to Government. The Treasury Department had been informed of these changes in shareholding by MITTS Ltd during February 2003, when the increase in investment has been taken into consideration, and 2002 records were adjusted accordingly.

(ii) Decrease in Investments

- During 2002 there has been the sale of shares in Malta International Airport Co Ltd to the Malta Mediterranean Link Consortium and to the general public. An amount of Lm5,412,000 and Lm2,706,000 shares at Lm1 each were sold to the Consortium and the public respectively. Thus, the investment in Malta International Airport fell from 13,529,999 shares in 2001 to 5,411,999 shares after the above privatisation measures. These 5,411,999 shares were subsequently converted to Lm0.20 shares resulting in 27,059,995 shares by the end of the year. The year-end market valuation at Lm0.73 per share resulted in an investment increase of Lm6,223,797 compared to the opening balance as at 1 January 2002;
- The investment of 11,651,600 shares in Bank of Valletta plc depreciated by Lm4,369,350. Shares were valued at Lm0.375 per share less, when compared to the previous year;

- The investment of 47,736,634 shares in Maltacom plc fell by Lm25,634,572 over the year as a result of the market value per share decreasing by Lm0.537. In addition, the value of 13,049,654 shares in Maltacom plc invested by the Sinking Funds decreased by Lm7,007,664;
- The market value per share of Middle Sea Insurance amounted to Lm2 as at 31 December 2002 compared to Lm2.098 at the end of the previous year, resulting in Lm193,271 depreciation over the year.

The investment ledger was not updated to 31 December 2002 to reflect Government's investment in Leader Marine Co Ltd of Lm1,017. The last valuation for the same amount was made at 31 December 1995. The investment ledger should be continuously updated every financial year with changes in nominal value, cost and market value columns.

Other Investments

At the end of 2002, the total of these investments amounted to Lm70,065,863 as against Lm67,668,364 on 31 December 2001, an increase of Lm2,397,499 over the previous year. This increase is subclassified as follows:

	Lm
New Indirect Investments:	
Malta Enterprise Ltd.	2,000
Malta Air Traffic Services Ltd.	999,999
Maltapost Plc.	1,450,000
Less: investment reductions/write-offs:	
National Orchestra Ltd.	(4,500)
MIKI Ltd.	(50,000)
Net change in investments during 2002	<u>2,397,499</u>

The new indirect investments in Financial Report 2002 actually refer to new investments/write-offs which occurred during Financial Year 2001. These movements had not been reported in the relevant Financial Year since MGI notified Treasury on 19 June 2002, when it was too late to include such amounts in the Financial Report 2001.

This problem repeated itself for Financial Year 2002 since MGI letter was received by Treasury on 2 April 2003. During the year under review, new indirect investments were as follows:

	Lm
Actual New Indirect Investments 2002:	
Gozo Heliport Limited	20,000
Maltapost Plc.	20,000
Waste Management Services Ltd.	20,000
Mediterranean Offshore Bunkering	1
Actual investments during 2002	<u>60,001</u>
Less: investment reductions/write-offs:	
Malta Government Investments	(1)
Malta International Airport	(1)
Net actual change in investments during 2002	<u>59,999</u>

Except for the new investment in Mediterranean Offshore Bunkering, the other new investments have been included in the Treasury records for Financial Year 2003. In order to clearly indicate the annual Government's financial position, MGI should inform Treasury on a timely basis for eventual inclusion in the related Financial Report.

Investments in Industry comprise Government shareholding in ninety (90) 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 Lm1,000,000 funds allocated by Government to MGI for further investments during 2002, Lm201,866 (i.e. 20%) were used to advance loans to subsidiaries for 'Payment of Creditors'. According to MGI Schedule, provision for doubtful debts of Lm67,955 was created in connection with these loans advanced:

<i>Company name</i>	<i>Loans advanced during 2002</i>	<i>Provision for 2002</i>
	<i>Lm</i>	<i>Lm</i>
Bahhar u Sewwi Co. Ltd	35,000	35,000
Kalaxlokk Co. Ltd	243	243
Malta Countertrade	100,000	-
LIMSUK	25,331	25,325
Interprint (MIMCOL advances)	7,387	7,387
Fort Chambray	29,405	-
Malta Film Commission	4,500	-
Total	201,866	67,955

(Source: MGI letter dd. 27.3.03 Schedule 4)

MGI letter dated 27 March 2003 Schedule 4 – the opening capital amount at 1 January 2002 of Konkos Limited amounted to Lm8,515. This amount did not agree with the closing capital balance at 31 December 2001 which amounted to Lm30,307. Similarly, there was a mismatch between the opening balance at 1 January 2002 of Lm10,063,968 and closing balance at 31 December 2001 of Lm10,203,057 in respect of Malta Gantry Manufacturing Company. Treasury could not justify these differences since such balances refer to loans advanced by MGI from its own funds and therefore do not fall within Treasury's responsibility.

Investments through MGI

In 1988, the bulk of the investments made over the years through the MDC were transferred to MGI. A return submitted by the company to the Accountant General showed that the total cost of investment in eighty (80) companies amounted to Lm32,383,514 as at 31 December 2002.

However, it was estimated that the net book value of these companies only amounted to Lm9,731,736, after an accumulated provisional loss of Lm22,651,778. Further details are provided on the opposite page:

<i>Investment Type</i>	<i>No of Companies</i>	<i>Cost</i>	<i>Provision</i>	<i>Net Book Value</i>
		<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Subsidiary Companies	45	30,635,366	21,012,055	9,623,311
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, five (5) have ceased operations, eleven (11) are just awaiting tax clearance before they can be struck off and three (3) never commenced operations.

Inspection of Securities/Investments

Board of Security

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 the 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 meetings are held at the Treasury.

The List of Securities as at 31 December 2002 was inspected, on 2 June 2003, 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 as at 31 December 2002.

The Board of Surveys report was received by this Office on 16 June 2003. The Board certified the correctness of the instruments/documents and had no adverse remarks to make with regard to the validity, authenticity and legality of the said documents. In this regard the board also took cognisance of the certification reports issued by various Bodies entrusted with the custody of such values. However, the Board could not reconcile the balance shown on the Public Account as per Cash Book with statement submitted by the Central Bank of Malta, as no Bank Reconciliation Statements were available at the Treasury.

Unallocated Stores

The total book value of the unallocated stores stood at Lm1,563,770. These were held by:

Ministry for the Environment	<i>Lm</i>
Petrol	103,269
Diesel	384,956
Precast Concrete	260,610
	<u>748,835</u>
Department of Information	
(Government Printing Press)	210,005
Contracts Department	
Central Supplies	604,247
Equipment from USA	683
	<u>604,930</u>

Advances

Accounting for 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 2002, in respect of advances made to various Government Departments, agencies and organisations, as well as to Government delegations proceeding abroad.

Pending advances amounted to Lm124,834,512 as on 31 December 2002, as against Lm120,151,188 outstanding on 31 December 2001.

The main outstanding advances were the following:

Description	Lm
Malta Development Corporation on 24 July, 1984 for the purchase of Verdala Hotel	740,450
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	477,587
Accountant General for the purchase of Sea Malta Co. Ltd shares in Mediterranean Offshore Bunkering Co. Ltd. The amount so advanced should be accounted for and repaid, in the first instance, out of proceeds forthcoming from the eventual privatization of MOBC Ltd, immediately such proceeds become available to Government. In the second instance, in the event that such funds are not sufficiently available, out of funds made available from the Consolidated Fund upon the privatization of MOBC Ltd.	476,168
Accountant General in order to reimburse to Revenue in the proper financial year, the value of payments late received and/or accounted for by way of fees payable on the registration of foreign investments, of grants from foreign sources and of proceeds from sale of shares in respect of 2002. The amount shall be repaid out of such proceeds late received and/or accounted for, in respect of 2002, by way of fees payable on the registration of foreign investments, of grants from foreign sources and of proceeds from sale of shares.	4,609,633
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	2,700,000
Permanent Secretary, Ministry of Finance and Commerce to be utilised as a loan facility by the Maltacom Employees 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 Bank Malta plc in 1999	4,499,135
Accountant General for the purchase of Maltapost shares from HSBC Bank Malta plc in 1999	337,500

Accountant General for the purchase of Medigrain shares from HSBC Bank Malta plc in 1999	865,008
Three (3) advances made to Permanent Secretary, 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	142,212
Permanent Secretary, Ministry of Finance to meet expenditure in connection with the privatisation process of the Department of Public Lotto	198,861
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	908,297
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.

Purchase of Verdala Hotel – Lm740,450: this advance was made to the Malta Development Corporation on 24 July 1984 for the purchase of Verdala Hotel. During the year under review a repayment of Lm53,194 has been effected.

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 – Lm477,587:** In letter dated 6 January 2001, Ministry of Finance informed the department that *“The nature of Advance Warrants is not to remain opened perennially. 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 1 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 – Lm2,700,000:** 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 Construction 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% p.a. 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”*.

The following observations were also made:

- **Reimbursement of Revenue in proper financial year – Lm4,609,633:** This amount has been included in Treasury Department’s Revenue during financial year 2002 instead of 2003, i.e. when it was actually received. In fact, the Auditor General had included a qualification on Treasury Financial Statements that *“an amount of Lm 4,609,633 in respect of 2002, was actually received in 2003 and credited to Revenue in the year under review.”*

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 and Economic Affairs, should monitor these advance warrants to ensure that the Financial Regulations and the directives issued by the Minister of Finance and Economic Affairs are followed.

Bank – C.B.M. Public Account

Monies held in trust, received or paid by the Government of Malta as at 31 December 2002, amounted to Lm13,514,701 as accounted for in Treasury Books. However, the Central Bank of Malta statement of the Public Account ended with a closing balance of Lm15,824,194 as opposed

to the closing balance reported in Part I (p.1) of the Financial Report 2002 of Lm14,158,033 as on the same date.

Although the discrepancy has still to date not been explained, considerable progress has been made to reconcile the balances, as explained hereunder.

Developments

The Public Accounts Committee discussed the issue during a meeting held on 16 July 2003. The Accountant General stated that the electronic Bank Reconciliation System based on automated remote-data-upload-security software went 'live' during October 2002. This tailored information system, which has been tested and is due to be installed by MITTS during 2003, will match data files from the CBM with Treasury books. Any resulting discrepancies will then have to be followed up and resolved.

This electronic reconciliation will be effected as from 1 January 2002 on a monthly basis. At the date of the Public Accounts Committee meeting, reconciliations had progressed till the month of May 2002. Unreconciled balances from 1992 to 31 December 2001 will have to be tackled manually on an individual basis, as the electronic system does not cater for the bank reconciliation prior to 1 January 2002. This is clearly a lengthy process that will take time to resolve to an acceptable level. It is important that bank reconciliation controls be in place and effective for the eventual change-over to accrual accounting.

Liabilities

The Statement of Liabilities, as featured in Appendix I of the Financial Report 2002, is reproduced hereunder:

	2002 Lm(000's)	2002 Lm(000's)	2001 Lm(000's)	2001 Lm(000's)
Public Debt		858,184		853,347
Treasury Bills		216,189		156,125
Deposits				
Court and other deposits	20,160		20,255	
Other	29	20,189	29	20,284
Funds				
Sinking Funds	59,586		70,337	
Public Lotto	225		355	
Contingencies Fund	500		500	
Trust Funds	325	60,636	289	71,481
Accumulated Fund				
Cons. Fund at year end	(96,399)		(48,032)	
Net Public (Debt)/Credit	(460,879)	(557,278)	(443,703)	(491,735)
TOTAL LIABILITIES		597,920		609,502

Public Debt

On 31 December 2002, the Public Debt (inclusive of Treasury Bills outstanding at year end) amounted to Lm1,074,373,035. This amount represents an increase of Lm64,900,679 over the corresponding reported figure for 2001.

This increase works out as follows:

	Lm
Total of New Loans	789,229,961
Total Repayment of Loans	(723,715,573)
Currency Adjustments	(613,709)
Net increase of the Public Debt	<u>64,900,679</u>

The following payments in connection with the Public Debt were made out of the Consolidated Fund (Vote 53 – Public Debt Servicing and Vote 44 – Joint Office).

Payments from Consolidated Fund

		Vote 53 Public Debt Servicing	Vote 44 Joint Office	Total
		<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
(i)	Interest on Loans	54,434,360	2,033,607	56,467,967
(ii)	Interest on Short-term borrowing (Treasury Bills)	9,376,232	-	9,376,232
(iii)	Contribution to Sinking Funds	10,899,500	501,500	11,401,000
(iv)	Loan repayment 'Sumitomo Bank'	947,054	-	947,054
	Total	75,657,146	2,535,107	78,192,253

The amount of Lm947,054 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

	Lm
(i) Payment of Local Loans	13,249,532
(ii) Payment of Foreign Loans	4,374,841
(iii) Loss on currency adjustments (Foreign Loans)	45,472
(iv) Revaluation of Sinking Funds Investments	<u>4,718,550</u>
Total	<u>22,388,395</u>

Foreign Loans

European Union Loan E

The balance of Lm1,475,149 and currency adjustment of Lm99,380 at 31 December 2002, should have been Lm1,388,972 and Lm13,202 respectively. These errors arose due to the use of incorrect opening balances in the excel sheets maintained by Treasury.

European Union Loan F

Although reported in the Audit Report 2001, this Office has to date not been forwarded with the explanation necessitating the adjustment, during the Financial Year 2000, of Euros 2000. The Opening Balance had not been adjusted accordingly. In addition, the Currency Adjustment and amount Repaid as reported in the Financial Report 2001 did not tally with figures in Treasury Books. Whereas the Currency Adjustment read Lm831 less, the amount repaid was Lm831 in excess. In the Audit Report, 2001, this Office had contended that the amounts reported in the Financial Report should have been the same as per Excel sheets since these were checked and found correct. No action was taken regarding this issue during 2002.

European Union Loan G

The balance of Lm679,484 and currency adjustment of Lm24,689 at 31 December 2002 should have been Lm720,915 and Lm16,742 respectively. These errors resulted since the opening Euro denominated capital balance repaid brought forward was incorrect due to the wrong conversion from ITL and DEM denominated amounts to Euro.

German Loan

The opening balance in Financial Report 2002 should have been Lm1,309,797.88 rather than Lm1,389,798. This incorrect balance was the outcome of an error in the 2001 excel sheet, which resulted from the netting off of amounts in DEM with those in Euro. The implications of this error in the 2002 spreadsheet were the following:

- opening balances in foreign currencies were incorrect;
- the Lm cumulative currency adjustment and opening balance at 1 January 2002 were incorrect;
- the closing balances in foreign and local currencies, as well as the currency adjustment at 31 December 2002 were incorrect. As a result, the closing balance at 31 December 2002 of Lm1,110,735 and currency adjustment of Lm63,303 should have been Lm1,027,077 and Lm59,646 respectively.

C.O.E. Fund for Development (2002)

In Financial Report 2002, the year end currency adjustment of Lm75,389 was not reported. As a result, the Balance at 31 December 2002 should have been Lm10,671,688 rather than Lm10,596,301.

General Comment

The information on Foreign Loans included in the Financial Report Appendix F was based on spreadsheets prepared by the Treasury – Public Debt Section. As pointed out above, the spreadsheets contained a substantial amount of errors, including wrong opening balances, incorrect currency conversions and amounts entered incorrectly. Also, in general, the rate of exchange with respect to opening balances was not updated to reflect that used at the end of the previous year. Even though some of the errors relating to interest, did not feature in Financial Report 2002, yet the Excel spreadsheets should be updated in all respects in order to avoid incorrect details and facilitate future reference. Treasury should also be updating Financial Report 2002 errors during 2003.

Public Debt since 1985

The table below 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 2002:

Public Debt since 1985

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) 1,562,753	58.93	(+) 83,981
2001	968,978	40,494	1,009,472	(v) 1,634,373	61.77	(+) 88,484
2002	1,029,219	45,154	1,074,373	(v) 1,675,256	64.13	(+) 64,901

(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 June 2003.

(iv) As amended.

(v) Provisional.

Letters of Comfort/Bank Guarantees

The position of Contingent Liabilities as at 31 December 2002 is reported upon in Part I of the Financial Report, 2002. The component parts are made up of (a) Government Guarantees and (b) Letters of Comfort as follows:

	Lm	Lm
Government Guarantees:		
Local	207,252,286	
Foreign	<u>137,997,288</u>	345,249,574
Letters of Comfort		<u>28,758,130</u>
		<u>374,007,704</u>

A detailed list of Letters of Comfort/Bank Guarantees submitted to this Office by the Ministry of Finance showed a balance of Lm374,007,704 as on 31 December 2002 (against Lm416,822,282 as on 31 December 2001 and Lm470,737,462 on 31 December 2000).

Letters of Comfort/Bank Guarantees

Beneficiary	31.12.00	31.12.01	31.12.02
	Lm	Lm	Lm
Air Malta Co. Ltd. (Foreign)	32,287,369	26,518,163	nil
Air Malta Co. Ltd. (Local)	8,100,000	8,100,000	8,100,000
Malta Counter Trade Co. Ltd.	3,292,071	nil	nil
Malta Drydocks Corporation	41,031,491	39,204,460	40,641,020
Malta Export House Co. Ltd.	nil	3,393,730	5,901,791
Malta External Trade Corp. Ltd. (Metco)	nil	2,795,163	nil
Enemalta Corporation	57,419,511	49,631,232	45,552,853
Gozo Ferries Co. Ltd.	43,936,090	38,818,694	35,833,125
Housing Authority	18,319,385	13,327,121	12,903,591
HSBC Home Loans (Malta) Ltd. (1)	60,000,000	30,000,000	30,000,000
Malta Development Corporation	4,520,791	4,352,321	4,296,195
MALPRO Ltd.	nil	1,000,000	800,000
METCO Ltd.	2,793,383	nil	nil
Malta Government Investment Ltd.	19,584,016	18,273,191	18,060,126
Public Broadcasting Services Ltd.	1,127,000	1,290,423	1,275,273
ST Microelectronics (Malta) Ltd.	2,800,000	2,800,000	2,800,000
Self Employment Scheme	7,600	2,775	1,570
Malta Shipbuilding Co. Ltd.	2,566,537	2,124,341	2,606,946
Water Services Corporation	32,922,577	32,133,584	31,108,172
Malta Win Cargo Containers Ltd.	3,372,558	3,372,557	nil
Kordin Grain Terminal Co. Ltd.	442,811	nil	nil
Malta Freeport Corporation	130,928,684	134,865,639	126,044,426
Malta Government Loans (2)	-2	nil	nil
Medigrain Co. Ltd.	15,000	921	nil
Malta Desalination Services Ltd.	1,841,540	1,390,936	939,045
Tripoli Sewage Treatment Plant	665,488	665,488	665,488
I.B.R.D (3)	-3	nil	nil
M.I.G.A (3)	-3	nil	nil
Malta Tourism Authority	2,757,032	2,757,032	2,412,402
YSSS - Jean Paul Mifsud	3,581	1,985	1,466
YSSS - Nikolai Cassar	2,947	2,526	nil
Foundation for Medical Services	nil	nil	2,213,106
Foundation for Tomorrow's Schools	nil	nil	450,408
Gozo Channel Co. Ltd.	nil	nil	500,000
Malta Maritime Authority	nil	nil	500,000
Malta Stock Exchange	nil	nil	400,701
TOTAL	470,737,462	416,822,282	374,007,704

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.

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 2002.

- i) The amount of Lm251,359 abandoned claims shown under Government Property Division were in respect of rent due from various tenants. No proper authorisation was attached to the return for various amounts exceeding Lm500; totaling Lm248,656;
- ii) Abandoned claims of Lm755,808 shown under Ministry for Economic Services relate to the writing off of interest on loans, loans and share capital as detailed in 'Loans made by Government and Repayments thereof – Loans and Interest Written Off' on page 27;
- iii) The Director General's approval, instead of the approval from the Permanent Secretary, was found attached to the return for an abandoned claim of Lm631 reported by Customs relating to a dishonoured cheque for Customs Duty;
- iv) The amount of Lm473 stores written off in Financial Report under Inland Revenue related to abandoned claims of Lm276, Lm180 and Lm17 with respect to Death and Donation Duty, Transfer Causa Mortis and Duty on Documents claims respectively;
- v) The Ministry for Agriculture and Fisheries showed abandoned claims of Lm3,564 and stores written off of Lm656 in the Financial Report 2002. However, the correct figure should read abandoned claims Lm3,899 and stores written off Lm321. Abandoned claims related to irrecoverable amounts due from Local Councils and amounts due for damage to trees written off;
- vi) A total amount of Lm3,477 shown as Stores Written Off under various departmental headings should have been excluded from the statement, as explained hereunder:
 - Lm2,409 from the Armed Forces of Malta related to 8 vehicles donated to the Malta Aviation Museum;
 - Lm500 from the Department of Civil Aviation related to unserviceable items;
 - Lm568 from the Institute of Tourism Studies related to obsolete or broken items;
- vii) In the case of Stores Written Off of Lm100 from the Ministry for Social Policy (Co-operatives Board) and Lm663 from Police, it was not specified whether items listed in the return were lost, stolen or unserviceable. It is doubtful whether these Lm763 should have been included as Stores Written Off.

Through correspondence with NAO it resulted that the following have been excluded from the Statement in Appendix N of Financial Report 2002:

- i) The Museums Department should have reported abandoned claims of Lm402.64 and Lm172.15 relating to amounts due on the examination and valuation of antique objects on which civil action was statute barred;
- ii) The Ministry for Resources and Infrastructure should have reported the amounts of Lm283 and Lm660 as stores written off during 2002. These related to items lost or stolen during the year under review.

NAO has been informed by the Ministry of Finance and Economic Affairs that authorisation has been granted for the writing off of an abandoned claim amounting to Lm372.69, being outstanding dues for the attendance of Customs personnel at the request of Kalaxlokk Ltd. during 1993/1994. From the return submitted by Customs to Treasury Department we could not determine whether the Lm372.69 was included or not in the return.

A person wearing a blue uniform is seated at a desk in an office environment. The desk is cluttered with various items, including a large printer, several stacks of papers, and a filing cabinet. The person is leaning forward, looking at a document on the desk. The entire scene is overlaid with a semi-transparent blue filter.

Corporate Issues

> Arrears of Revenue

Arrears of Revenue 2002

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 2/2003 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 1966, 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

As stated in previous reports, balances of arrears of revenue for the year under review, as shown in table on page 45, 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 the above-mentioned Circular stated that *“every effort should be made to ensure the timely*

collection of amounts due and in any case any amount claimed/due should under no circumstances be allowed to fall in arrears”.

This Office satisfactorily noted that following comments reported in the Auditor General’s Report of the previous financial year, on 24 February 2003 the Ministry of Finance instructed the Accountant General to adjust the Return of Arrears in order that balances of arrears of revenue may show a more realistic picture of potentially collectible arrears of revenue.

The Return had to provide for estimated amounts that are *‘considered as not collectible’*.

No changes to this effect were noted in the Statement of Arrears of Revenue outstanding on 31 December 2002. Following this Office enquiry, the Accountant General replied that Treasury Circular 2/2003 was issued one week prior to the receipt of the instructions from Ministry of Finance.

Instructions were actually received by Treasury on 6 March 2003. Although Treasury considered issuing an addendum to the above-mentioned circular, it was not deemed appropriate for two main reasons:

- the Treasury was already in receipt of a number of returns from government departments; and
- the matter would have hindered those departments that had already started to compile the said return.

This notwithstanding, it is the intention of the Treasury to issue next year’s circular on the lines prescribed by the Ministry of Finance.

Arrears of Revenue

Ministry/Department	Outstanding on 31/12/2001	Collected during 2002	Rate of Collection	Written off or not due 2002	Arrears 2002	Outstanding on 31/12/2002	Net Variation	Change in Arrears	Amounts Est as not Collectible ¹	Due from Govt. Depts. & Para. Bodies	Amounts Statute Barred
	Lm	Lm	%	Lm	Lm	Lm	Lm	%	Lm	Lm	Lm
Agriculture & Fisheries											
Ministry for Gozo	53,278	16,635	31.2	224	43,486	79,905	26,627	50	NIL	32,829	NIL
Customs ¹	5,539,443	4,653,495	84.0	1,128	4,551,058	5,435,878	-103,565	-1.9	NIL	4,451,846	NIL
Education	65,766	3,258	4.9	2,823	20,671	80,356	14,590	22.2	NIL	NIL	NIL
Inland Revenue:											
Income Tax - Maltese currency	231,651,613	172,828,737	74.6	47,168,034	233,125,250	244,780,092	13,128,479	5.7	c	c	c
- Foreign currency ^a	5,214,713					6,288,410					
Social Security Cont wef '98											
Duty on Docs & Transfers	22,769,273	1,308,860	6.0	11,407,865	10,797,050	20,849,598	-1,919,675	-8.0	b	b	b
Death & Donation Duties	2,809,435	31,057	1.0	314,043	387,028	2,851,363	41,928	1.0	NIL	NIL	NIL
Courts: Malta											
Gozo ^d	27,588	15,811	57.3	2,838	20,115	29,054	1,466	5.3	NIL	NIL	NIL
Social Security:											
Social Security	2,135,616										
National Insurance Cont.	5,365,265										
Govt. Property Division ^e	5,219,891	1,125,994	21.6	251,316	1,799,427	5,642,008	422,117	8.1	c	2,838,683	c
Health	922,739	55,162	6.0	63,652	111,968	915,893	-6,846	-0.7	845,893	32,866	214,239
Police ¹	195,688	16,674	8.5	6,597	69,274	241,691	46,003	23.5	151,691	24,875	NIL
Min Resources & Infrastructure	6,641,371	615,231	9.3	126,029	562,720	6,462,831	-178,540	-2.7	5,500,358	4,773,691	1,754,919
M.D.C.	4,436,531										
Treasury	14,012										
Tourism	250,003	18,673	7.0	8,618	469,623	692,335	442,332	177	158,180	115,608	158,180
Ministry of Finance	2,714	2,299	84.7	NIL	NIL	415	-2,299	-84.7	NIL	NIL	NIL
Information/GP Press	772,175	2,589	0.3	NIL	133,090	902,676	130,501	16.9	621,465	895,973	NIL
Med. Conference Centre	179,224	105,592	58.9	37,193	125,377	161,816	-17,408	-9.7	NIL	39,784	NIL
A.F.M.	18,739	9,626	51.4	1,238	7,130	15,005	-3,734	-19.9	1,931	6,111	1,931
Wireless Telegraphy	1,949,347	76,301	3.9	NIL	632,366	2,505,412	556,065	28.5	164,006	c	NIL
Youth & Sports	63,000					63,000	NIL	NIL	NIL	63,000	NIL
CET/MAT	50,036,267										
Contracts	202,271				45,448	247,719	45,448	22.5	53,323	49	NIL
Roads ^a	886,160				NIL	886,160	NIL	NIL	886,160	595,748	886,160
Ind. & Empl. Relations	175,256	5,625	3.2	NIL	887	170,518	-4,738	-2.7	NIL	NIL	NIL
Licensing and Testing	2,546,394										
Min. for Economic Serv.	58,583,615				5,028,777	63,167,085	4,583,470	7.8	c	63,157,044	c
Commerce Division	606,322	62,326	10.3	14,115	NIL	529,881	-76,441	-12.6	NIL	NIL	529,881
Others ^g	26,818	9,654	36.0	2,403	77,660	84,281	65,603		NIL	7,324	NIL
TOTALS^h	409,360,527	180,963,599		59,853,423	258,008,405	363,083,382	17,191,383		23,794,368	77,035,431	3,545,310

a) Did not send Return of Arrears 2001.

b) Return of Arrears 2002 not submitted.

c) Information not available.

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

e) Difference in balances due to Return of Arrears 2002 - Land Section Gozo - not submitted.

f) Amounts estimated as not collectible include amounts statute-barred.

g) Difference in Op Bal 02 compared to CI Bal 01 due to Commerce Division arrears reported as a separate item.

h) Difference in Totals between Op Bal 02 and CI Bal 01 due to diff in balances reported by Customs, Police, Commerce Division and Government Property Division and inclusion of arrears due to Roads and Courts - Gozo (vide comments).

Although returns of arrears had to be submitted by 4 April 2003, 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 Social Policy
- Social Security – Pre 1998 arrears
- Family and Social Welfare
- Housing
- Museums
- Culture and the Arts
- Treasury – Administration and Pensions
- VAT Department
- Licensing and Testing (vide comments)
- Environment Protection
- Judicial (Law Courts – Malta)
- Joint Office (vide comments)
- Agriculture and Fisheries (part of – vide comments)
- Malta Development Corporation – Factory Rentals
- Department of Public Lotto
- Inland Revenue - Social Security Contributions w.e.f.1998 (vide comments)
- Ministry of Health (Mount Carmel Hospital)

Apart from listing defaulting departments in Part I of the Financial Report 2002, these were also reported to the Minister of Finance and Economic Affairs. The following submitted the return of arrears after the Financial Report 2002 was published:

- Ministry for Gozo (part of)
- Industrial and Employment Relations
- Libraries and Archives
- Ministry for Transport and Communications
- Ministry for the Environment

Notes and Comments on Arrears of Revenue

Joint Office

In letter dated 21 March 2003, the Department stated that notwithstanding that the list of properties transferred by the Church in favour of Government had undergone further changes from last year by additions, deletions and corrections, this year it was still not in a position to compile a meaningful 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 terms of reference for which the Joint Office was set up is to validate and verify data.

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	96
(c) Expl. Ord. Depot Charge	Lm	3 71
(d) Fuel and Repairs	Lm	344
(e) Security Duties	Lm	6,111
(f) Services rendered by AFM	Lm	744
(g) Refund of Wages	Lm	3,174
(h) Helicopter Services	Lm	495
(i) Sundry Services	Lm	3,476

This Office is concerned on the possibility of recouping a substantial part of the arrears outstanding at year end considering that 45.1% of arrears are over 5 years due, as shown hereunder:

Arrears outstanding up to 1 year	Lm	7,130
Arrears outstanding over 1 year up to 2 years	Lm	163

Arrears outstanding over
2 years up to 5 years Lm 941

Arrears outstanding over
5 years Lm 6,771

73% of newly accrued arrears were due by Water Services Corporation (Lm1,913) and Malta Maritime Authority (Lm3,266). The former settled its dues in February 2003.

Lm507 out of Lm1,238 were written off due to considerable time taken by the Attorney General's Office to advise on the possibility of recovering the relevant amounts due. The relevant files were only returned to the AFM after a direct intervention by the Permanent Secretary, OPM regarding the matter. This delay rendered the cases statute-barred.

Youth and Sports

The amount due has been paid out by Government, by way of capital investment on the Marsa Racecourse. It was due to be repaid by the Marsa Racecourse Management Council during the period 1986/1991.

Following approval by the Director, Land Department, the Malta Racing Club is to, with effect from January 2003, commence repaying Lm500 monthly to the Land Department in order to settle the rental arrears. As long as the Malta Racing Club adheres to the repayment agreement, the *"Ministry is inclined to favourably consider the writing off of the outstanding cost of capital investment of Lm63,000"*. (Ministry of Finance letter dated 12 March 2003 refers).

Information / Government Printing Press

The closing balance consists mainly of Lm505,502 in respect of Jobbing Orders (Revenue) and Lm 394,020 in respect of Paper. Out of the amounts due at year end, the Department stated that 68.8% or Lm 621,465 are in the process of being written off and 2.3% or Lm 20,326 are being contested.

Civil Aviation (Included under 'Others')

The balance is made up of:

- | | |
|----------------------------|-----------|
| (a) Miscellaneous Licences | Lm 2,561 |
| (b) Airport Tax | Lm 64,700 |

With effect from the year under review, the statement of arrears included estimates of airport tax due for 2001 and 2002. If airlines were requested to submit all monthly declarations relating to the previous year by the end of March, the Department would be in a position to draw up a return of arrears with the actual amounts due instead of estimates.

According to letter dated 14 February 2003, this Office was informed that a review was to be held by the Internal Audit and Investigations Directorate and the Department to find a suitable means of ascertaining whether airlines are actually remitting all the revenue due to Government.

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. A few claims were also issued for the hire of equipment.

Outstanding 2002 claims consist mainly of 3 substantial debtors and various other relatively small debtors. On verifying the three substantial debts, NAO concluded that:

- Lm11,326 are in respect of function activities held by the OPM at the Conference Centre;
- Lm17,405 represent 10% commission payable on dinner functions organized by the exclusive caterers;
- Lm11,481 are in respect of a large Conference held at MCC by a foreign company.

All the above three balances were settled during 2003.

In letter dated 23 April 2002, Ministry of Finance authorized the write-off of Lm 36,537 being bad debts shown in the books of account of the MCC. The amount in question refers to balances outstanding prior to December 1998 on which legal action had been taken on the majority of the cases, albeit to no avail.

In letter dated 2 May 2002, MCC remarked that the present Interim Board of Management had set-up policies in connection with recoverability mainly:

- remittance of regular statement of accounts;
- determination of a credit limit;
- repeat clients are to settle outstanding balances before new services are given;
- constant monitoring of debtors list.

Ministry for Gozo

The closing balance is made up of:

(a) Works Department	Lm 12,797
(b) Public Cleansing Department	Lm 63,720
(c) Agriculture Department	Lm 3,388

This Office satisfactorily noted a positive change in the rate of collection as regards arrears due to the Works Department. Although there is still room for improvement, the percentage rate of collection was substantially higher compared to that of Financial Year 2001, increasing from 7.9% to 13.1%.

Civil Protection (Included under 'Others')

Lm 6,466 out of Lm 13,498 arrears due at year end are amounts being contested. Lm2,250 out of these amounts are due by the Planning Authority following site inspections, and Lm2,891 are due by the International Training Centre Malta Ltd in respect of Water and Electricity Bills refund. The Department referred for legal action dues amounting to Lm3,837.

Judicial – Law Courts: Gozo

In letter dated 11 March 2003, the Department remarked that all registry fees pertaining to year 1982 and onwards have had some legal action taken in their regard. The procedure in place for the collection of public monies is that the debtor is notified with a departmental bill, conceding a 15 day period in which to settle the bill. If payment is not effected, judicial action is immediately

initiated, by first issuing a judicial letter, followed by a Warrant of Seizure.

Ageing of arrears at year end can be analysed as follows:

Amounts outstanding up to 1 year	Lm 9,560
Amounts outstanding over 1 year up to 2 years	Lm 9,745
Amounts outstanding over 2 years up to 5 years	Lm 3,191
Amounts outstanding over 5 years up to 10 years	Lm 2,241
Amounts outstanding over 10 years	Lm 4,317

Licensing and Testing Department

In letter dated 14 July 2003, NAO was informed that the total arrears approximately stood at Lm 3.92 million according to MITTS report dated 4 July 2003. The arrears relating to the old (pre-1994) and new number plates amount to approximately Lm 2.26 million and Lm 1.66 million respectively.

The Authority is in the process of issuing an amnesty with regards to arrears of road licences - old number plates - on the grounds that:

- vehicles bearing the old number plate are no longer seen on the road as these have either been scraped or destroyed;
- in most cases, the arrears due are statute-barred as these exceed the 8 years prescription.

The amnesty proposed will incorporate a clause stating that after the expiry of the period all vehicles bearing the old number plates will be deemed to have been scraped and if the owner would like to revive a vehicle this would have to be registered afresh.

Approval for the writing off of Lm 2.26 million arrears due was granted by Ministry of Finance and Economic Affairs on 4 August 2003.

The Authority has requested MITTS to amend the software so that automatic

notification letters are generated from the system 15 days after the expiry of a licence. If the licence holder persists in non-payment following 2 reminders, legal proceedings in the Small Cases Tribunal will be instituted.

After the expiry of the amnesty period, the Authority will start instituting legal action against defaulters having more than one year's licence overdue. An Arrears Unit is to be set-up with the aim to monitor non-payment of licences.

Contracts Department

a) Penalties and Damages	Lm 247,617
b) Ex-CSS	Lm 102

Newly acquired arrears relate to damages incurred for the non-supply and failure to deliver frozen boneless ox-beef of first standard quality, fruits and vegetables to Government hospitals and institutions in Malta.

Non-collectible amounts are estimated as follows:

Amounts due from company dissolved	Lm 39,086
Cases lost – sentences delivered in 2003	Lm 5,763
Amounts written off in 2003	Lm 8,474

Inland Revenue Department

Income Tax

The amount of Lm 244,780,092 is the gross arrears due as at 31 December 2002 which represents an increase of Lm13,128,479 on the previous year. A breakdown of these arrears by category is provided in the table on the following page.

Additionally, arrears denominated in foreign currencies for Years of Assessment 1999 to 2002 amounting to Lm 6,288,410 as at year end 2002 are also due from foreign owned companies and companies overseas. Lm 31,482 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, denominated in Maltese currency, can be analysed under the following headings:

i. Balance for Y/A 1949 up to Y/A 1998	Lm 145,743,947
ii. Balance for Y/A 1999	Lm 34,981,427
iii. Balance for Y/A 2000	Lm 16,444,720
iv. Balance for Y/A 2001	Lm 19,167,104
v. Balance for Y/A 2002	Lm 28,442,894

Out of the Lm 99 million arrears due for Year of Assessment 1999 and onwards, Lm88.5 million represent estimated tax charged to taxpayers who did not submit any form of tax document.

The table on the following page is based on figures forwarded by the Department. We were not able to verify the correctness of figures forwarded since the Department failed to submit a detailed breakdown by taxpayer, analysed by Years of Assessment.

Social Security Contributions (1998 onwards)

The Department is still not in a position to compile a return of arrears. This being due to the fact that the necessary software is unavailable to date as it has been shelved for more pressing and other high priority issues.

Duty on Documents and Transfers

• Monies due in respect of <i>Inter Vivos</i>	Lm 19,390,173
• Monies due in respect of <i>Causa Mortis</i>	Lm 1,459,425

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 31% rate of collection.

Thus, the probable amount to be collected amounts to Lm 6,528,585.

Income Tax Arrears due by Category

Category	Pre Y/A 1999	Y/As 1999 - 2002	Totals
	Lm	Lm	Lm
Government Employees	4,579,655	2,950,028	7,529,683
Parastatal Employees	1,557,990	876,927	2,434,917
Drydocks Employees	287,817	139,629	427,446
Private Employees	17,494,394	10,234,274	27,728,668
Outside Malta Employees	322,292	146,195	468,487
Temporary Residents – Work Permit	3,608,082	5,431,406	9,039,488
Self-Employed	27,471,429	7,480,973	34,952,402
Shareholders	4,578,678	737,334	5,316,012
Not to show	1,670	2,777	4,447
Rentiers / Pensioners	8,640,071	2,708,310	11,348,381
Temporary Residents – settlers	747,190	1,170,032	1,917,222
Temporary Residents - entertainment	47,285	57,908	105,193
Non-residents	618,148	1,068,426	1,686,574
Companies <i>anonyme</i>	70,445,070	65,683,704	136,128,774
Partners	70,343	41,407	111,750
Partnerships collectif	270	NIL	270
Partnership not registered	1,125	NIL	1,125
Companies <i>en commandite</i>	1,619,794	NIL	1,619,794
Companies foreign owned	183,174	57,376	240,550
Companies – overseas	544,695	210,930	755,625
Estates	23,742	12,647	36,389
Clubs, Associations etc.	580,092	20,963	601,055
Church (Commercial)	2,200,064	2,101	2,202,165
Church (Entities)	120,872	2,798	123,670
Others	5	NIL	5
Total for all Categories	145,743,947	99,036,145	244,780,092

Death and Donation Duties

The rate of collection is estimated to be twice that of 'Duty on Documents and Transfers', i.e. approximately 62%.

The Department estimates that the likely amount to be collected stands at Lm1,760,515 i.e. Lm1,639,858 and Lm120,657 for Capital Transfer Duty Branches in Malta and Gozo respectively.

Commerce Division

The closing balance is analysed as follows:

(a) Miscellaneous Receipts	Lm	15,818
(b) Trading Licences/ Wines & Spirits	Lm	513,943
(c) Fees of Office	Lm	120

Item (b) relates to Wines and Spirits arrears up to 31 December 2001 and amounts

due in respect of Trading Licences formerly collected by the Commissioner of Police. The Trade Services Directorate was not in a position to differentiate amounts due for Trading Licences and those for Wines & Spirits since the list of arrears received by the former Ministry for Economic Services from the Commissioner of Police consisted of one list.

Furthermore, a discrepancy of Lm 107,589 resulted between arrears reported by the Commerce Division as taken over from the Police Department (Lm576,269) and the closing balance as at 31 December 2001 reported by the latter (Lm683,858). Upon enquiry, the Directorate stated that it was not in a position to explain the discrepancy since the list of arrears of revenue was originally compiled by the Department of Police.

Following Ministry of Finance approval dated 28 May 2002, Lm 14,115 due in respect of Laboratory Testing Fees were written off during the year under review. Lm12,761 were due from defaulting Government Departments, Parastatal organisations owed Lm 235 while Lm1,119 were due from private companies no longer in existence. The total sum due, dating back from the 1980's, was made up of small amounts not exceeding Lm5 in value.

Department of Health

The closing balance is made up of:

(a) Licences	Lm 2,250
(b) Hospital Bills	Lm 637,373
(c) Hospital Tests	Lm 32,866
(d) Refunds/Resignations	Lm 216,781
(e) Overpayments	Lm 6,717
(f) Hospital Fees-SPBH	Lm 19,906

The Department is estimating that Lm70,000 out of the balances due in items (a) to (e) above will be recouped during 2003. Ageing of arrears at year end in respect of items (a) to (e) can be analysed as follows:

Amounts outstanding up to 1 year	Lm 104,350
Amounts outstanding over 1 year up to 2 years	Lm 123,905
Amounts outstanding over 2 years up to 5 years	Lm 370,265
Amounts outstanding over 5 years	Lm 297,467

Industrial and Employment Relations

95% or Lm 5,350 of the arrears collected during the year related to balances due for 1996. Ageing of arrears at year end is provided hereunder:

Amounts outstanding up to 1 year	Lm 887
Amounts outstanding over 1 year up to 2 years	Lm 347
Amounts outstanding over 2 years up to 5 years	Lm 8,068
Amounts outstanding over 5 years	Lm 161,217

Roads Directorate

The arrears, formerly the responsibility of the Works Department, were passed over to the then Roads Department during 1996. During the year 2003, the Corporate Services Directorate held meetings with the respective government bodies and other entities aimed to recoup the long outstanding amounts dating from Financial Year 1996 and backwards.

According to the Authority's legal advisor, arrears are all statute-barred since the amounts due are barred by the lapse of two or five years, in terms of Sections 2149 and 2156 (f) of the Civil Code (Cap 16).

During the last years, it has become practice that payments in respect of Parastatal / Government owned entities are no longer being cross charged to the respective utilities, but are borne by the Directorate.

Following Ministry of Finance's instructions, the Directorate is keeping a separate record of payments made, under the Roads Capital Votes, of works by utilities.

Ministry for Economic Services

These arrears are made up of:

a) Loan under Act XI of 1988	Lm 14,860,000
b) Malta Drydocks Corporation Loan	Lm 859,194
c) Loans to Hotels	Lm 10,040
d) Loans to Companies	Lm 47,437,851

The total amount under item (d) is primarily made up of loans to Malta Shipbuilding amounting to Lm43,659,425 which constitutes 92% of amounts due by companies.

Following enquiry, the Ministry was not in a position to state what amounts are statute-barred or non-collectible.

Education

The closing balance can be analysed under the following headings:

(a) Miscellaneous Receipts	Lm 56,243
(b) Tuck-Shops	Lm 3,890
(c) University Maintenance Grants	Lm 20,223

Lm11,078 of arrears newly accrued represent overpayment in salaries. Moreover, arrears newly accrued include Lm2,240 amounts due not included in previous returns.

Government Property Division

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

(a) Rural	Lm 69,563
(b) Perpetual	Lm 58,555
(c) Residential	Lm 346,331
(d) Non-residential	Lm 218,676
(e) Commercial	Lm 4,936,036
(f) Encroachments	Lm 12,847

Wireless Telegraphy Department

The closing balance is made up as follows:

a) Wireless and Marine Licenses, penalties and other charges	Lm 613,338
b) TV Licenses amounts equal to or less than 1 year	Lm 429,718
amounts more than 1 year but less than 2 years	Lm 272,137
amounts more than 2 years but less than 3 years	Lm 214,920
amounts more than 3 years	Lm 975,299

(i) Wireless Telegraphy and Marine Licences

Newly acquired arrears for the year are made up of:

- Lm114,290 arrears acquired during 2002;
- Lm43,659 (difference between Lm291,719 reported in 2001 return and Lm335,378 reported in 2002 return), in respect of cancelled licences, which became apparent during the initial upload of the data from the Dataflex to the new Computer Accounting Module operating from 2 December 2002;
- Lm239,971 due by a company for the utilization of the Eutelsat space segment omitted from previous returns.

An amount of Lm164,006, due to be written off, represents maritime radio licences fees that have been accumulating over a number of years, when in actual fact, these fees should have never been shown as being due.

Request for write-off approval was sent to the Ministry of Finance and Economic Affairs on 6 June 2003.

These arrears may be classified under the following 2 categories:

- Lm19,426 maritime radio licences not finalized – some vessels that have applied for the issue of the licence did not fulfil all the required obligations as attached to the issue of the said licence and therefore a licence had not been issued;
- Lm144,520 unexpired ship licences – although these vessels were registered under the Maltese flag, no licences had been issued for the period between the expiry date of the valid licence and the date of cancellation by the Malta Maritime Authority. The regulation of the licences for the past years could lead to a situation of regularizing a vessel that could have committed an infringement during the period for which arrears are claimed.

(ii) TV Licences

Newly acquired arrears for the year is the difference between the closing balance (adding back Lm 35,231 credit balances) and opening balance. This being due to the fact that the computer system at PBS Ltd does not differentiate the type of funds received and does not keep separate records of the amounts written off/adjusted and newly acquired arrears.

Ministry for Resources and Infrastructure

The following is a breakdown of the closing balance:

(a) Works Division	Lm 1,297,172
(b) Central Districts Office	Lm 597,456
(c) Waste Management Strategy Implementation Department	Lm 721,046
(d) Manufacturing and Servicing Dept.	Lm 3,847,157

As reported upon in the Reports of the Auditor General – Public Accounts 2000 and 2001- 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. Authority

to write-off the said amount has not yet been obtained.

Arrears accrued during the year include an amount of Lm 16,446 omitted from previous years' returns.

Tourism

The closing balance is made up as follows:

(a) Tourism	Lm 86,971
(b) Institute of Tourism Studies	Lm 52,262
(c) Ex Hotel and Catering Establishment Board	Lm 490,943
(d) White Rocks	Lm 62,159

As was reported upon in last year's annual report, Lm 86,971 relate to arrears due from various Local Councils in respect of beach cleaning services. The Department is awaiting the Attorney General's advice on what action should be taken against the Local Councils.

It is to be noted that Lm31,888 of arrears due to the White Rocks Holiday Complex at year end date back to more than 7 years.

Agriculture and Fisheries

The returns submitted amounting to Lm307,986 were in respect of arrears due to the:

i. Pitkali Markets	Lm 80,267
ii. Loans and Advances to Farmers	Lm 34,581
iii. Sundry Revenue MMU	Lm 5,140
iv. DDP Personnel	Lm 3,474
v. Services rendered to Local Councils	Lm 15,696
vi. Sundry Services	Lm 14,512
vii. Veterinary Services	Lm 154,316

The following did not submit the Return of arrears as at 31 December 2002:

- Loans and Advances to Fishermen
- Sundry Revenue Fisheries
- Fisheries Below-the-Line account

The last return submitted by the then Ministry of Agriculture and Fisheries was for Financial Year 2000 and amounted to Lm180,358. The closing balance excluded arrears in respect of Item vii above.

Police Department

The Opening Balance does not agree with last year's Closing Balance since:

- (a) revenue due in respect of Wines and Spirits and Trading Licences are no longer the responsibility of the Police but are reported by the Commerce Division, as stated under comments relating to the latter;
- (b) a new item 'Services to Third Parties' has been included for the first time even though there have been arrears in previous years;
- (c) arrears in respect of 'Sporting Licences' differ since amounts collected prior to 2002, and not shown at the time, were deducted from the opening balance instead of being shown under 'Past Arrears Written Off / Not Due'.

The closing balance is made up of:

- a) Services to Third Parties Lm 33,281
- b) Sporting Licences Lm 208,410

The figures reported in the Table have not been audited but are reproduced as submitted by the Department. Further comments are reported under Ministry for Home Affairs – Police Department: Arrears of Revenue on page 139.

Customs Department

Lm113,034 positive variance in respect of Unpaid Reimbursements and administration charges between the Opening Balance and last year's Closing Balance represents a

discrepancy in the OMERA Computerised System which could not be detected prior to an enhancement in the system which took place in January 2003.

The figures reported in the Table have not been audited but are reproduced as submitted by the Department on the basis that:

- the report submitted by the Computer Section to this Office did not tally with the figure quoted for 'Amounts Collected' as shown in the Statement of Arrears. However, the latter amount tallied with the report submitted by the Computer Section to the Accounts Section;
- the majority of outstations failed to keep adequate and updated pre-1999 Arrears Ledgers;
- up to the writing of this report, Pinto Bonded Stores, Outer Quays, Pinto Annex, Weighers, Valuation, Medserv Comp., Fuel and Newport Bonded Stores failed to provide the ledgers requested.

The closing balance is analysed as follows:

- a) Unpaid reimbursements and administration charges i.r.o. services by Customs Officials at Merchants' request Lm 856,975
- b) Post entries (Customs duty paid after release of Merchandise) Lm 4,406,333
- c) Fines and Penalties Lm 154,258
- d) Others Lm 18,312

Arrears in respect of item (b) include Lm4,213,708 and Lm29,627 for unpaid excise duty by Enemalta Corporation and Malta Air Charter respectively.

On the other hand, proper authority was found to have been obtained for 'Amounts Written Off'.

House of Representatives

> **House of Representatives**

House of Representatives – Expenditure and Inventory

Background

The main objective of the House of Representatives is to provide all necessary facilities and services to enable the Speaker and Members of Parliament to carry out efficiently the business of the House, to enhance international contacts and to provide secretarial assistance to Parliamentary Delegations.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Goods or Service Purchase Orders (GSPOs) issued after Receipt of Invoice;
- Payments not covered by V.A.T. Fiscal Receipts;
- Weak control over inventories due to no Inventory Database being compiled;
- Lack of control over use of vehicles due to no log books being kept.

Recommendations

Goods or Service Purchase Orders (GSPOs) issued after Receipt of Invoice

It is imperative that goods and services are covered by a Goods or Service Purchase Order upon the placing of an order. This will ensure that proper authorisation for the purchase is not vitiated.

Payments not covered by V.A.T. Fiscal Receipts

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

Inventory

The exercise to update inventory records outlined in MF Circular 14/99, which should have been completed within one year, is now long overdue. This task should be immediately undertaken and finalized with the least possible delay.

Vehicle Log Books

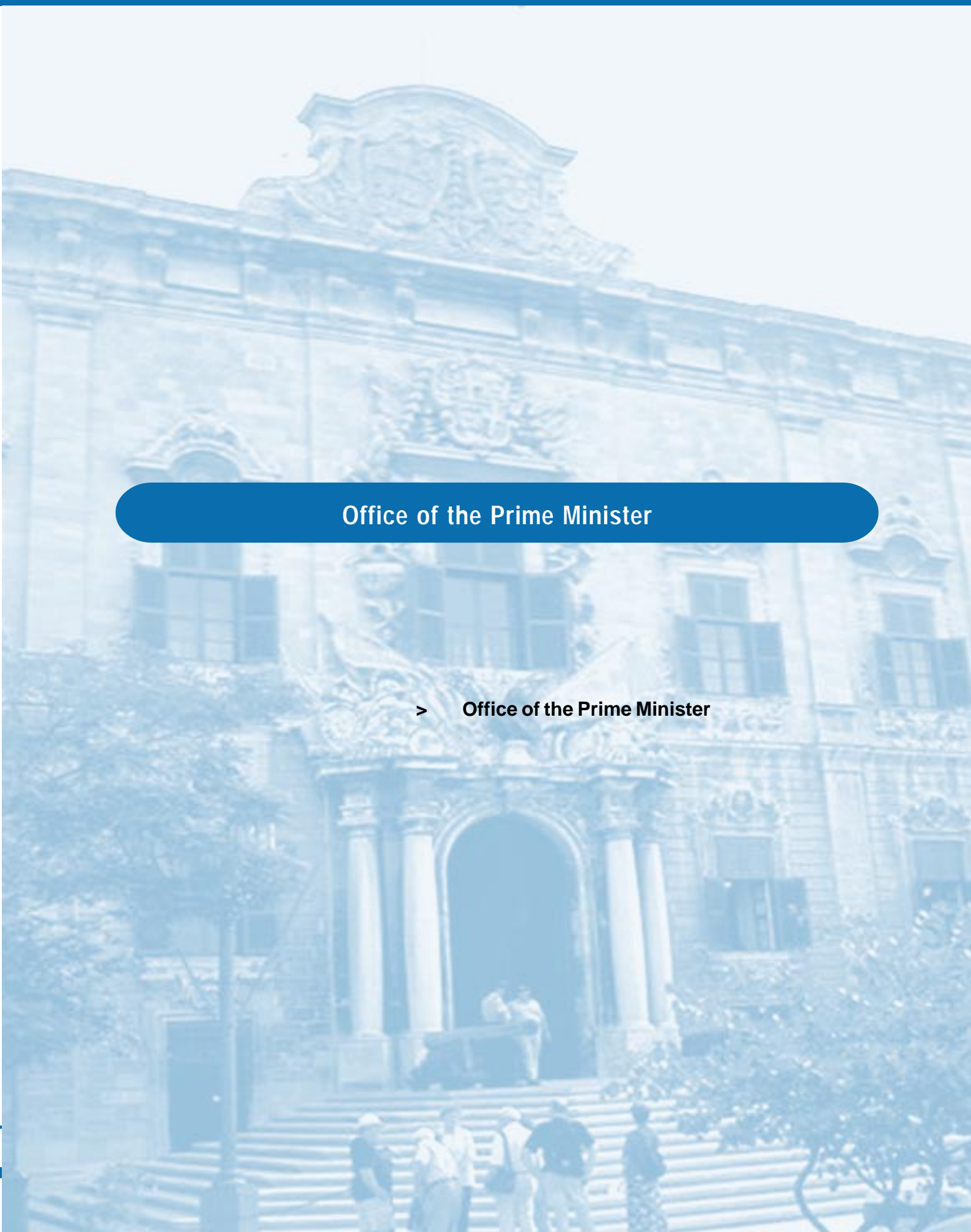
As stated in Chapter 8 of the Public Service Management Code, Heads of Department are required to see that a log book is kept for each Government owned or impressed vehicle. Furthermore, the exact mileage covered during each journey performed in such vehicle should be recorded in the log book and signed by the officer making the journey. This is essential to enable certifying officers to exercise proper control over the issue of fuel to Government-owned vehicles. Every log book is to be examined by the Head of Department from time to time and cases of irregular use of cars are to be duly reported.

Management Comments

Management agreed to the comments and recommendations and intends to comply accordingly.

Office of the Prime Minister

> **Office of the Prime Minister**



Office of the Prime Minister – Expenditure and Inventory

Background

The aim of the Office of the Prime Minister is to support the Prime Minister in providing leadership and direction for a stable and effective Government.

During 2002 the overall objectives were – to provide the necessary leadership to the Public Service and to the related ongoing programme of change, to ensure the necessary consultation and co-ordination between the various Ministries in the pursuit of established Government objectives and programmes, to ensure that Cabinet decisions are followed up as necessary and to carry out in an efficient and effective manner the functions that are the responsibility of the Prime Minister.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Goods or Service Purchase Order (GSPO) not issued prior to commitment;
- Misallocation of Expenditure;
- Payments not covered by V.A.T. Fiscal Receipts;
- Insufficient control over inventory and asset identification and inaccurate inventory room lists;
- Insufficient control over the utilization of vehicles and fuel due to the incorrect or non-recording of mileage and fuels supplied.

Recommendations

Goods or Service Purchase Order (GSPO) not issued prior to commitment

Where applicable, goods and services are to be covered by a Goods or Service Purchase Order upon placing an order. This will ensure that proper authorisation for the purchasing is not vitiated.

Misallocation of Expenditure

Items of expense are to be properly accounted for in the appropriate account.

Payments not covered by V.A.T. Fiscal Receipts

It is positively noted that the OPM is regularly submitting on a quarterly basis, to the VAT department, a return showing a list of suppliers who failed to submit a V.A.T. receipt following payment of supplies for goods and/or services as per standing regulations. This serves as a deterrent for defaulting suppliers. Every effort should be made to continue insisting on having V.A.T. receipts obtained from suppliers.

Inventory

The Inventory Ledger is to be updated with every purchase or relocation of inventory items and 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.

Vehicle Log Books

Since the major findings were related to the recording of the mileage, it is recommended that the correct mileage covered during each journey is recorded on the log book and signed by the officer making the journey. This will help ensure proper control over the issue of fuel to Government vehicles or hired vehicles.

Management Comments

Management agreed to the recommendations.

Ministry for Social Policy

- > **Department of Social Security**
- > **Elderly and Community Services Department**

Department of Social Security – Revenue

Background

National Insurance Contributions are collected at the Social Security Area Offices and Inland Revenue Department Cash Office.

Class I (Employed) and Class II (Self Employed) Contributions together with further contributions (penalties for late payments) are collected by the Inland Revenue Department and forwarded to the Social Security Department. With regard to Contributions due by Government Employees, the Treasury forwards a list to the Social Security Department of the gross wages paid, the tax and contributions due. Social Security withdraws NI dues from the respective Department in respect of employees and Government's share as an employer. Contributions due by the Malta Shipbuilding and Malta Drydocks are transferred by the Ministry for Economic Services. Embassies forward their respective share of contribution in the same manner as Government Departments.

The Social Security Department's task is to compute the state contribution on a monthly basis. This is calculated by deducting any further contributions (penalties) from the total revenue figure. Half of the result is disbursed by Government in respect of State Contribution.

Key Issue

The Department is not in a position to exercise effective control over funds transferred by the Inland Revenue Department relating to National Insurance Contribution collected on their behalf.

Similarly the Department is not in a position to verify claims made by the Inland

Revenue Department clawing back amounts resulting from dishonoured cheques.

Recommendation

The Social Security Department should consider the implementation of a system whereby amounts received or refunded could be verified, thus ensuring correctness. This can be carried out by reconciling the data of the number of contributions paid with the respective funds transferred from the Inland Revenue Department.

Management Comments

The Director Corporate Services stated that, although he is not contesting NAO's recommendation, the reconciliation suggested would mean that a section has to be set up only to duplicate the work that is carried out by the Inland Revenue Department.

As regards potential errors, the Department does not have the human resources to countercheck the correctness of the work carried out. The Social Security Department relies solely on the Inland Revenue Department.

The Permanent Secretary expressed the view that once the functions of collection and enforcement of Social Security Contributions are being carried out by the Inland Revenue Department, it is not understood why this Revenue Head still appears under the Ministry's budget.

Both replies are not considered satisfactory.

Department of Social Security – Sickness Benefit

Background

The Department of Social Security is responsible for issuing sickness benefits, among others, to those employees in insurable employment who satisfy the relevant contribution conditions. This benefit is regulated by Section 18 of the Social Security Act. The data input of certificates is carried out at the Gozo Office of the Social Security.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Thirty three claimants (18% of the sample) had one or more inconsistencies in the details on the certificates submitted during a continuous period of sickness;
- Three certificates (1.6% of the sample) were not correctly keyed in on SABS (Sistema għall-Beneficċji Socjali) and their verification did not highlight the error;
- In nine instances (5% of the sample), the start date of unemployment declared by the claimant on the certificate was different from that shown on the ETC database;
- In nineteen cases (10% of the sample) no adjustment was effected in the Contribution Maintenance menu to reflect a recouped overpayment. Such claimants may eventually have their subsequent claim rejected due to an insufficient balance of contributions paid. In one case the Contribution Maintenance did not show the correct benefit days taken;
- Eleven claimants (6% of the sample) were paid in full following

receipt of certificate/s that covered more than 6 days;

- Four claimants with prolonged sickness had a certificate keyed into SABS but not verified. In one instance payment continued to be effected whilst in the other three cases payment was stopped;
- Three claimants had their first certificate presented at the Social Security Department more than 10 days following first day of incapacity/date of examination, without any warning being given by the Department. Unless the Department issues the relative warning upon the first late filing, then payment cannot be withheld upon the second offence;
- In one instance, claimant was a self employed and therefore required to appear before the medical panel immediately. However, no such request was issued to do so and payment was processed.

Compliance Issue

Incorrect Computation of Benefit

Seventeen claimants (9% of the sample) were underpaid whilst twelve claimants (6.5% of the sample) were overpaid.

Recommendations

Control Issues

- Inconsistencies between medical certificates are to be identified and remedied preferably at the keying in or verification stage. These may be rectified by accessing either the ETC database and/or the

Common database. If the inconsistency is in the number of non working days, confirmation could be obtained from the employer in the case of employees, or from the individual in the case of self employed;

- The verification process needs to be carried out more efficiently and effectively;
- Certificates received showing beneficiary as unemployed should be verified against the ETC database;
- SABS is to be enhanced in order to automatically amend the number of benefit days taken according to the number of days recouped;
- No payment is to be effected for sickness in excess of 6 days shown on the same certificate. SABS is to be enhanced to highlight such instances automatically;
- Certificates with all the necessary details are to be invariably verified following keying in;
- SABS is to be enhanced in order to automatically prompt the late arrival of a certificate and a warning printout automatically generated;
- The provisions of the Social Security Act are to be invariably adhered to in order to prevent overpayments or to detect any

potential abuses. Unless claimant is subject to examination by a Medical Panel in a timely manner, no payment should be effected.

Compliance Issue

Incorrect Computation of Benefit

Although the Department has a system where one assessor determines the amount of benefits to be given and another verifies that that amount is correct, errors were still encountered. Management should take remedial action to ensure that the verification process is carried out efficiently and effectively.

The process is to include immediate update of the number of NI contributions paid by claimants, and accessing the ETC database to verify claimant's declaration in respect of spouse's employment.

Furthermore, the SABS system needs to be enhanced to be capable of identifying instances where claimants will be benefiting from more than one assistance that could not be taken concurrently. Similarly, SABS is to be programmed to automatically cease any payments in excess of the number of contributions paid by claimant, and in those cases where medical certificate was not verified.

Overpayments and underpayments that came to light during the audit are to be settled.

Management Comments

Management concurred with all findings and will be taking necessary action to rectify the shortcomings highlighted in the report.

Department of Social Security – Unemployment Benefit

Background

Unemployed persons who have not yet reached pension age are entitled to Unemployment Benefit for any day of unemployment excluding Sundays.

Where a person's spell of unemployment extends into a new benefit year to two consecutive contribution years, Unemployment Benefit is paid up to a maximum of 156 days.

When these are exhausted, the claimant will re-qualify for such benefit after an aggregate period of thirteen calendar weeks in insurable employment.

The total benefit days by way of Unemployment Benefit, Special Unemployment Benefit and Sickness Benefit added together cannot exceed the total number of contributions paid by the person concerned.

The contribution conditions for Unemployment Benefit are:

- the person has paid not less than 50 Class 1 contributions¹; and
- the person has paid or has credited to him not less than 20 Class 1 contributions for the last two consecutive complete contribution years before the beginning of his benefit year.

Class 2 contributions², whether paid or credited, are not taken into account for the purpose of unemployment benefit.

Control Issues

Opportunities for improvement were identified in the following area:

¹ Class 1 contributions are paid by employed individuals.
² Class 2 contributions are paid by self-employed individuals.

- 3 application forms (NI 32s) (7% of the sample) which were received and verified by the Social Security Department were not made available to NAO;
- 5 applications (11% of the sample) were raised but not received by the Department, yet claimants received the benefit;
- No evidence was found that the NI 32 was ever raised in another instance (2% of the sample). However, the benefit was still granted.

Compliance Issue

Incorrect Calculation of Benefit

Eight (8) claimants (17% of the sample) were overpaid during the period under review.

These overpayments varied between Lm9.50 and Lm312. On the other hand, two (2) claimants (4% of the sample) were underpaid Lm12 and Lm21 respectively.

Recommendations

Control Issues

- Record keeping procedures should be strengthened to ensure that no application is misplaced;
- The application processing procedures should be better controlled to ensure that no claims are paid out unless an application is received, assessed and verified.

Compliance Issue

Incorrect Calculation of Benefit

Although the department has a system where one assessor determines the amount of benefits to be given and another verifies its correctness, errors were still encountered. Management should take remedial action to ensure that the verification process is carried

out efficiently and effectively. Furthermore, any overpayments and underpayments that came to light during the audit are to be settled.

Management Comments

Management concurred with all findings and will be taking necessary action to rectify the shortcomings highlighted in the report.

Department of Social Security – Age Pension, Old Age Allowance, Carer’s Pension, Disability Pension, Pension for the Visually Impaired

Background

Age Pension, Old Age Allowance, Carer’s Pension, Disability Pension and Pension for the Visually Impaired are regulated by the Social Security Act. A total number of 6,864 claimants received these benefits in 2002.

sample) were not made available to NAO for examination because these were misplaced.

Control Issues

Opportunities for improvement were identified in the following areas:

- Three claimants (5% of the sample) who benefited from Age Pension and one claimant (3% of the sample) who benefited from Disability Pension were found to be gainfully employed as per ETC database;
- In one case (3% of the sample), a Disability Pension beneficiary owned immovable property which was last valued in 1995. Furthermore, he also had two accounts with a local bank and another two with a foreign bank. The computation of the interests earned has not been revised since 1999;
- One Age Pension beneficiary (2% of the sample) owned immovable property from which no income was said to be derived. The value of such property was neither declared by the claimant nor sought by the Department from an architect;
- Two files relating to Disability Pension beneficiaries (6% of the

Compliance Issue

Incorrect Computation of Benefits

Four claimants (6% of the sample) were underpaid Age Pension whilst one claimant out of 3 examined (33% of the sample) was underpaid Pension for the Visually Impaired. Furthermore, four claimants (6% of the sample) were overpaid Age Pension.

Another two separate cases of overpayments were encountered in the case of Disability Pension (3% of the sample) and Carer’s Pension (16% of the sample). These errors are evidence that the verification procedure is not being carried out effectively.

Recommendations

Control Issues

- Details of the beneficiaries are to be verified against the ETC database prior to effecting payment. Furthermore, when the ETC database shows that an applicant is gainfully occupied, the employer should be requested to confirm employment and income earned by the applicant;
- Any immovable property owned by beneficiaries is to be valued by the

Department and revalued periodically, say every 5 years. Furthermore, interest earned should be revised every year and converted to Maltese currency at the relevant foreign exchange rate as quoted by the Central Bank of Malta;

- Filing and record keeping procedures should be strengthened to ensure that no files are misplaced.

Compliance Issue

Incorrect Computation of Benefits

Management is to ensure that verification is rendered foolproof. Any underpayments and overpayments identified are to be settled.

Management Comments

Management concurred with all findings and will be taking necessary action to rectify the shortcomings highlighted in the report.

Below-the-Line Accounts: – Funds of the Welfare Committee, Occupants of State Funded Beds

Background

Elderly citizens who are admitted to St. Vincent De Paule Residence (SVPR) or other state homes contribute towards their upkeep by paying out of the pension an amount in accordance with L.N. 60/2000. This applies also to residents occupying state funded beds in homes owned and run by the private sector.

In the former case, these funds are transferred to a Below-the-line account and used by the Welfare Committee for the execution of its functions to the benefit of retired citizens; in the latter case, these amounts are deposited in another Below-the-line account. The difference between the amount withheld and the cost of accommodation is disbursed by the Government.

Key Issues

Underpayment to the Welfare Committee

In 7 cases (8% of the sample) the amounts withheld from residents' pensions were not being passed on to the Welfare Committee.

Underpayments by Residents

The rate paid by 33 residents (40% of the sample) was less than the rate that should have been paid in accordance with relevant legislation. These underpayments, which varied between Lm6.28 to Lm2589 per year, were due to one or more of the following reasons:

- i. In 17 cases (20% of the sample), residents were in receipt of income (pension other than that of the Social Security Department or interests), which was either

undeclared or not taken into consideration (partly or entirely) when computing the rate due;

- ii. In 9 cases (11% of the sample) a lower amount of Social Security pension/benefit was taken into consideration in the assessment;
- iii. In 7 cases (8% of the sample) no amount was deducted from pension in respect of a number of weeks following admission;
- iv. In 2 cases (2% of the sample) the residents were given 60% of the bonuses due instead of 40%.

Overpayments by Residents

In 13 cases (16% of the sample), the rate paid by residents was higher than the rate that should have been paid in accordance with relevant legislation. These overpayments, which varied from Lm9.14 to Lm134.87 per annum, were mainly due to one or more of the following reasons:

- i. In 3 cases (4% of the sample) the amount of Social Security benefits considered in the assessment was higher than the actual amount due to the residents;
- ii. In 2 cases (2% of the sample), the number of weeks paid for was more than the number of weeks during which the person resided at the home;
- iii. In 1 case (1% of the sample) the resident was not left with Lm550 per annum in accordance with legislation.

No specific reason for the overpayment was found in the other 7 cases.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Upon admittance to a home, it takes an average of two months to deduct the contribution due from the full pension of the resident. In 3 cases (4% of the sample) no deduction whatsoever was made from the pension following admission;
- In the case of 10 residents (12% of the sample) the assessment of the rate payable was either not in file or carelessly computed. These assessments are reviewed annually to adjust contributions due, occasioned by changes in income (increase or decrease). In one of these instances no reassessment has been carried out since 1999;
- The Welfare Committee was not in a position to check the correctness of funds transferred by the Social Security Department (SSD) for the months of January, July, August, September, October, November and December since no details were passed on by the SSD;
- When a resident is admitted to SVPR or to one of the homes, a financial declaration has to be submitted. Validation of this information is only carried out via telephone. The SSD and the Treasury are contacted to check the benefits and pensions receivable from the said departments. The SABS (Sistema għall-Beneficċji Soċjal) facility, which permits the checking of interest receivable from local sources by each resident, is not being availed of for the validation of residents' means.

Recommendations

Key Issues

Underpayment to the Welfare Committee

A review of all residents' contributions should be carried out to identify cases where these have not been availed of for the purpose of their retention. Furthermore, it is advisable that random checks are carried out regularly to recognise such instances.

Underpayments by Residents

It is to be ensured that all income is taken into account when computing the contribution payable by residents. Management is to consider whether the information submitted by the residents in the financial declaration is to be verified personally by the assessor against SABS. This would replace the current procedure of obtaining such information from the SSD and from the Treasury via telephone. Checking should be carried out regularly so as to detect any changes as they occur.

The assessment of contribution due by each resident is to be counterchecked. In this manner any errors will be eliminated.

In the case of residents admitted prior to 2002, management is to determine when the default started. Furthermore, moneys due from identified underpayments are to be recovered.

Overpayments by Residents

The assessment of contribution due by each resident is to be counterchecked. In this manner any errors will be eliminated. Furthermore, management is to refund identified overpayments.

Control Issues

- Information regarding new admissions needs to be processed more efficiently. It is to be ensured that all residents pay the due amounts on time. Furthermore, communication between the SSD and the Elderly and Community Services Department should be improved

upon. This will minimise the necessity of having to effect adjustments to collect arrears due creating financial hardships to residents;

- All assessment sheets are to be invariably filed and the workings recorded logically in order to facilitate counterchecking;
- Reports supporting payments by the Department of Social Security should be made available to the Welfare Committee at the time payments are effected. In this manner, any queries arising are settled in a timely manner;
- Management is to consider the possibility of installing the SABS software in the assessors' offices on a read only basis. The information submitted by the residents in the financial declaration can then be verified

and any undeclared income noted. This checking should be carried out regularly so as to detect any changes as they arise.

Management Comments

Management indicated that the majority of the concerns raised are dependant on the Department of Social Security. The Director, Elderly and Community Services Department disclosed that several meetings took place between the two Departments and feasibility studies have been undertaken in order to rectify the situation. However, after years of study no conclusion was arrived at by the two Departments. The Permanent Secretary was therefore informed of the current impasse.

The latter subsequently requested the Director (Social Security), Director (Elderly and Community Services) and the Ministry's Information Management Officer for their views and comments to address the issues.



Ministry of Education

- > Department of Youth and Sports
- > Ex-Department of Culture
- > Department of Culture and the Arts
- > Department of Education

Department of Youth and Sports – Expenditure, Revenue and Inventory

Background

The mission of the department is “to encourage, promote and develop opportunities for all persons to participate in and appreciate sport at all levels and areas and to enhance this development through adequate infrastructure and provision of services; to encourage young people’s participation in society through the creation and development of opportunities on a community and personal level and on a national and international scale”.

Key Issues

Lack of Revenue audit trail

Weaknesses relating to the revenue audit trail may result in abuses. A stock book recording the supply and movement of counterfoil receipt books is not being kept. Twelve (12) receipt books were not made available for audit.

The Cash Book for the year under review was not presented for audit.

Two general receipts were missing and there was one instance where the DAS receipts did not tally with the corresponding general receipts.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Goods and Service Purchase Orders (GSPOs) not issued prior to commitment;
- Payments not covered by V.A.T. Fiscal Receipts;
- Lack of control over the acceptance of credit cards,

resulting in amounts being rejected by bank due to card expiry and invalid account numbers.

Compliance Issues

Misallocation of Expenditure

Seventeen (17) payments out of the two hundred and one (201) vouchers examined (i.e. 8%), were not charged to their respective account or sub-item number.

Arrear Charge Approval

Ministry of Finance approval, covering three (3) vouchers amounting to Lm 1,087.43, for supplies delivered in the year 2001 that required arrear charge approval could not be traced.

Purchase of Official Vehicle

A Payment Voucher amounting to Lm5,300 was issued in November 2002 as payment for the purchase of a vehicle to be used by a Director in terms of his performance agreement. In March 2002, the Department requested authority from the Ministry of Finance to keep the vehicle that was being replaced for use instead of one of the hired vehicles. No authority has yet been granted. Up to the date of audit, the vehicle was still in the process of being disposed of.

Refund in respect of “Skola Sports”, “Skola Sajf” and “Adventure Sports” applications

Fees received in respect of applications for “Skola Sports”, “Skola Sajf” and “Adventure Sports” are credited to a below-the-line

account (Sports Activities). In 2002, there were forty four (44) instances where applications amounting to Lm614 were refunded. These refunds were debited to the Recurrent Account (Remuneration to individuals – Sports Activities and Assistance to Sports Organisations) instead of the relative below-the-line account.

Incorrect Sequence Numbers on the Inventory Database

Twenty five (25) commodities involving seventy seven (77) entries out of the two hundred and thirty nine (239) entries in the inventory database were allocated with the wrong sequence number.

Recommendations

Lack of Revenue audit trail

Steps need to be taken to rectify the situation without any further delays. It is to be ensured that a cash book and a stock register book are to be maintained according to the General Financial Regulations. The Department should consider issuing DAS receipts with immediate effect thus eliminating the manual receipts. Banking of monies received should be effected on a daily basis.

Goods and Services Purchase Orders not issued prior to commitment

It is imperative that, whenever possible, goods and services are covered by a Goods or Services Purchase Order upon placing of an order. This will ensure that proper authorisation for the purchase is not vitiated.

Payments not covered by V.A.T. Fiscal Receipts

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

Payments through Electronic Means

The department should install the appropriate software and possibly the

Electronic Point of Sale (EPOS) system so as to be in a position to verify card details instantly upon acceptance.

Misallocation of Expenditure

Items of expenditure are to be properly accounted for in the appropriate account and sub-item. MF Circular 3/2000 stipulates that *'it is essentially important that from now on expenditure transactions are carefully and properly classified and recorded'*.

Arrear Charge Approval

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 to be paid as arrear charges. Finance Authority covering such payments should be filed and made available whenever required (Financial Regulations – Section E. 74 (1) and Finance Circular MF 14/98).

Purchase of Official Vehicle

It is government practice that when a vehicle is replaced it is to be resold within two (2) months from the date when it is replaced. Thus, immediate action should be taken to sell the vehicle in question.

Refund in respect of "Skola Sports", "Skola Sajf" and "Adventure Sports" applications

Once monies received from applications were originally paid into the Below-the-Line account, refunds in respect of the same applications should have been effected from the Below-the-Line account and not from an expenditure item.

Incorrect Sequence Numbers on the Inventory Database

A different sequence number is to be allocated to assets with the same Asset and Sub Asset codes so as to distinguish assets with the same codes.

Management Comments

Management has agreed with the recommendations and has already started implementing them. An adjustment was effected regarding the Lm 614 erroneously paid out of the Recurrent Account.

The item regarding the two missing receipts is still being investigated and the twelve receipt books have not been traced.

Since the Sports Section is now under the responsibility of the Malta Sports Council, NAO's recommendations were communicated to the Council.

Ex-Department of Culture – Millennium Celebrations

Background

In the NAO Annual Report for 2001 under the heading 'Department of Culture – Millennium Celebrations' it was reported that an amount of Lm 1000 received by the Department of Culture by way of refund on an overpayment could not be traced to the cash book. This was eventually confirmed by the department, stating that this was due to an oversight.

Developments

The Malta Council for Culture and Arts, under whose responsibility the ex-Department of Culture now falls, asked an accountancy firm to look into the matter. The accountancy firm contended that this amount may have

been used for disbursements which were not recorded. This contention is unacceptable to NAO as it is based merely on speculation rather than on facts. Furthermore, NAO has reconciled the actual amounts deposited into bank as shown in the Department Accounting System (DAS) record and the entries in the Cash Book.

In July 2003 the Permanent Secretary, Ministry for Youth and the Arts was informed about the situation. Since no communication relating to the matter had been received by this Office, the matter was brought to the attention of the Minister for Youth and the Arts in terms of Section 10(a) of the First Schedule of Chapter 396 of the Laws of Malta.

Department of Culture and the Arts – Expenditure, Revenue, Stores and Inventory

Background

The Department promotes the participation of local artists in cultural initiatives both locally and abroad. It also seeks to raise cultural awareness of the national heritage at all levels of the Maltese social strata.

During 2002, the principal drive behind the promotion of our cultural environment was to encourage private organisations to hold activities in music, theatre, dance and performing arts, thus disseminating local and foreign awareness and appreciation of our island's rich cultural involvement in a globalised world.

The sources of revenue this audit focused on were Cultural Tours, the Song Festival and the Carnival.

Key Issues

Notwithstanding the report for 2001, the weak internal control system, relating to the proper accounting and custodianship of revenue generated by the department, persisted throughout the year.

In the three areas examined there were considerable delays in lodging funds with the bank thereby exposing public funds to unnecessary risks.

No independent records were kept for trailers hired out by the National Festivities Committee and as a result no audit trail was available to ascertain complete recording of funds generated.

An amount of Lm1,225.41 shown in the cash book as remitted to the bank on 20 January 2003 was still untraced and no deposit slip or credit advice could be produced up to the time of audit.

No control was exercised over the issue of complimentary tickets and no records kept as to whom such tickets were issued. Furthermore there is no policy regulating such issues. This leaves room for abuse in the system since completeness of accounting for the generated revenue could not be ascertained.

Vouchers relating to payments effected during December 2002 could not be traced and thus payments effected could not be verified against supporting documentation.

Control Issues

Opportunities for improvement by exercising internal control were identified in a number of areas:

- Goods or Service Purchase Orders (GSPO) not issued prior to commitment;
- Payments not covered by V.A.T. Fiscal Receipts;
- Goods or Service Purchase Order (GSPO) and Payment Voucher (PV) signed by the same person;
- Uncertified receipt of Goods and Services;
- Misallocation of Expenditure and Revenues;
- Discrepancies between the amount recorded in Petty Cash Register and the corresponding amount of the petty cash voucher;

- Payment vouchers issued for an amount higher than that shown on the invoices;
- No control over the use of vehicles and consumption of fuel.

Compliance Issues

Arrear Charge Approval

Payment vouchers amounting to Lm2,632.95 required arrear charge approval from the Ministry of Finance since the invoices were issued by the suppliers during 2001. However, the requisite authority as granted by the Ministry of Finance was not made available by the Department.

Non submission of Annual Stocktaking Report

The General Financial Regulations requires that Departments holding stores should carry out annual stock takes and should send a copy of the report to the Auditor General.

In the 2001 Annual Report mention was made regarding the Department of Culture failure to abide by the said regulations.

The department has also failed to submit the report for 2002, notwithstanding that non adherence to the pertinent section of the Financial Regulations was brought to the attention of the Permanent Secretary, Ministry of Education.

Inventory Ledger not presented for audit

It could not be confirmed whether any action was taken following NAO recommendations outlined in last year's report as no inventory records were made available for audit purposes. In last year's report comments were made on the following points:

- a) No valuation of assets and no date when assets were acquired;
- b) Incorrect Asset I.D. No.;
- c) Inventory of Finance Office not included in Inventory Ledger.

It could not be confirmed whether the inventory ledger was duly filled and updated with purchases and relocation of inventory items.

Recommendations

Delays in Deposits to the Accounts Section and to Bank

Circular MF 8/2002 – 'Procedures for the Management of Cash' dated 22nd August 2002 emphasises the need that revenue collected by means of cash and cheques is banked on that same day.

The Department is still non-compliant with these regulations. It should thus rectify this situation as soon as possible.

Moreover, immediate action is to be taken to recover the amount of Lm 1,225.41 if evidence of its deposit remains untraced.

Missing Payment Vouchers

This matter should be discussed with the Treasury to trace the missing vouchers.

Lack of control in the issue of complimentary tickets

Effective controls should be implemented in the issue of complimentary tickets to all activities organized by the Department/ Council.

Policies should be drawn up regarding the issued of complimentary tickets and lists kept of beneficiaries.

Misallocation of Expenditure/ Revenue

Items of expense are to be properly accounted for in the appropriate account and sub-item. This was also emphasized by MF Circular 3/2000 stating that *"it is essentially important as from now on that expenditure transactions are carefully and properly classified and recorded"*.

In the case of revenue, an adjustment needs to be effected, by debiting the account to which amount was wrongly posted and crediting revenue.

Goods or Service Purchase Orders (GSPO) not issued prior to commitment

It is imperative that, whenever possible, goods and services are covered by a Goods or Services Purchase Order upon placing of an order. This will ensure that proper authorisation for the purchase is not vitiated.

Payments not covered by V.A.T. Fiscal Receipts

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

Goods or Service Purchase Order (GSPO) and Payment Voucher (PV) signed by the same person

GSPOs and the corresponding Payment Vouchers are to be signed by two different officers.

Uncertified receipt of Goods and Services

The Goods or Service Purchase Order are to be signed by the Officer receiving the items to enhance internal controls. Payments should only be made upon the declaration by the receiver that the items billed have actually been received.

Discrepancies between the amount recorded in Petty Cash Register as Total Receipts and the total of receipts attached with the Petty Cash request

The petty cash register should be kept in a manner that all receipts can be matched against the entries in the Petty Cash Register. Furthermore:

- a) Cash is to be kept on an imprest system;
- b) Payments are to be authorized by an officer other than the officer in charge of the accounts section;
- c) Balances on Petty Cash Book are to be reconciled with actual cash in hand;

- d) Efforts are to be made to recoup expenses which have not been incurred in the running of the office or are not covered by valid receipts.

Payment vouchers issued for an amount higher than that shown on the invoices

Overpayments made are to be immediately recouped from suppliers to whom they were originally paid.

Vehicles

The statutory log book is to be kept for each and every vehicle for the exercise of proper control of Government vehicles.

The correct mileage and destination should be recorded for every journey against the signature of the officer making/ authorizing the journey.

Every log book is to be examined by the Head of Department/ Council from time to time and cases of irregular use of vehicles duly reported.

Government-owned vehicles should not be used for unofficial business. The allotment of a vehicle for the exclusive use of any individual officer should not be allowed unless the duties of such officer consist entirely of field work.

Furthermore, vehicles are to be left at the location of the Department/Council.

Arrear Charge Approval

Any claims remaining 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.

Non submission of Annual Stocktaking Report

A stocktake should be carried out and a copy of the report sent to the Auditor General.

Inventory Ledger not presented for audit

It is to be ensured that, in accordance with MF Circular 14/99, an inventory ledger containing a record of the Tangible Fixed Assets is kept by the Department containing complete, accurate and timely information.

Management Comments

Almost all recommendations made by this office have been adopted by the newly formed Malta Council for Culture and the Arts, which has taken over the functions previously carried out by the Department of Culture.

Regarding missing payment vouchers relating to December 2002, efforts are still being made to trace these vouchers.

The sum of Lm 1225.41, reported by the NAO as not having been deposited into Bank, still remains untraced. Further action by the Permanent Secretary is being considered.

However no mention was made:

- as to how or whether payments which did not cover the running of the office and which were effected through the Petty Cash System will be recouped;
- of the non submission of the stock-taking reports for the second year running.

Department of Education – Skolasajf

Background

The **Skolasajf Programme** was introduced to deliver informal education to primary school children during the summer months and to help children stay off the streets while on holiday. It also gives university students an opportunity to experience informal teaching. The year 2002 saw the seventh edition of this programme that catered for over 4,000 children in 61 centres in Malta and Gozo¹.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Inadequate authorisation/approval of payments for co-ordinators, facilitators and supply kindergarten assistants working for *skolasajf*;
- Incomplete and undisciplined attendance records of university students and facilitators resulting in payments for hours/sessions not attended for;
- Money collected from registration fees not officially receipted and not credited to the Public Account, in breach of the General Financial Regulations;
- Insufficient audit trail of application forms from *skolasajf* students;
- Significant inconsistencies of records impinging their credibility;
- Lack of control over the validation and accuracy of payment of remuneration risking that overpayment to staff will pass by unnoticed.

¹Source: Annual Reports of Government Departments - 2002

Compliance Issues

Enrolled children

- a) No formal authorisation is given for the exemption from payment of the registration fee when given on humanitarian basis;
- b) In four out of a sample of five schools randomly selected, information relating to the number of children enrolled as per list prepared by Skolasajf Office does not match with the number of children stated as enrolled by the Head of school. Furthermore the number of children in the other school within the sample could not be compared as no records were received from this School;
- c) The detailed list of all enrolled pupils during 2002 was not available at the Skolasajf Office notwithstanding that the list had to be sent to the National co-ordinator by 22 July 2002.

Insufficient expenditure records

Records of expenditure submitted by the co-ordinators are not being checked by any officers at the Skolasajf Office. Moreover, returns of expenditure are not always being submitted to the Skolasajf Office as required in the guidelines issued by the Department of Student Services & International Relations. Returns for the summer 2002 sessions were not sent by 25% and 30% of the schools holding Skolasajf activities in Malta for the first and second session respectively.

Tracking of unspent money

Only one out of the five schools which were part of the sample returned the unspent

money and deposited same in the school account.

Salaries Section

An amount totaling to Lm 129,960 has been transferred from Programmes and Initiatives Item 5316 (Skolasajf) to Personal Emoluments during 2002. No documents backing up this figure were available at the department. This made it impossible to substantiate the amount debited to the account under review.

Recommendations

Inadequate authorisation/ approval of payment for remuneration

The department should ensure that any rates for payment of remuneration are approved by the Ministry of Finance.

Remuneration to absent University students/ Facilitators

Data transferred is to be checked and certified by another member of staff thus reducing both the risk of unintentional errors and manipulation of data input.

Incomplete attendance records

The system could be administered more efficiently if proper dates are shown on attendance records and these records are thoroughly checked by a responsible official before authorizing payment.

Registration fees collected

Officers responsible to receive money must give receipts on pre-numbered bound forms for every sum paid to them, as required in Section 34 of the General Financial Regulations.

All monies collected are to be paid to the Education Accounting Officer, obtaining a receipt for the amount so paid.

Monies collected are to be deposited in a below-the-line account. For any payment out

of this account one of the following options can be applied:

- a) a policy could be adopted where the Head of School issues a cheque out of the School Fund to the co-ordinator equivalent to 80% of money collected for the particular school. The Education Finance Officer then reimburses the school out of the below-the-line account with the whole amount collected, i.e. 100%; or
- b) 20% of the money collected from any particular school is paid to the Head of School and the remaining 80% to the co-ordinator.

Enrolled children

- a) Authorisation for exemption from payment of registration fee is to be given in writing by the Head of Department;
- b) A statement reconciling the total amount collected from registration fees together with the number of children enrolled in each school should be prepared, indicating clearly children who were given written authorisation for the exemption from paying the registration fee;
- c) Skolasajf Office is to ensure that co-ordinators send in details of enrolled students as required in their guidelines.

Insufficient expenditure records

Skolasajf Office should ensure that returns of expenditure are submitted to the Department for their verification and validation as required in their guidelines.

Tracking of unspent money

A copy of the receipt of the amount unspent by the co-ordinators and so paid to

the Education Accounting Officer is to be attached to the statement of expenditure and handed to the National co-ordinators for completeness of records. It is recommended that the guidelines issued for school co-ordinators are revised outlining this issue.

Salaries Section

For complete control over this expenditure item the Education Finance Division is to ensure that the amount of transfer is backed up by a detailed copy indicating breakdown of the amount transferred. A similar copy is also to be retained by the Salaries Section for any future reference.

Management Comments

Management accepted most of the recommendations and will be taking the necessary actions to address the weaknesses. Steps have been taken so that the Education Division Accounts Section will identify the necessary measures that should be adopted to rectify the situation.

The department did not specify whether all records of expenditure were submitted by co-ordinators, although management replied that expenditure is being randomly checked by the Office. Support of such verification was not, however, evidenced.

Ministry of Finance

- > Treasury Department
- > Inland Revenue Department

Treasury Department – Expenditure, Revenue and Inventory

Background

The Treasury Department consists of the Accounting Operations Division, Finance and Administration Division, Public Debt Section, and Salaries and Pensions Division.

The primary aim of the Treasury is to ensure the maintenance of an efficient accounting system throughout the Public Service.

In following this objective, the Treasury has the onus of supervising, regulating and recording all government financial transactions as determined by the Laws and Regulations administered by the Department.

As a member of the *ad hoc* Task Force, the Department is continuously contributing towards the preparations leading to the changeover to accrual accounting.

Accounting Operations Division: *Government Financial Statistics*

In June 2002, an exercise was undertaken to effect the necessary adjustments to the Departmental Accounting System so that Treasury would be in a position to draw up a Statement of Financial Assets and Liabilities (according to ESA'95) direct from the system and arrive at the Deficit Figure through the Financial Accounts Approach (i.e. changes in Financial Assets and Liabilities).

Finance and Administration Division: *New Premises*

During the year, Treasury moved to new premises providing a better functional environment. A Customer Care Section was set up with the scope of providing a more efficient service to the general public, while enhancing the Department's image.

Public Debt Section: *'Direct Credit' implementation*

A novelty for 2002 was a proviso that all dividends for maturing Stocks were to be directly deposited in the stockholders' private bank account. Stockbrokers and banks acted as agents for the Treasury.

Salaries and Pensions Division: *New HR/Payroll system*

The Division took an active role in the Committee set up to identify a new HR/Payroll system for the Government. The Management and Personnel Office will be using the system for its HR matters, while Treasury will continue to assume responsibility for the drawing up, payment and accounting of salaries and pensions derived from the same database.

Control Issues

Opportunities for improvement were identified in the following areas:

Lack of control over Cash

The Department lacks control over:

- cancellation of receipts since all cancelled receipts sampled were not signed by the Head of Section authorising the cancellation;
- segregation of duties at the Cash Section since the same officer is able to issue a receipt, cancel it, prepare a 'schedule of payments'/ 'reversal of income deposit', remit receipts to the Central Bank of Malta and update the Cash Book;
- updating of the Cash Book as details were not always complete due to omissions of cheque/

receipt numbers, grouping of cheque amounts and lack of referencing as to whether receipts are cash or otherwise. This hindered the possibility of carrying out a surprise cash inspection;

- record-keeping due to differences in Remittance Advice and Cash Book details. Details differed as to total amounts remitted, cheque numbers and dates of remittance to CBM.

Petty Cash Book not maintained

The Department does not maintain a Petty Cash Book hindering:

- the department's control over refunds issued;
- the possibility of verifying that the balance as per Petty Cash Book tallies with balance of petty cash in hand.

The petty cash system found on DAS, is not maintained on a daily basis. Consequently, it cannot replace the Petty Cash Book.

Lack of control over the approval and authorisation in the procurement of goods and services

- Twenty per cent (20%) of payment vouchers examined were not covered by a Goods and Service Purchase Order upon placing of the order with the supplier;
- Name and grade of officer(s) authorising expenses and related payment not specified in 27 cases of the documents chosen for verification. Resort to the specimen signatures register had to be made in order to identify the officer signing the respective documents. Other shortcomings included:
 - signatures obtained on payment and multi-payment vouchers not

commensurate to officers' grade;

- signatures on a number of multi-payment vouchers were not as presented on the specimen signatures list;
- signatures on Goods and Service Purchase Orders/ Letters of Acceptance not always obtained.

Lack of control over Inventory Items

Managerial control that could be exerted over inventory items falling under the Department's responsibility is negatively affected due to:

- serial numbers not included with the asset description, rendering it difficult to locate inventory items;
- some inventory assets purchased during 2002 were either not appropriately updated or else omitted from the inventory ledger;
- inaccuracies in allocating the asset identification number classification;
- physical items not matching with room lists.

Vehicles' Log-books

Lack of control over the use of the vehicles by the Department relating to irregularities in the recording of fuel issues, mileage and certification of log-books.

Compliance Issues

Incomplete details on DAS receipts

The revenue account number did not feature on most DAS receipts in respect of Public Debt and Administration. In order to ensure correct allocation of revenue, DAS reports showing the allocation of the receipt to the revenue account had to be viewed, rendering the process time-consuming.

Inadequate filing system

Credit advices from CBM are not organised in a systematic way, hindering retrieval. The current filing system of DAS receipts provides weak protection to these documents.

Professional services rendered to the Department – No Formal Contract

As was reported upon in previous' years audits, no formal agreement was entered into for the provision of legal advice for the processing of Treasury Stock and pensioners' files (causa mortis), even though in September 2002 the Department accepted NAO's recommendation to cover this service by a written agreement.

Misallocation of Expenditure

Twenty per cent (20%) of payment vouchers verified for the financial year under review were not charged to their respective account or sub-item number, while in 2001 the percentage stood at 32.4%. Six (6) out of the 8 misallocated items related to works at the new Treasury Department.

VAT Fiscal Receipts

Three (3) 'NIL' returns were submitted to the VAT Department for the period under review irrespective of the fact that 7 suppliers (25%) failed to forward VAT fiscal receipts to the Department.

No request for quotations found in respect of office furniture

The request for quotations issued to 3 different suppliers was not found in the related files. As a consequence, verification as to whether the Treasury Department had actually requested all of the 3 firms to quote for furniture of the Conference Room, besides furniture for 2 offices, could not be done. The supplier, who quoted the highest prices, was chosen on the basis that it was the only firm that quoted for furniture of the Conference Room.

Supply of Envelopes

During 2002, the Department purchased envelopes amounting to Lm4,391 from a

supplier, other than the supplier awarded the Period Contract effective from 18 December 2001 up to 30 June 2002.

The reason forwarded by the Department was that the size and type of envelopes supplied according to the period contract were not adequate for the Department's needs.

Recommendations

Control Issues

- Cancelled receipts should be authorised by the Head of Section, together with a written explanation providing reason for their cancellation;
- Officers at the Cash Section responsible for remittance of cash to the CBM should not be in charge of updating Cash Book records;
- Cash Book and Remittance Advices are to be carefully detailed to ensure correctness of records for future reference. After listing cheque and cash receipts on remittance advices, totals should be arithmetically checked;
- The Department is to maintain a Petty Cash Book as stipulated by the General Financial Regulations;
- Whenever possible, goods and services are to be covered by a Goods and Service Purchase Order when placing an order with the supplier, thus ensuring that proper authorisation for the purchase is not vitiated;
- Management should ensure that payment vouchers, multi-payments and Goods and Service Purchase Orders are complete in all respects. Officers should sign and authorise payments that are commensurate to their grade;
- As detailed in the revised Inventory Control Regulations, the Inventory Ledger should be updated with all

the relevant details at procurement stage with correct Asset Identification Numbers assigned to each inventory item;

- The Department should ensure the use of duly signed forms whenever inventory is relocated;
- The Department is to comply with the Public Service Management Code, requiring a monthly certification by the officer-in-charge on each logbook. This would ensure that fuel supplied is justified and that journeys were performed on official business. Logbooks should also be examined by the Head of Department from time to time and cases of irregular use of general-use vehicles duly reported.

Compliance Issues

- 'Schedules of payment' should be printed immediately after preparation and attached to the related documents for ease of future reference;
- It is advisable that revenue account numbers are always clearly detailed on DAS receipts, so as to facilitate audit testing on revenue allocation;
- Credit advices are to be filed in an orderly manner and an adequate filing system ensuring protection should be adopted for DAS receipts;
- As already recommended during the previous year, the Department should regularise its position with regard to the provision of the service, 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;

- Items of expenditure are to be appropriately accounted for in the relevant account and sub-item number. Whenever necessary, the Department must open further accounts, as was the case for expenditure relating to the acquisition of new plant, equipment and furniture for the new Treasury premises;
- 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);
- The Department is to maintain copies of requests for quotations in the related file/s, for ease of future reference;
- The Department is to obtain a Direct Order approval from Ministry of Finance and Economic Affairs.

Management Comments

Most of the recommendations were agreed to and action was taken accordingly. During the exit meeting discussing the expenditure audit report and the Department's reply following the revenue audit report, the Department further remarked that:

- The only instance when the officers at the Cash Section did the whole process was during Government Stock Issue. However, this has been rectified;
- The Department is analysing the possibility of installing a computerised Cash Book system;
- Request for quotation of office furniture was done verbally with the 3 different suppliers, explaining

- why no documentation was found in the related files;
- The Department is considering the options of whether it should employ a full-time Legal Advisor or make more use of the Attorney General's Office. Options are to be assessed as to their efficiency and financial implications;
- A circular is to be issued regarding the proper use of transport by the Department;
- The Department does not have available an officer-in-charge certifying logbooks on a monthly basis.

Inland Revenue Department: Income Tax – Expenditure, Revenue and Inventory

Background

The Income Tax Division of the Inland Revenue Department is considered as the back bone of the 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 2002, amounts collected totalled Lm371 million, Lm190 million under Income Tax and Lm181 million contribution under the Social Security Act. The report covers the operation of the Income Tax Cost Centre during Financial Year 2002.

Website

The year 2002 saw the launching of the Inland Revenue Department's Website (www.ird.gov.mt). IR Services on-line is a package of Internet applications available to taxpayers and tax practitioners. The overall objective is to enable taxpayers and their authorised tax practitioners to file Income Tax returns, effect payments of tax and social security contributions and submit other Inland Revenue forms on-line over the Internet.

Facilities will also be provided to taxpayers and tax practitioners, on a 24-hour basis, to have access to services that are currently only available by phoning or by calling personally at the Customer Help Desk.

These services will be rolled out gradually. Phase 1 concerned the introduction of the Tax Index of Financial Data (TIFD) and prescribed attachments to the Tax Return enabling electronic lodgement of company Income Tax Returns. Following the necessary authorisation, as from 1 September 2002 tax practitioners are able to:

- file Income Tax Returns and Financial Statements;
- submit Provisional Tax Reduction forms;
- access their clients' accounts to confirm payments and tax statements;
- access their clients' tax return submission status.

The on-line enquiry service is being made available only to those companies using the e-Return application for the on-line filing of returns.

The taxpayer may resort to the Income Tax Return Calculator to fill out the Income Tax Return. One can enter the information that is to feature on the Income Tax Return and the calculator will calculate the income tax due.

For those qualifying for the Simple Tax Declaration, one can utilise it to know the amount of tax payable to the Department.

In addition to the above, the site also provides details of court decisions in income tax cases.

Workflow Management System

The system, introduced in 2001, was further upgraded and is available to the majority of the Department's personnel.

E-mail facility is now available to all knowledge workers in the Department whilst hardware is continuously being upgraded to meet the demands of the new system.

Legislation

The following amendments and legal notices regarding income tax were issued during 2002:

- Income Tax Act (Non-applicability of Initial Allowances in respect of Plant and Machinery) Order L.N. 12;
- Income Tax Exemption Order L.N. 78;
- Income Tax Exemption (Philanthropic Work) Notice L.N. 87;
- Income Tax (Form of Return for a Company, Body Corporate or Undertaking) (Amendment) Rules Nos. 1 and 2 L.N.s 89 & 227;
- Income Tax Management Act, Cap 372: Notice of Objection Regulations L.N. 112;
- Payment of Provisional Tax (P.T.) (Amendments No 1 and 2) Rules L.N.s 204 & 268;
- Tax Index of Financial Data Rules L.N. 211.

Agreements of Double Taxation Relief were finalised with the Republic of Finland, Portuguese Republic, Barbados, Federal Republic of Germany and Malaysia.

Control Issues

Opportunities were identified for improvement in the following areas:

- Weak control over use of Department's general-use vehicles relating to irregularities in the recording of fuel issues, mileage, authorisation and details of journeys. The log-book of one vehicle covering the period January – June 2002 could not be found;
- Weak managerial control over inventory items relating to:
 - lack of/or incorrect Asset Identification Number Classification;

- inventory database updated with incorrect asset purchase date;
- room lists not updated;
- missing information in the monthly returns submitted to the National Audit Office;
- lack of records detailing personnel to whom inventory items were consigned, resulting in not being able to test for physical existence 23 out of 156 inventory items;
- Weak control over the authorisation of petty cash expenses, due to original expense receipts not being signed by authorised officers.

Compliance Issues

Local Purchase Order issued after receipt of Invoice

Five (5) out of 54 (i.e. 9.26%) payment vouchers verified which required a Local Purchase Order, compared to 22% of the previous year, had their purchase order drawn up after the respective purchases had been effected and the Department invoiced.

Misallocation of Expenditure

Nine (9) out of 57 vouchers examined (i.e. 15.79%), were not charged to the correct account or sub-item number. One (1) out of the 9 misallocations was charged to the wrong account. The remaining 8 were charged to the wrong sub-item number.

V.A.T. Fiscal Receipts

Out of 57 payment vouchers audited, 12 payments were issued to V.A.T. exempt suppliers. From the remaining 45 vouchers, 10 suppliers did not issue V.A.T. receipts to the Department with respect to 11 payments (24.4%).

In total, the value of these payments amounted to Lm16,957. The Department notified the V.A.T. Department of 2 defaulters who were paid Lm6,828.

Fuel allowance of fully-expensed vehicles

Verification was carried out with respect to fuel allowance of the 6 fully-expensed vehicles. Except for the following comment, all complied satisfactorily with the monthly fuel allowance allocated:

- Almost all the beginning- and end-of-day journeys of one general-use vehicle commenced/ended at the private residence of an officer benefiting from a fully-expensed car.

Recommendations

Control Issues

Vehicle Log-books

It is recommended that:

- accurate mileage records be kept for every journey performed;
- the signature of the officer making or authorising the journey be obtained for each journey;
- the destination of every journey carried out on official duty be appropriately recorded;
- vehicles be left at the Department, such that beginning and end-of-day journeys always read "Inland Revenue Department"; and
- log-books are updated with the amount spent in the "Petrol Issued" column, following each purchase of fuel.

Inventory

It is advisable that:

- while updating the Inventory Database with every purchase or relocation of inventory items, the appropriate inventory asset purchase date should be recorded;
- appropriate Asset Identification Number Classifications are assigned to each inventory item;

(iii) updated and signed Room Lists are provided to every room within the Department;

(iv) all inventory assets purchased should be mentioned in the monthly returns forwarded to the National Audit Office.

Authorisation of Petty Cash Expenses

It is important that proper authorisation prior to effecting refunds is obtained and evidenced by a signature on every original receipt.

Compliance Issues

Local Purchase Order issued after receipt of Invoice

When applicable, goods and services ordered should be covered by a Local Purchase Order. This will ensure that purchase authorisation is not vitiated.

Misallocation of Expenditure

Expense items need to be allocated to the appropriate account and sub-item number. This is also highlighted in MF Circular 3/2000, which states "*it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded*".

V.A.T. Fiscal Receipts

The Department should continue informing the V.A.T. Department on a quarterly basis regarding suppliers failing to issue a V.A.T. fiscal 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 TR Circular 6/2000 and MF Circular 5/2002.

Management Comments

Most of the recommendations were agreed to by the Department and action was taken accordingly. It was further remarked that:

- In one of the reported cases, the Local Purchase Order followed the receipt of invoice due to the urgency of the purchase requirement. In another case, it was explained that the invoice had been received by the Department long after the date printed on the invoice. It was suggested to rubber stamp the invoice when it is received by the Department;
- The Department has received V.A.T. fiscal receipts from 6 out of 10 reported suppliers who had not issued a fiscal receipt at date of audit examination;
- A new officer has been appointed to replace the former officer-in-charge transport. His duties include the checking and reporting on log-book discrepancies. New log-books with numbered pages have been issued with the aim of enhancing controls.

Inland Revenue Department – 15% Final Withholding Tax (Follow-up Audit)

Background

The legal provisions regulating the 15% final withholding tax and the remittance thereof to the Inland Revenue Department were amended by Act II and Legal Notice 51 promulgated during 2002. Article 49 of Act II of 2002, which substitutes Article 37 of the Act, now provides that: *“Where any tax has been withheld under Article 33(1), such tax shall not be available as a credit against the recipient’s tax liability or for a refund, as the case may be, for the relevant year of assessment”*.

Legal Notice 51 of 2002 entitled ‘Investment Income Regulations, 2002’ is applicable from 1st January 2002. Section 2 provides that: *“Every payor of investment income shall, by the fourteenth day following the end of the month during which he has made payments of investment income, together with the remittance of the tax deducted under sub-article (1) of Article 33 of the Act, render to the Commissioner an account which shall include the details contained in the Schedule to these regulations”*.

The Schedule prescribes a detailed list of requirements which is to be provided on a monthly basis to the Commissioner.

The first return from all payors of investment income was to cover investment income paid during the month of January 2002 and was to be rendered to the Commissioner accompanied by the remittance of withholding tax by the 14 of February 2002.

Scope of Audit

This audit was intended to follow-up the findings and recommendations featuring in the Audit Report for Financial Year 1999 - to examine whether adequate measures have been taken to ensure the timely, correct and

complete remittance to the Commissioner of final withholding tax collected by the various payors.

Audit examination focused on remittances of 15% final withholding tax on investment income (ITA 1994, Section 33) and on profits distributed by a Collective Investment Scheme (CIS) (Section 67A).

Key Financial Information

Total final withholding tax on investment income collected by the Inland Revenue Department during 2002 amounted to Lm15,243,332, and is analysed as follows:

Normal withholding tax – ITA Section 33(1)
Lm15,164,578

CIS withholding tax – ITA Section 67A
Lm78,754

During 2002, commercial banks collected Lm12,153,356 out of Lm15,243,332 or 80% of total withholding tax forwarded to the Commissioner of Inland Revenue.

Key Issues

Non-compliance with Legal Notice 51 of 2002 and Act II of 2002

The majority of payors of withholding tax are not complying with the requirements of the Investment Income Regulations, 2002, resulting in a non-compliance rate of 86.67% (26 out of 30 payors). This defies the objective of introducing adequate controls on remittances of 15% final withholding tax and cross-checking with the annual returns filed by commercial banks in respect of interest paid to depositors opting to receive investment income gross.

Late payment of withholding tax by respective payors

- Frequent occurrences were encountered where payors did not forward withholding tax by the 14th day of the month following the end of the month in which investment income is paid. In 5 cases of cash or cheque remittances, payments have been delayed by more than 30 days. Non-observance of the latest payment date causes loss of bank interest receivable to the Government;
- In 5 cases, 4 of which related to the same payor, the documents accompanying payment did not specify the month in which investment income had been paid. As a result, timely remittance of withholding tax could not be determined.

Control Issues

Opportunities for improvement in internal controls were identified as regards:

- monthly returns sent by payors; and
- record-keeping.

Inaccuracies in monthly returns

The lack of controls over monthly returns forwarded by payors or lack thereof made it impossible to determine whether during particular months, returns have not been sent out of non-compliance or due to 'nil' payments of investment income. 2 payors, besides failing to send a monthly return, failed to send a covering letter with the remittances.

Inaccuracies related to:

- lack of details of the month to which such returns relate to;
- amounts listed under the heading 'Investment Income in a Foreign Currency' actually were in respect of 'withholding tax' in foreign

currency instead of the 'investment income';

- total withholding tax as shown by a commercial bank's return did not agree with the actual withholding tax remitted and the amount shown on the excel spreadsheet prepared by the officer-in-charge – the only employee processing returns;
- the computation of withholding tax due on investment income did not tally with the amount of withholding tax on the return.

Record-keeping deficiencies

The CIR could not exercise proper control, by analysing revenue effectively and comparing figures with prior years. This was due to the inclusion of other types of withholding tax in the same spreadsheet and certain inputs under the 'Others' column.

Inputting errors such as amounts recorded as received in a different month, transposition of figures and amounts shown under the wrong payor, provide an inaccurate source of information and may mislead users.

Compliance Issues

Misallocation

Sixteen (16) entries were found to have been allocated to an improper revenue account. Misallocation of revenue means that the amounts stated in the Financial Report would not reflect the actual receipts relating to a particular source of revenue. This also hinders the useful comparison of budgeted against actual revenue.

Missing Credit Advice

The credit advice from CBM for receipts of CIS withholding tax during a particular month in 2002 was not filed with the related documents. Only a bank deposit slip sent by the payor could be found. In absence of the credit advice, the timely payment of withholding tax could not be ascertained.

Recommendations

Key Issue

- In view of late payments of withholding tax by payors, it is recommended to amend Legal Notice 51 of 2002 to cater for penalties in case of late remittance of withholding tax thereby providing legal backing for the enforcement of remittance deadlines.

Control Issues

- In order to facilitate revenue analysis, it is essential that spreadsheets show amounts received by payors and general headings like 'Others' should be avoided. Inputting the withholding tax should be carefully checked to minimize the incidence of errors. Moreover, amounts recorded should be according to the value date;
- It should be insisted that documents sent by payors are complete with all the details prescribed in the schedule to Legal Notice 51 of 2002;
- Payors of withholding tax should be chased for the timely submission of monthly returns. The officer-in-charge at the Inland Revenue Department would send a reminder together with a copy of Legal Notice 51 of 2002 to every payor who is not fully compliant;
- Payors' monthly returns should be checked for completeness and arithmetical correctness and should be agreed with the amount of withholding tax remitted for the month. Any disagreements discovered should be immediately followed-up and resolved;

- Whilst prompt remittance of cash and cheque payments is being made by the Department to the CBM, delayed remittances by payors should be chased to avoid loss of interest receivable.

Compliance Issues

- Revenue is to be carefully allocated to proper accounts to ensure correct records. A new account for receipts of withholding tax, relating to Life Assurance and Petroleum companies, is to be created to avoid allocating related tax receipts to miscellaneous receipts account;
- All documentation should be carefully filed in an orderly manner to facilitate future reference.

Management Comments

Most of the recommendations were agreed to by the Department and action taken accordingly. It was further remarked that:

- The main reason for delays in postings is that there is no other Officer at the Department who is available to fill the post of the Officer in charge of Revenue during periods of absence. Furthermore, the Department requires additional human resources in order to be able to carry out the detailed checking;
- Differences arose due to rounding up of figures as confirmed in correspondence addressed to the Department by a commercial bank stating the reason for the differences;
- Revenue collected from withholding tax should ideally be integrated as part of the existing I.T. system, following the necessary amendments to the current I.T. system.

Ministry for the Environment

- > **Gzira Pumping Station**
- > **Mriehel Stores**
- > **MSD Corradino Garage**

Gzira Pumping Station – Stores and Inventory

Background

During the year 2002 the main stores of the Department of Drainage were situated in premises at Gzira, housing also two sewer maintenance units, namely the East District and Deep Sewer.

The stores are referred to as the Gzira Pumping Station Stores (GPSS) in the Audit Report. GPSS have a significant role in the centralization of procurements of stores and tools for the various pumping stations and all Drainage Department units in Malta. Bulky stocks on record are kept at the Gzira premises, and in an open-air store located at Hal Far.

Key Issues

- There is no stock control of the bulky asbestos-cement (AC) pipes and accessories stored in the open at Hal Far. Recommendations made in previous Audit Reports were not implemented;
- The Department is not implementing the pending EU Accession special controls required over the highly restricted usage of such stocks.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Request Commitment Forms (RCFs) are raised in single copies and are not given their own unique reference number;
- Store and direct issues are not preceded by a duly documented requisition as requests for materials and other issues are initiated on the phone. Store and direct issues could not be

independently validated in the absence of an audit trail of corresponding requisitions;

- Part-deliveries of orders of bulky items are not taken on charge before the complete order is received into stores. It may be difficult to exercise proper stock control unless the records are promptly updated with all the movements;
- Stock stored in the open at GPSS is freely accessible and unguarded at certain times during the day outside working hours. Besides, both stock records and physical quantities of seventy per cent of the stock in the outdoor store location at Gzira are unverifiable;
- The inventory records of the pumping stations are inadequate;
- A log book for the government-expensed vehicle committed to the business of GPSS is not being maintained.

Compliance Issues

Procurement from contracted suppliers

Five per cent of the examined items were not purchased from suppliers with whom government had a period contract in force in 2002.

Periodic complete stocktaking

Stock items pertaining to the Department in all the store locations under review had never been hundred per cent checked since January 1984.

Recommendations

Stocks at Hal Far

The architect and civil engineer engaged in drawing up proposals converting the area into a recreational facility advised that the asbestos-cement goods at Hal Far could be put to some economic use – possibly in storm-water systems subject to the restrictions of the pertinent laws. If this alternative is not feasible for health or other reasons management must ensure the prohibition of using the stock, discard it in accordance with regulations, and clean the site of dust impurities.

All asbestos-cement items are to be identified, marked and segregated from those of Central Supplies Stores, and the stock taken on charge by the GPS.

Hundred per cent physical checks

A hundred per cent check of stock is to be carried out at least once a year in compliance with the General Financial Regulations (GFR). The regular verification of all stock records and the identification of any dormant, unserviceable or obsolete stock is necessary to initiate the writing-off procedure thereof. This would also render the procedure of restocking or disposal more efficient.

Supply order period contracts

Adherence to the pertinent procurement regulations is recommended.

Centralization of stored consumables, loose inventory and direct issues

The Accounts Section at the Department is to ensure that the Goods or Services Purchase Order (GSPO) is preceded by a Request Commitment Form (RCF) raised by GPSS.

RCF is to be raised in two parts, retaining the duplicate in the order of a reference number given for the purpose. The original form could be retained by Accounts if cross-reference to it is made on the GSPO.

Requisition documentation

A store or direct issue is to be preceded by a written numbered requisition duly signed by the authorized officer(s), as is the practice in other departments of the Works Division. This would be permanently filed at GPSS with a cross-reference to the corresponding Store Issue Form.

Bulky goods received into stores

Goods received, even partial deliveries, are to be taken on charge at the time of delivery. Each and every receipt is to be recorded on the bin card and store ledger bearing the Commitment Number.

Safeguarding stores in the open on the precincts of GPSS

The entrance gate is to be kept closed outside the normal working hours to safeguard the stock of manhole covers, cast iron pipes and ancillary accessories. GPSS stock is to be segregated from that pertaining to other departments. Moreover, the various stock types are to be separated, marked and stacked in a manner that could be easily identified and counted.

Inventory records

A record of all inventory items with the correct valuation and regularly updated with any movements in accordance with current directives is to be maintained – both for inventory control and in preparation for accrual-based accounting.

Government-expensed vehicle

A log book is to be maintained in accordance with the requirements of the Public Service Management Code.

Management Comments and Post Audit Status

- The Director Drainage agreed with all audit findings and will be implementing the recommendations;
- Action is already being taken on the asbestos-cement pipes at Hal

Far and two architects have been assigned to oversee the disposal of such stock;

- The Director, Finance and Administration of the Works Division filed the return for 2002 in respect of all stores under the responsibility of the Director of the Department of Drainage, in compliance with the GFR.

Declarations of post-audit status of stores

Certain discrepancies and serious control issues over Hal Far stocks that were pointed out by NAO as impeding the verification of

the stock records were not rectified and signed unqualified stocktaking reports drawn up in February 2002 and March 2003 were received at the NAO.

The declarations made by management seem to contradict the audit findings based on independent physical checks.

In particular, no evidence of complete stocktaking in any of the locations concerning the Drainage Department could be made available to the NAO.

The credibility of the Store under review as well as that of the Departments involved is likely to suffer if incorrect declarations such as these keep recurring.

Contracts and Procurement Section: Mriehel

Stores – Stores and Inventory

Background

The Mriehel Stores have a significant role in the centralization of issues of stores of consumables as well as tools and safety equipment purchased by the Contracts and Procurement Section (CPS) of the Works Division in Malta. These include direct issues of construction material and ancillary equipment to the various district offices, outstations and project sites.

Key Issue

There is no standard store ledger. The closest report that could be generated from STORIT – the computer-based stock module in use – is one for the receipts into and issues from stores by stock codes. The report covers only a specified period and includes reference to the documents supporting the movements.

Control Issues

- Adequate internal control is not being exercised on the physical issues of materials, loose tools and equipment to district offices, project sites, etc;
- In 2002 several store issues could not be validated against the signature or initials of the officers authorized to initiate requests for stores or the procurement of materials and equipment. A standard audit trail of the Material Request Form (MRF) was not being maintained in support of issues made during the year. Several MRFs were not even retained.
- Procedures underpinning STORIT are very weak, particularly where completeness of records, data backups and other security aspects are concerned;
- Certain deliveries of a significant value could not be traced in the records at Mriehel at the time of the audit. These include more than 59,000 metre run of franka stone acquired in 2002, and street-lighting furniture partly used in a project. The rest of the consignment valued at Lm8,805 is still in Mriehel Stores;
- No opinion could be formed on issues of other stores, possibly of high value, being omitted from the Mriehel store records under the pretext of stock being held in custody;
- A quantity of ceramic tiles earmarked for an ad hoc project, awarded by an open 'supply and laying' tender, remained unutilized since late in 2002 although 75 per cent payment has been effected;
- The room inventory records relating to Mriehel Stores are not duly being updated. Loose tools, safety and other equipment are, in many instances, being replaced on demand when reported lost or rendered unserviceable. Such assets are not even identifiable in the STORIT records or even in the bin cards. These assets are effectively written off at time of issue despite being returnable items. There is inconsistency in the contents of the returns by district offices, etc., of tools and equipment which are lost or rendered unserviceable;

- There is a log book for only one of the two government-expensed vehicles committed to the general business of Mriehel Stores and this is not adequately kept. No records are being kept of the running expenses of the vehicles and heavy plant engines restricted to use on the compound;
- Not all procurements in the sample examined were approved by the proper level of authority;
- Third parties are making unauthorised use of two rooms on the yard of Mriehel Stores;
- Another third party is exercising right of way across the yard of the Mriehel Stores along with his vehicles, machinery, etc., to his fields. The pertinent court decree, however, could not be made available to this Office.

Compliance Issues

Asbestos-cement stock

The control CPS may be exercising in restricting the use of the EU banned material could not be ascertained by the examiners. Most of the AC items are not included in the stock records of the Mriehel Stores.

Ready-mixed concrete

Ready-mixed concrete was not always purchased from the contracted suppliers in 2002.

Health and safety

Keys in the break-glass box already in place are still not available to the watchmen in case of emergencies. The stores also lack the signage demanded in the last health and safety inspectorate report. The latter report also highlights the unhygienic state of the guardroom.

Periodic complete stocktaking

Stock records at the Mriehel Stores were not subjected to a hundred per cent physical check in 2002. In addition, a very low incidence of physical checks throughout the year was reported.

Recommendations

'STORIT'

The collaboration of Malta Information Technology and Training Services Limited, which is supporting STORIT, is to be sought for the upgrade of the stock module to a level that a store ledger could be maintained to generally acceptable standards. This would not benefit solely Mriehel Stores as STORIT is widely used by other government entities. In the interim, a printout is highly recommended of store movements with reference to supporting documentation for any financial year. Such report is currently obtainable from STORIT.

Material Request Forms

During the course of the audit the officer in charge of the Mriehel Stores has adopted and even started implementing this Office's recommendation to maintain an MRF register.

Information systems

More flexibility in the system ought to be introduced by the installation of a local area network and user training.

Stock of street-lighting furniture

The street furniture had since been taken on charge at Mriehel Stores.

Direct issues of stores

Franka stone – The procedure for the issue of franka stone from the state-owned quarry should be that followed in the case of ready-mixed concrete purchased from third parties – a full audit trail from supplier to the end use of the stone is required.

Ceramic tiles – The Works Division should (a) reassess its needs of this item in terms of the tender awarded for the ‘supply and laying of tiles’; (b) consider returning the ceramic tiles for repossession by the supplier, and treat the payment made in respect of the material, Lm15,899.62, as well as the cost of the containers in which the tiles are being stored (if retained by the tile supplier) as general progress payments on the whole contract.

Inventory records

To exercise the necessary inventory controls, as well as in preparation for accrual-based accounting, it is necessary to maintain a proper record of all inventory items, along with records to control the custody of tools and equipment. Moreover, the Auditor General must also be kept posted with inventory movements in accordance with Ministry of Finance Circular 14/99.

Government-expensed vehicles

The recommendation to introduce numbered fuel requisition forms was implemented during the year. A log book for all government-expensed vehicles, including the ex-impresed lorry, is to be kept. Even if the hire charge may cover fuel, authorized use of the truck needs to be controlled. A return for fuel costs and other running expenses is to be compiled and copied to the NAO, in accordance with standing regulations.

Procurement and levels of authority

The requirements of the Public Service (Procurement) Regulations, 1996 are to be adhered to in all details.

Space utilised other than for Mriehel Stores purposes

The outside store area is to be kept clean of any material and the stable in the yard ought to be put to good use by Mriehel Stores, unless its occupation is regularised.

Access by third party to outside store area

Control would have to be stepped up if access by the third party to the outside store

area is to continue. The required authority ought to be sought, as a matter of priority.

Asbestos-cement stocks

Early coordinated action is recommended in dispensing with the stock in question; particularly as larger quantities of AC sewage pipes are located in the open at Hal Far.

Supply order period contract for ready-mixed concrete

Adherence to the pertinent procurement regulations is recommended.

Occupational Health and Safety Act

Health and safety inspectorate reports recommended regularization with pertinent legislation. Besides the fines contemplated in the law, compliance would obviate potential incidents which could prove serious, apart from undesired moral and financial implications.

Declarations under General Financial Regulations sub-section 111 (1)

In the 2002 Stock returns (in terms of sub-regulation 111 (1) of the General Financial Regulations) received from the Director of the Finance and Administration Department of the Works Division, only two exceptions to the clean declarations were made in respect of a physical inspection of 2001 and 2002 stock records. However, no reservation was made on the AC stocks and returns of issues from sites omitted from store records and other discrepancies found by this Office.

The unqualified declaration supporting the stocktaking report of 2001 seems to contradict not only the reported findings of the audit examiners in 2002 but also the differences reported by Mriehel Stores staff in February 2003. These discrepancies even existed at the time the head of the Section and the officer in charge of Mriehel Stores signed the stocktaking report in February 2002.

The credibility of the Store and the Section under review is likely to suffer if inaccurate

declarations such as these keep recurring. Official declarations ought to be taken more seriously.

Management Comments

- Coordinated effort is being made by the Works Division to dispose of or make use of the AC stocks – meanwhile these items have been included in the records;
- An off-site backup of STORIT records is being maintained at the Permanent Secretary's office, and

arrangements have been made for validation of the backup procedure by the responsible technical officer of the Division;

- The Lands Department has been involved in the alleged right of access through Mriehel Stores by the foregoing third party;
- Most of the shortcomings observed by the NAO on occupational health and safety have been addressed and the rectification of others is being seen to.

MSD Corradino Garage – Stores and Inventory

Background

The Corradino Garage (Workshops) of the Manufacturing and Servicing Department (MSD) caters for the repair and maintenance of vehicles and plant equipment in the Works Division and other government departments. The Garage also hires out vehicles and heavy plant engines from its fleet to government departments as well as other sections of the Works Division.

Key Issues

- Excessive use of provisional issue notes, besides being a deviation from generally accepted storekeeping practice, is unnecessarily reducing the control and the administration of the stores to cumbersome processes;
- A more cost-effective approach for the replenishment of most shelves could be explored. Stocking up on the basis of unfounded reorder levels is the main cause leading to dormant and obsolete stocks that are being scrapped for proceeds out of proportion with the book value or engineer's valuation.

Control Issues

Opportunities were identified for improvement in the following areas:

- Apart from an audit trail of SIFs (Stores Issue Forms) not being available, without reference on the SIF to the Requisition Sheet or the Request for Direct Purchases of Stores, authorisation of issues cannot be verified;
- Many store issues are not being covered by a duly raised SIF;
- The verification of store records by staff and the use of bin cards;

- Higher efficiency could be attained in the running of the Stores from a better use of STORIT, the computer-based stock management system currently in use;
- Security of the information systems in place, in terms of data backup and user access to past data;
- Damages inflicted upon the location detecting equipment installed on fleet vehicles and heavy plant pertaining to the Garage;
- The vehicles and heavy plant taken on charge by the Ministry for Gozo some years ago are still on the books of MSD Corradino Garage, notwithstanding that the former has autonomous authority over such inventory.

Compliance Issues

Physical verification of store and inventory records

There was no evidence that a hundred per cent physical check of items in stock was carried out in 2002. Continuous checks (the perpetual 'inventory' method of stocktaking) are only implied by the fact that bin cards are being maintained.

In terms of the General Financial Regulations, the NAO was copied with the return of a physical inspection for 2002 of all the stores and loose tools and safety equipment of the Garage, in validation of the corresponding records. Several discrepancies were found in the records when examined. These discrepancies had existed even at the time the responsible Technical Officer and

Section Head signed the clean declaration of the outcome of their physical check.

Personal room inventory

There are standing regulations on how private belongings introduced with room inventory are to be treated. These are not being complied with.

Log books and returns of vehicle running expenses

- Since the driver-owner has been taken on the MSD pay list, no log book has been maintained for the ex-impresed vehicle committed to the office duties of the Garage;
- The officer having exclusivity over the use of the van committed to surveying duties signs his own log book, maintained in loose sheet form. Besides, such record contains details of just the start-and end-points and start-time;
- In general, details on log book sheets intended to be completed (signed for) by the officer in charge at the filling station are being completed and pre-endorsed by a senior officer at the Garage offices;
- Returns of fuel cost and other running expenses of the vehicles committed to the Garage are not being made available to the National Audit Office (NAO) in contravention of MF Circular 8/90. These returns would also serve as a definite list of the government-expensed vehicles in use at the Garage.

Recommendations

Provisional issue notes

Provisional issue notes should stop. Only formal Store Issue Forms (SIFs) should be raised. When goods are returned to the stores these have to be reflected in the records while making reference to a 'Returns to Store Note'.

Replenishing of stores

Though reorder levels could be useful for the replenishment of day-to-day consumables, such as engine oils, it would be more economical to order parts on the basis of the condition of the vehicles, as assessed by Garage personnel pursuant to maintenance checks.

Store Issue Forms

Every store issue is to be supported by the 'ad hoc' supporting document, namely the SIF. 'Real-time' store issue forms from STORIT could lend themselves to a more efficient administration of the Garage stores. Until a computerized SIF replaces the manual one, the following recommendations could be considered:

- a copy of the SIF is to be filed for future reference in the order of an internal reference number given for the purpose;
- SIFs are to be entered in bin cards and STORIT records by their internal reference;
- each SIF is to bear a cross-reference to the corresponding Requisition Sheet(s) or Request(s) for Direct Purchases of Stores;
- a periodic report of issues is to reflect a continuous SIF audit trail by internal reference continuing on the previous period;
- a register of SIF books received from the Government Printing Press could be maintained to note the corresponding internal reference range assigned to each form.

Bin cards

Bin cards are to be kept on the racks with the respective stock items.

'Dead' bin cards are to be numerically filed for easy reference and should not be archived before an audit of the period to which they relate.

Computer and manual records

When periodic stock valuation reports could be extracted freely and independently by the authorised STORIT users, a one-time reconciliation with the manual records is solicited after which the latter could be completely phased out. In the interim, though it may not be regarded as a conventional store ledger report, a printout of the movements for the year is recommended for all stock items and direct issues to sites on record, with reference to supporting documentation and running balances.

Information Systems security

Backups – A log of the backups on duly marked storage devices is to be maintained of STORIT data and also data on stand-alone systems. Although it is assumed that the officers responsible for backups have been provided with written instructions on how to validate the data files on tape, such instructions are to be communicated as a matter of priority. A duplicate copy of every backup taken by the Garage Stores could be passed on and retained (until recycled), say, by the responsible technical officer of the Works Division at Floriana.

Access – After all the movements of store items and direct issues to sites are input, a reporting year should be locked to all users, allowing read-only access. The NAO is to be granted secured access to data during an audit of a 'locked' reporting year.

Location detecting devices

Legal advice is to be sought on the extent of the liability towards third-party owners, in terms of the standing service agreement, in regard to accidental loss of the tracking apparatus on Garage vehicles.

Fleet taken on charge by MSD, Gozo

Reconciliation between the Garages in Malta and the one in Gozo is recommended. The inventory ledger held at the Corradino Garage is to be updated accordingly. The inventory ledger at the Xewkija Garage should reflect all corresponding movements recorded in Malta.

General Financial Regulations sub-section 111 (1)

A hundred per cent verification of stores along with loose tools and safety equipment is a requisite of the GFR, as well as annual declarations of such physical inspection by the staff of the Garage. These declarations are to be taken in earnest. Unsustainable statements which can be challenged and eventually proved incorrect are to be avoided.

Personal assets

Official certification of personal belongings in room inventory is to be retained until they are reclaimed.

Transport regulations

Transport regulations are to be respected with regard to the maintenance of log books and the certification thereof; as well as the filing of a return with the NAO of fuel cost and other running expenses.

Management Comments

- Provisional issue notes will be stopped and the procedure suggested covering returns to store is to be adopted instead;
- The replenishment of special parts is already being done on an 'as required basis'. General consumables are carried in store at minimum levels;
- Bin cards will be kept on the racks, and 'dead' bin cards retained in the office of the stores in alphabetical sequence by stock description;
- Daily log is kept of STORIT data backups on cassettes which will now be marked and locked in a safe. An off-site backup will be generated. The recommended upgrading of the system and staff training will be enquired upon with MITTS;
- Legal advice will be sought as to the liability of third-party owners

of the Automated Vehicle Location equipment in the event this is lost, but management maintains the owners cannot be held liable when damage to the AVL devices is caused by the MSD vehicles in which they are installed;

- Steps will be taken to have the heavy plant and equipment, taken on charge by the Ministry of Gozo, 'deleted from MSD ledgers';
- Sub-section 111 (1) of GFR will be fully complied with. The recommendations of the NAO with regard to 'loose tools and safety equipment' issued to personnel,

and personal room inventory, will be looked into with a view to be adopted;

- Returns of fuel cost and other vehicle expenses will be drawn up in terms of MF Circular 8/90. Log books are duly being endorsed and a log book for the ex-impresed vehicle retained for official use is now available.

Management appears to have somewhat taken exception to the recommendations to give an internal reference number to SIFs enabling easier cross-references with corresponding records and the verification of an audit trail of all issues.

Ministry for Tourism

- > **Ministry for Tourism**
- > **Institute for Tourism Studies**



Ministry for Tourism – Log Books

Background

At least sixteen vehicles were committed to the Ministry for Tourism in 2002, including the Department and the Institute of Tourism Studies. These comprised 4 ex-impounded cars and 6 leased cars.

of having all official vehicles returning to base at the end of a day's work.

Key Issue

Little improvement on 2001 performance was registered on the compliance with the pertinent regulations, policies and procedures governing the use of vehicles committed to government business.

Log book certification

Monthly certification of log books is to be signed as stipulated in the Transport Regulations.

Return of fuel cost and other running expenses

The required return should be compiled on a regular basis, copies of which are to be sent to the Ministry of Finance as well as to the National Audit Office (NAO), in accordance with Transport Regulations.

Control Issues

- The use of privately owned vehicles on government duties is not covered by management's approval;
- Use of private cars on government business is being paid at rates more favourable than those stipulated;
- Faulty requisitions presented by drivers to fuel suppliers and amounts overcharged.

Special log books for privately owned vehicles

Separate log books are to be maintained for all privately owned vehicles authorized for use on official business. The regulations require that 'log books are to be inspected and countersigned monthly by a senior officer'.

Recommendations

Official cars as fringe benefits

An employee cannot retain a car, available for official business for personal use after office hours unless authorized by the Head of Department.

Appropriate authority for the use of privately owned vehicles

The use of privately owned vehicles on government duties is to be endorsed in all circumstances by the written approval of the Director, and only if it is deemed to be relatively the cheapest means of conveyance (Public Service Management Code subparagraph 8.2.9.1).

Start- and end-of-day points

Exclusivity of use of official cars relates to office hours and should not be extended to after-office hours. For the Ministry/Department to put a check on the practice this Office recommends the strict enforcement

Privately owned vehicles and payment terms

Owners are to be reimbursed only the approved rates and in accordance with the ad hoc established procedure. A disclaimer

to any liability that may be inflicted upon the Department could be included in the official authorisation of the use of a privately owned vehicle as a cover against claims for damages by third parties when employees assume the responsibility of accidents with their car while on government business.

Authorisation of fuel requisitions

The Department should hold an inquiry on a particular case regarding fuel requisitions that could have been manipulated by employees with a view to profit in collusion with fuel suppliers. This practice should immediately be brought under control.

Management Comments

Proposals regarding compliance with Transport Regulations have already been implemented. These include the reimbursements at approved rates and the maintenance of log books for the use of privately owned vehicles.

A recommendation to include a new column in the log book for the number of litres of fuel purchased on a particular date has been adopted.

Vehicles not engaged on official business after office hours are being returned to or left at 'base', until the clearance sought from the Ministry of Finance and Economic Affairs for '*authorised use after office hours in terms of MF Circular 8/90*' is obtained for particular officials given the nature of their duties.

Although no management inquiry was instituted once the case involving fuel requisition was considered as a one-off event, steps have been taken to eliminate the risk of collusion with fuel suppliers.

Non-compliance with the regulations can never be justified by an alleged shortage of staff. It is the NAO's opinion that most of the recommendations related to the streamlining of existing routine tasks to regulation standards and may not require additional resources.

ITS – Learning Resource Centre, Catering Equipment and Other Inventory

Background

The Institute of Tourism Studies (ITS) has inventory deployed in its premises at St George's and Pembroke, with lecture rooms and demo apparatus in both localities. There is a fully equipped kitchen (kitchen being known as laboratory) for the restaurant and cafeteria at the Pembroke location. Two old kitchens, along with a newly built one, support the three catering outlets at the main premises in St George's. The administration block and the Institute's major resources, including the students' computer lab and a Learning Resource Centre (LRC) embracing a small library equipped with modest research facilities, are housed/situated in St George's.

Management compiled a schedule of assets and liabilities as on 31 December 2002, in collaboration with a private sector audit firm engaged by the Ministry of Finance.

Key Issue

The Institute is unable to present accurate records of the inventory of the LRC, complete with a valuation of the books of the Institute's library.

Control Issues

Opportunities were identified for improvement in the following areas:

- no reference has been made in the report of the private audit firm to the exclusion of a valuation of the material found in the Institute's library from overall fixed assets;
- the audit firm made a disclaimer on the accuracy and completeness of the financial data compiled in respect of assets and liabilities at 31 December 2002;
- security could be stepped up for better safeguarding of assets at the LRC;
- a more extensive use of accession numbers to include any material procured with the aim to add value to the library for an indefinite period of time;
- enforcement of ITS Rules and Regulations relating to deposits by outside library borrowers and part-time students;
- books supplied for inspection (samples) which the Institute does not retain are being included in the formal invoice but no credit notes are being demanded for the returns;
- access to the catering equipment store area by unauthorized persons is not conducive to safeguarding the Institute's property;
- items of a non-durable nature stored with kitchen equipment (inventory), and omitted from store records;
- the office furniture and equipment as reported by the audit firm had a total value of Lm187,642, out of which Lm152,677 relates to catering equipment. This is somewhat misleading as, on examination of the inventory records, other categories of equipment appear to have been included;

- more secure control on equipment sent for repairs;
- inventory items considered as unserviceable left out of the new plant register prior to being officially written off or disposed of.

Compliance Issue

Learning Resource Centre

Instances where more compliance with government regulations is required include the:

- procurement of books and other library material;
- yearly revaluation of inventory items, including books, periodicals, and all library items.

Room inventory in general

Despite the direct involvement of the audit firm assigned by the Ministry of Finance in the drawing up of a complete plant register, full compliance with MF Circular 14/99 had persistently failed in 2002.

Recommendations

Inventory records

In order to exercise the necessary inventory controls as well as preparing oneself in earnest for accrual based accounting it is necessary to fully adhere to the requirements of MF Circular 14/99 so as to keep the National Audit Office (NAO) posted with the additions and the changes in the inventory items of the Institute's LRC.

The original price of most of the library books is already available, and therefore it is feasible to have current value reflected in the valuation of the entire Institute's assets, including periodicals, videos, and CDs.

The current value of the library contents could be significant and would materially impair inventory records if omitted.

Security at the LRC

To complement the three strategically located CCTV cameras in place:

- Electronic detectors, like bar-code sensors, could be installed at the library exit as part of the plan to barcode library items;
- Mesh netting could be installed on the windows;
- On an ongoing basis, a security or some other officer of the Institute is to view all the CCTV video-tape before it is recycled. Action should then be taken against any borrowers given away by the footage. Such checking ought to be recorded in a register maintained for the purpose.

Accession numbers

Use of accession numbers is to be extended to all library material, including periodicals of long-term value.

Deposits by library borrowers

Procedures for inclusion in ITS Rules and Regulations have been proposed regarding loan return delay charges and the steps the Institute could take following an unsuccessful third reminder. Borrowers becoming liable to pay any monies in respect of failed loan returns should be treated as debtors.

Access to catering equipment store areas

- Issues are to be made through an outlet specifically for the purpose;
- Items that are to be used at a later date are to be identified. Issues could be processed at a more convenient time by the storekeeper. This procedure could reduce the daily pressure of improvised requisitions just before the start of lessons.

Equipment of a disposable nature

A stock code should be given to catering and kitchen 'equipment' of a disposable nature. Such items are to be included in the store ledgers of food and beverages or general stores.

Equipment out on repairs

A register should be kept recording in detail equipment out on repairs. Besides the name and address of the repairers the register must contain other details, such as the description of the asset, and Asset Identification Number. Moreover, it is advisable to keep a written acknowledgement of receipt of the goods by the repairer.

Items identified as unserviceable

Unserviceable items are to be included in inventory records until these are written off or disposed of in accordance with General Financial Regulations.

Procurement of library inventory

- Material for the library is to be procured strictly according to placed orders and subject to availability confirmed in advance. The Public Service (Procurement) Regulations, 1996, should be applied by the ITS for the acquisition of library material;
- Credit notes ought to be claimed from suppliers as the standard practice by which amounts invoiced could be reversed.

Inventory losses

A hundred per cent stocktaking of all inventory items in the LRC is recommended at least once every year, along with a quantification of losses (depreciation) on a revaluation basis, given that the accounts are meant to be prepared on an accruals basis.

Management Comments

- Inventory details of the valuation of fixed assets appearing on the schedule of assets and liabilities as at 31 December 2002 were made available to the NAO;
- Mesh netting on library windows is considered to be 'impractical' and superfluous. However, evidence of CCTV video-tape scanning is being kept. Remote access is being denied for alleged security reasons on the part of the Malta Information Technology and Training Services Limited. Management is prepared to seek alternative support in the future;
- Inclusions in library rules in regard to deposit money from borrowers are being implemented for the next academic year 2003/4, as recommended;
- Very few items of catering equipment can be issued in advance once most of the items are in continuous use. Kitchen equipment which is constantly in demand is now being issued from one location within the store area but under control;
- Equipment out on repairs is now being registered;
- Unserviceable inventory items are being included in the records;
- Management appears to have reservations regarding the manner in which the procurement of library material could be brought in line with standing regulations;
- Assurance was given of more compliance in the future in terms of MF Circular 14/99.

The cost and/or valuation of books emanating from the old Malta College of Arts and Scientific Technology is not available. Management has not as yet agreed to give a notional value to the books in the library inventory records.

ITS – Revenue and Expenditure and Miscellaneous Matters

Background

Cash takings from pay courses and catering outlets contribute to about one-third of the financing of the operations of the Institute of Tourism Studies (ITS). The Institute has four restaurants and a canteen (tuck shop): 3 restaurants at St George's and the other 2 catering establishments in Pembroke. Part-time courses run by ITS against tuition fees are organized throughout the academic year. The major part of the financing of the operations of the ITS comes from an expenditure allocation under the Ministry's 'Programmes and Initiatives', sub-item 'Institute of Tourism Studies' – actual expenditure for 2002 was Lm557,010.

Key Issues

- There is no statute or similar legal document institutionalizing the organisation, and no executive powers are vested in the board of governors which acts in an advisory capacity. The apportionment of the Institute's allocated budget, as proposed by the Head of Administration, is the responsibility of the Director (as is the application of cash takings from catering, courses, etc.);
- There is lack of planning in the various stores of the Institute evidenced by the high incidence of supplementary orders for the food and beverages stores and Goods and Service Purchase Orders (GSPOs) issued after goods are delivered and suppliers' invoices received.

Control Issues

Opportunities were identified for improvement in the following areas:

- the cash takings of the Institute are not being banked intact;
- the administration of cash floats by cashier-students needs to be streamlined for a more efficient process in the administration of cash takings of the Institute's eateries, where the amount of cash in hand could also be reduced;
- justification of exemptions of course fees by the Director are not always properly documented;
- credit payment terms extended to patrons and students are at times unclear and not approved by the right level of authority, to the detriment of the collection of amounts due;
- issues of food and beverages from stores are being recorded on a stand-alone computer-based stock control application by the same person authorizing issues from, receipts into and any movement of stores;
- no distinction is being made between tools (inventory) and consumables in the records that are kept of general stores.

Compliance Issues

Revenue

Safe contents – Standing regulations should be observed fully for better security of

the contents of safes in use at the Institute and their authorized access. Moreover, a number of cash floats for the catering outlets are being continually retained in the safe.

Cash books –

- Deposits are not being accounted for in a manner enabling the balancing off of the cash in hand account and an independent verification of the balance by a cash count;
- Cash receivable from commercial banks, following 'electronic payment' by patrons, etc. (EPOS payments), is not recorded anywhere in the books of the Institute before actual payment is acknowledged. No account is being kept of the related commissions payable and receivable.

Part-time courses – There is scope for the enforcement of the Institute's own rules with regard to prepayment as a condition for enrolment by applicants on part-time courses.

Offsetting with employees – The offsetting of amounts due to the Institute with salaries or wages is in violation of the provisions of the Employment and Industrial Relations Act.

Expenditure

VAT – There were instances when expenditure was not supported by fiscal receipts.

Satisfactory receipts – Most of the goods and services ordered and satisfactorily delivered to the Institute are not being acknowledged on the Goods and Service Purchase Order (GSPO).

Petty expenses – Petty cash vouchers, which are at times being authorized by the same petty cashier, do not always carry the signature of the person being reimbursed and are not being sequentially numbered and filed separately.

Food and beverages and general stores

Write-offs – The procedure of writing off food and beverages is not in line with the General Financial Regulations (GFR).

Period contracts – The procurement of food and beverages, as a priority, is to be made through appointed contractors.

Standardization of procedures – There is the need for the standardization of procedures in all the stores of ITS.

Penalty monies owed to Institute

By refraining from taking – or delaying – action against a number of ex-students liable to stipend refunds, the Institute would be discriminating against other former students who paid and/or are paying fines for discontinuing their studies. The defaulting students who resigned before 1998 are still not known.

Recommendations

Distinct cost centre in lieu of below-the-line account

For better control of budget allocation and the whole financial operation of ITS it is up to the Department to request the Ministry of Finance for a separate cost centre for the Institute, and the inclusion of standard revenue items peculiar to ITS in the *Financial Estimates*.

Store management in general

An overall effort is to be made to avoid the prevailing crisis management of all the Institute's stores.

Banking of all cash received

All the Institute's cash takings are to be banked as received/collected. All payments are to be effected by cheque. Where cheques are not practical because of the small amounts involved, a petty cash float could be maintained for the purpose.

Cash in hand

Every group of cashier-students is to be allowed an adequate standard cash float, after authority in terms of the Financial Audit and Administration Act is granted. These floats, which would no longer pass to Accounts with the daily cash takings, will be accessible for checking and surprise inspections by Accounts, external examiners, supervising lecturers, etc.

Prepaid courses

Stricter compliance with the pertinent policies and regulations of the Institute appears to be necessary.

Credit control

Credit to patrons, students, etc., is to be authorized by the person responsible for the collection of the debts. The relevant books of account are to be maintained to acceptable standards of accounting practice.

Food and beverages stores

- Store requisitions, including emergency requisitions, are to be approved by the right level of authority, independent of the administration of the food and beverages stores;
- Finance and Administration staff could take over the records of food and beverages stores as well the regular physical check, thereby introducing the required internal controls to segregate duties, and at the same time enable the Catering and Facilities Manager to perform duties of more value to the Institute;
- Writing-off of food and beverages stores should be carried out in terms of the GFR.

Tools (inventory) and consumables

A proper management of tools is recommended. A store ledger exclusively for consumables is to be maintained, and control

exercised over this category of stock, to generally accepted standards.

Security of cash in hand

Adherence to the GFR regarding safes is recommended.

Cash accounts

- A more standard format is to be adopted for the cash books;
- The necessary banking arrangements are to be made as per MF Circular 7/02 after the specific prior approvals of the Ministry of Finance are obtained to accept EPOS payments and to open a bank account.

Amounts owing from employees

The Institute is to preclude settlement of dues by employees by offsetting with salaries and wages and abide by the laws.

Fiscal receipts

Defaulters of fiscal receipt regulations are to be made fully aware of government rules. Moreover, business with defaulters is to be discontinued.

Goods and Service Purchase Orders

- A GSPO is to precede the purchase of any good or service;
- GSPOs are to be signed in evidence of satisfactory receipt of the goods or services by the Institute;
- The procurement to preorder of whatever food and beverages are required is possible, subject to confirmation of availability in advance. For this reason, coordination with the Contracts Department for the formulation of a tender document had been recommended, contemplating penalties to secure the quality of the food products. Beverages

should be less of a problem. In the interim, or when quotations are still obtained on the phone, these are to be evidenced in writing – for instance, fax quotations could be obtained.

Petty cash

Procedure in conformity with the provisions of the GFR is strongly recommended.

Physical checks of stores

When standardizing the procedures for its stores, particular attention ought to be given to the physical checks by the staff in the general stores of consumables. These are to be carried out in conformity with the GFR.

Amounts owing from ex-students

Official verification is to be sought of the legal status as well as the complete financial position of the penalty monies in question.

Management Comments

The recommendations on the banking of cash receipts, cash accounts, petty cash, prepaid courses and amounts owing from employees have already been implemented. Others have been partly introduced or are in the process of being adopted. In actual fact, the management of the Institute and the Department took very few exceptions:

- The recommendation of a request to the Ministry of Finance for officially recognized revenue items for the Institute and complementary specialized expenditure items will be put forth to the Executive Chairman of the Institute for consideration. One of the briefings of the newly appointed chairman is that of institutionalizing the organisation into a foundation;
- It is no longer the policy of the Treasury to accept keys for safekeeping from other departments as laid out in Treasury Circular 40/90;
- Management expressed their wish to hold on to the present procedure without involving the Institute in higher charges on the EPOS monies collected from the respective banks, and at the same time look up to the requirements of MF Circular 7/02. For this reason management will be consulting the parties concerned to establish what kind of compromise could be reached;
- A complete statement of the financial position of outstanding student stipends is yet to be provided.

Ministry for Transport and Communications

> **Wireless Telegraphy Department**

Wireless Telegraphy Department – Revenue and Below-the-Line Account

Background

The Department of Wireless Telegraphy, organised into the Technical and the Administrative Branch, is responsible for the administration and enforcement of the provisions of the Wireless Telegraphy Ordinance (Cap 49) and the related regulations. It is guided by the recommendations and decisions of the various institutes and committees of which Malta is a member.

The Department's mission is to:

- plan, manage and monitor the radio frequency spectrum;
- administer and enforce the provisions of the Wireless Telegraphy Ordinance;
- safeguard Malta's rights and fulfil obligations which emerge from its membership in international organisations;
- collect the license fees while also providing an effective and efficient customer care service.

National Radio Frequency Allocation Plan

During the year, the second edition was completed, making it aligned with both the European Common Allocation Plan (ERC Report 25) and the latest edition of the ITU Radio Regulations.

Agreements on Utilisation of Satellite Systems

An Allotment Agreement with British Telecom regarding the Skyplex slot on the Eutelsat Hotbird 5 satellite was concluded and

signed on 19 June 2002. The Department agreed to associate itself as Party to EUTELSAT IGO, with the submission to the ITU of notification for various new EUTELSAT satellite systems.

Launching of a New Computer System in the Maritime Sector

During 2002, the Section has launched the first phase of the non-Global Maritime Distress Safety System with a view to further enhance its performance delivery. The next and last phase is expected to be realised and launched during the first quarter of 2003.

Improvement in Quality of Service of the Radio Investigation Services (RIS)

During the year two spectrum analysers, a radio test and measuring receiver, two portable TV & satellite signal analysers and two discone antennae were purchased. In the first quarter of the year all work to equip the recently purchased panel van into a radio monitoring and direction finding station was completed. This mobile monitoring station will enhance the effectiveness of the RIS Section.

As from 1 July 2002, the old type approval regime was replaced by the transposed R&TTE regulations, bringing Malta in line with EU member countries. This was achieved by continuous co-ordination with Malta Standards Authority, Market Surveillance Directorate, Customs Department and Malta Communications Authority.

New Computer System at the Administrative Branch

The development and testing of the system were completed during 2002, enabling the

launching at the beginning of December. This has been a very important step towards the introduction of payment of license fees at Local Councils and m-Government. Following this change, the Department will also be in a better position to pursue other e-Government initiatives and launch a Quality Service Charter during the first half of 2003.

Key Financial Information

Revenue earned during the year amounted to Lm2,065,959 of which Lm2,053,217 from wireless licenses and Lm12,742 from office fees. Revenue increased by 17% when compared to the previous year's level.

This increase is mainly attributable to the considerable increase in revenue from licensing of mobile communications services and new satellite TVRO licenses. The number of wireless telegraphy licenses registered yet another marked increase, reaching 22,844 by the end of the year under review.

Key issues

Discrepancy in Balances between Dataflex and the New Computerised and Administrative System

A discrepancy resulted on uploading the debtors' balances, as at 30 November 2002, from the Dataflex to the new system. The difference of Lm40,065 is due to:

- Most vessels, which have applied for the issue of the license, did not fulfil the necessary conditions as attached to the issue of the said license and therefore, in actual fact, a license has never been issued. Thus, Lm43,664 was not uploaded since the new system correctly did not recognize such licences from the Dataflex system;
- The remaining Lm3,599 resulted from TVRO and CB's licences, which were on Excel Spreadsheets, but were not included in the Dataflex system. Balances due were added to the new system.

Opportunities for Improvement in the New System

The system was overviewed on several occasions by the staff of this Office and several points were raised and discussed. The functionality and the operation of the system meet the information required and accounting needs of the Department. However, we identified areas where there exists scope for improvements:

- Approval from the Accountant General for the implementation of the new computerised system could not be traced in the relative file;
- The receipt number is not recorded in the respective license holder's personal account;
- Cancellation of receipts can only be done by the system's personnel following the cashiers' requests by phone. No records of authority to cancel were traced in the files;
- Three authorised staff members affect cancellations of licences through Journal Entries upon furnishing the Department with an affidavit for the cancellation of a license. A copy of a Journal Entry is filed in the respective licensee file. Authority is sought after the Journal Entries have been posted;
- Computer-generated receipts lack referencing to the related manual receipts, issued whenever the computer system fails, hindering future reference and cross-checking.

Control issues

Revenue collected by Malta Communications Authority (MCA)

The Ministry receives the proceeds of all revenues generated by MCA in respect of the Fixed Operating Licences payable on an annual basis together with the related

percentage on total gross revenues. Generally, the MCA remits a cheque once a month together with a covering letter stating the amount, the cheque number and under which revenue item/account the amount is to be credited. The current procedure limits the Ministry's ability to keep track and control of revenues receivable from the MCA, as no other audit trail is available.

Below-the-Line Account

No entries were recorded in Account 8569 – Payments by Telecell icw GSM. Lack of control over recovery of amounts due resulted in a recovery of only Lm35,000 – following a Judicial Sale of the transmission equipment and software used by the company - out of Lm239,971 due by a company as at 25th January 2002.

Recommendations

Key Issues

Opportunities for improvement in the new system

- The Department should be in possession of a reply from the Ministry of Finance confirming approval of the New Computerised Licensing and Administrative System, as stipulated in OPM Circular No. 99/87 - Acquisition of Computer Equipment and Software;
- The license holder's personal accounts should have full details, including the receipt numbers, for ease of reference and record-keeping;

- Cancelled receipts should be filed separately and consecutively. Approval for cancellation of receipts should be sought by the Management, accompanied by a brief explanation;
- For ease of reference, the manual receipt numbers should be recorded on the corresponding computer-generated receipts.

Control Issues

Revenue collected by Malta Communications Authority (MCA)

The Ministry should ensure that MCA forwards all the details relevant to the revenue remitted by the Authority, enabling the Ministry to check that all revenues are being received in full and on time.

Below-the-Line Accounts

The Department should consider closing the Below-the-Line account 8569 and pass the balance to revenue, after obtaining the necessary approval from the Ministry of Finance and Economic Affairs. Alternatively, this balance can be utilized to pay Eutelsat if and when the necessary funds are not available.

Management Comments

Most of the recommendations were agreed to by the Department and action to adjust the system was taken accordingly. It was further remarked that it is not possible for the front office cashiers to seek authorisation prior to cancelling a licence since this is an 'on the counter' operation and is done while the customer is being served.



Ministry for Economic Services

- > **Consumer and Competition Division**
- > **Malta Development Corporation**

Consumer and Competition Division – Expenditure, Revenue and Inventory

Background

The mandate of the Consumer and Competition Division is to inform and advise consumers on how to obtain value for money and how to seek appropriate redress whilst ensuring the safety of products in the market.

It also aims to safeguard fair competition in the market by ensuring that no anti-competitive agreements or abuse from dominant position takes place.

Combining the Department of Consumer Affairs and the Office for Fair Competition, the Division brings together two of the cornerstones of a free market economy – fair competition and the safeguarding of consumer rights.

The Division is made up of three Directorates, namely the Policy and Regulatory Services Directorate; the Operations Directorate; and the Information and Client Affairs Directorate.

Control Issues

Opportunities were identified for improvement in the following areas:

- Control over remittances to Bank

Money collected by the Consumer Claims Tribunal is being deposited into the Central Bank of Malta on a monthly basis instead of on a regular basis (in terms of General Financial Regulations provisions and MF Circular No 8/2002 Section 6.1 (para. a));

The risks resulting from the non-compliance are serious considering that there is no safe at the Cash Office where cash kept overnight could be locked up;

- Control over inventory items

The Division is still in the process of compiling an Inventory Database (Ledger) as laid down in MF Circular 14/99. Inventory items are difficult to locate due to lack of labeling and marking with the consecutive identification number as required by Section 8.3 of the Inventory Regulations;

- Control over Vehicles' Log Book

Control over use of the vehicles by the Division relating to irregularities in the recording of fuel issues, mileage and certification of log-books.

Compliance Issues

Hire of self-drive cars

L.N. 70 of 1996, Section 11 (b), 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”*.

During 2002, the Division paid Lm 5,877 in respect of three (3) hired self-drive cars. These cars have been hired as from 1996/1997 and no calls for tenders were ever issued.

Local Purchase Orders raised after receipt of Invoice

Five (5) Local Purchase Orders out of twenty (i.e. 25%) examined were found to have been issued after the suppliers' invoices were produced. Authorisation and approval prior to the purchase of goods and/or services were not obtained.

VAT Fiscal Receipts

Out of the 13 vouchers requiring a fiscal receipt, 3 payment vouchers (i.e. 23%) were not covered by a fiscal receipt. This may result in VAT collected not being passed on to the VAT Department.

Recommendations

Control Issues

Remittances to Bank

Remittances to Central Bank of Malta should be effected as required by the General Financial Regulations.

The availability of a safe at Cash Section is indispensable for security reasons when, for valid reasons, cash has to be kept overnight at the Division.

Inventory Ledger

All necessary information should be recorded in the Departmental Inventory Database and in the Room Inventory Lists, according to the revised Inventory Control Regulations.

Vehicles' Log-books

The log-books should be certified by the officer-in-charge of departmental transport as laid down in the Public Service Management Code to ensure that fuel supplied is justified and that the journeys were performed on official business. Log-books should also be examined by the Head of the Division from time to time and cases of irregular use of cars duly reported.

The Fuel Requisition and Issue Note numbers and the amounts of fuel supplied

should be recorded on the log-books when issuing fuel for ease of reference and to enable the officer in charge of transport to exercise proper control over the issue of fuel to vehicles.

Compliance Issues

Hire of self-drive cars

By issuing call for tenders, the Division, besides being in conformity with the Procurement Regulations, would also be in a better position to best evaluate the most attractive offer, thus ensuring the best use of public funds. The Division may also consider the possibility of purchasing rather than hiring vehicles.

Local Purchase Orders raised after receipt of Invoice

Whenever possible, 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.

VAT Fiscal Receipts

The Division should 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 Audit and Assurance Section of the VAT Department should be kept informed accordingly, on a quarterly basis, as envisaged in MF Circular 5/2002.

Management Comments

Recommendations were agreed to and action was taken accordingly.

Malta Development Corporation – Factory Rentals

Background

The Malta Development Corporation (MDC) is the autonomous government agency responsible for attracting and supporting Foreign Direct Investment (FDI) in Malta. It serves as a one-stop shop, the chief aim of which is to help investors set up businesses in Malta. Although the emphasis is on attracting new FDI, long-established companies continue to be assisted by MDC.

The Malta Development Corporation has set up a new *Investment Aftercare Unit* to provide Investment Aftercare Services to the manufacturing sector in Malta. The aims of the Unit, which commenced functioning in early 2002, are to support and guide business clients, hand-hold new projects, and assess any enquiries or complaints.

To achieve this, it is important to ensure that good monitoring and feedback evaluation systems are in place. Meetings with companies operating in the manufacturing and industrial services sectors have been held with the aim to discuss and tackle certain common problems.

MDC constructs factories, negotiates and monitors terms and conditions and collects rent thereon on behalf of the Commerce Division falling under the Ministry of Finance and Economic Affairs.

Scope of Audit

The scope of this audit was to verify the correctness of the outstanding amounts due by the tenants and to establish whether internal established procedures are being adhered to. Out of the 356 factories rented out to Private Companies, Individuals and Parastatal/Government owned, 12 were selected from the '*Tenant Outstanding Summary*' list as at 31 December 2001. Selections which were based on the amounts outstanding at year end represented 24% of the total amounts due or Lm 706,875 out of Lm 2,944,456.

Key Financial Information

During 2002, MDC collected Lm 2,016,956 in respect of Rent of Factories on behalf of the Commerce Division:

Current Rents	Lm 1,414,830
Rent Arrears	Lm 602,126

Key Issues

From the review it resulted that companies sampled failed to fully honour their commitments. The MDC's ability to collect arrears dues of factory rents and the monitoring function over companies in receipt of various aids need to be strengthened. Findings included:

- Tenants occupying more land than originally granted and companies resisting MDC's legitimate attempts to regain possession of the land occupied without title;
- Newly issued Letter of Intent to companies taken over not including arrangements for the collection of rent arrears;
- Failure to sign the Lease Agreements following allocation of factories;
- Effective dates on Lease Agreements varying from respective factory allocation dates;
- Occupation of factories not covered by a Letter of Intent or Lease Agreement;
- No action taken to rectify exact area occupied following the Factory Condition Report prepared by the Estate Management Review and Compliance Unit of MDC;

- The keys of a particular factory handed over by the former tenant of a factory to a new tenant instead of being handed over to MDC officials;
- Failure to take immediate action by MDC's Legal Office, for the notification of the Eviction Order;
- Negotiations for the purchase of factories dragging on for years resulting in forfeiture of rent during the period;
- Failure to enforce agreements entered into between tenants and MDC for the settlement of the outstanding balances.

Compliance Issues

Officials from the Review and Compliance Unit of MDC, observed that:

- a factory extension was being used by the company solely as a store;
- factories' boundaries were littered;
- companies employed less workers than the number committed for;
- production employees were performing maintenance work;
- no production activity was being carried out in a particular factory.

Notwithstanding irregularities, companies continued to enjoy MDC incentives, such as exemptions on relief from Customs Duty on the importation of raw materials, accessories and other components and Deferment from paying VAT.

Recommendations

Key Issues

- i. Before issuing a Constitution of Debt Agreement the Corporation should ensure that the correct amount due is entered by making reference to the respective Lease Agreement. It should also ensure

that such agreements are effectively honoured;

- ii. Upon vacating a factory the respective tenant should hand over all keys to the Corporation and not directly to the new tenant;
- iii. A new tenant should first sign the Letter of Intent/Lease Agreement and pay rent in advance prior to being handed over the factory;
- iv. Management Unit should inform the Lease Management Unit of any new Letter of Intent/Lease Agreement signed with incoming tenants for future billing purposes;
- v. The Lease Agreement should stipulate that a Bank Guarantee equivalent to one year's rent should be opened to safeguard the Corporation's interests in case of default by the tenant;
- vi. If a tenant is found to be occupying more space than that allocated by the Letter of Intent/Lease Agreement, immediate remedial action should be taken to settle the unauthorised use of space;
- vii. The description of areas covered by Letters of Intent/Lease Agreements should be accurate. The Corporation should actively identify such differences and adjust agreements accordingly;
- viii. Outstanding key issues, such as agreements of sale of factories, should be concluded as soon as possible to safeguard the Corporation's interests.

Compliance Issues

- i. All the beneficial schemes should be withheld immediately in cases where a tenant does not adhere to any of the conditions specified in the Lease Agreement;

- ii. Regular inspections by MDC officials should be carried out at the factory premises to verify that all conditions of the agreement are being adhered to, including the number of employees in employment and the space allocated to tenants.

Management Comments

Although management implied that many of the highlighted problems have been inherited from the Lands Department, many of the recommendations in the report have already been put in place. The more recent

tenancy agreements are being better managed.

However, MDC did not agree with the recommendation to introduce a Directors' personal liability clause covering rent default on the grounds that directors cannot be held responsible for the debts of a different legal entity unless they voluntarily accept to do so. Furthermore, it contends that such line of action goes counter to the efforts being made to attract new investments.

MDC further remarked that it is considering enforcing the bank guarantee against lack of maintenance, rent due and necessary repairs if factory is left in a bad state.

Ministry for Home Affairs

- > **Joint Office**
- > **Corradino Correctional Facility**
- > **Police Department**
- > **Citizenship & Expatriate Affairs**
- > **Government Property Division**

Joint Office – Expenditure

Background

The Accounts Section is responsible for all payments relating to the expenditure of the Joint Office. All transactions during 2002 were carried out using the Departmental Accounting System (DAS).

During the year the Joint Office was integrated within the Government Property Division (GPD) and records were transferred to the latter department.

Compliance Issues

Drawing up and certification of GSPOs

Twenty percent of the Goods and Service Purchase Orders (GSPOs) from the sample chosen 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.

Twenty percent of the GSPOs were found to lack a certification indicating that goods/services had been actually received.

Motor Vehicle Log-Books

Log-books were not always appropriately updated with the fuel supplied, journeys carried out and mileage readings.

Payment effected upon receipt of Delivery Note

A Payment Voucher amounting to Lm 5,000 was effected without the receipt of an official invoice. The payment was made upon receipt of a delivery note.

Misallocation of Expenditure

Eight percent of the payments effected from the sample chosen were not posted to the proper account.

V.A.T Fiscal Receipts

Forty eight percent of suppliers from the sample chosen did not forward a V.A.T receipt. Furthermore, the department is not reporting defaulters to the V.A.T Department, as stipulated in TR Circular No. 9/99 (as amended by MF Circular No. 5/2002).

Recommendations

Compliance Issues

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 a management tool indicating that funds are available and that the purchase has been duly authorised.

Good management practice warrants that receipt of goods and authorising payments are effected by an officer entrusted with this responsibility. If this certification is given in a file, the file number and minute should be quoted.

Financial regulations are to be followed for a more efficient control system.

Motor Vehicle Log-Books

Every week the log-books are to be forwarded to an officer i/c transport, to verify whether:

- All the details required in the log-books are clearly recorded and appropriately signed;
- Fuel consumed reflects mileage/kilometers covered;
- End of week mileage reading corresponds with that of the tachometer.

The checked log-books should be endorsed by the officer in charge after being satisfied of their correctness.

Payment effected upon receipt of Delivery Note

Payments should invariably be effected upon receipt of an official invoice.

Misallocation of Expenditure

All items of expenditure must be accounted for in the correct account as shown in the Budgetary Estimates that have been approved by Parliament.

V.A.T Fiscal Receipts

The Department should stop purchasing goods or requesting services from suppliers who fail to submit a V.A.T receipt. Furthermore, the department should periodically report to, the V.A.T Department

those suppliers who fail to submit a V.A.T receipt following payment of supplies of goods and/or services, in terms of standing regulations.

Management Comments

Management comments were:

- As regards the drawing up of a GSPO prior to date of invoice, it is contended that in certain instances this is not possible as the actual expense is not known beforehand. NAO does not agree with this view;
- Management undertook to rectify matters in the other concerns as recommended by NAO;
- No comment was given on the missing certification of goods received.

Joint Office – Systems Evaluation

Background

On 28 November 1991 an agreement was signed between the Holy See and the Republic of Malta. This agreement acknowledged the transfer of property from the church to the state. On 12 June, 1992, Act No. IV of 1992 – “Ecclesiastical Entities (Properties)” Act - was enacted by the House of Representatives to provide for the implementation of the said agreement.

The Agreement provided for the setting up of the Joint Office to:

1. administer the property transferred to the State;
2. register the mentioned property at the Land Registry ;
3. make such corrections or additions as may be required in terms of the Agreement.

This agreement was duly ratified and brought into force on the 18 February 1993, by means of Legal Notice 57 of 1993 – “Notice of Appointed Day”. In turn according to the agreement on 15 February 1993, the Government issued bonds to the nominal value of Lm28,067,000 at seven percent interest, redeemable after 10 years at a premium of ten percent, maturing on 18 February 2003.

Both the State and the Holy See encountered difficulties in the interpretation of the agreement. Furthermore, other matters that were unforeseen at the time of the agreement cropped up. To clarify these matters a “Memorandum of Understanding” was signed between the State and the Holy See on 30 May 2000.

Key Issues

Property Reconciliation

In terms of the Memorandum of understanding the reconciliation exercise is

to be completed by the end of the year 2003. NAO was informed that it is not possible to terminate the exercise by the stipulated date. The reconciliation process cannot be carried out unless the property is scrutinised and validated by the Committee. Although the number of Committee sittings exceeded the minimum required by the agreement, the exercise will not be completed within the stipulated time.

The Office stated that the reconciliation exercise has been completed in only five Ecclesiastical Entities out of more than 100. The reconciliation for the remaining entities is either in progress or has not commenced at all.

Compiling the ‘Joint Office’ Database

Property forms which are submitted by the Church are being inputted in the “Joint Office” computer database, whether validated or not by the Committee. There are still several thousands pending property forms to be inputted.

Since the database is not yet completely compiled, the Joint Office is not in a position to comply with the General Financial Regulations regarding the reporting on arrears of revenue. Furthermore, this puts a strain on the compilation of accurate Financial Statements upon the anticipated conversion to the accruals basis of accounting.

Control Issues

Invoice Generation

The Joint Office software is not programmed to generate an invoice. Tenants are being notified that their rent is due through a manual process. This procedure is time consuming and does not allow any controls over debtor balances.

Unverified Data

The current system contains temporary files created so as to enable the issue of a receipt upon payment of rent due, and other files relating to tenants transferred to the "Joint Office" database from the old Novel system. These are over and above the properties that were validated by the Committee or awaiting to be validated.

This has rendered necessary a check to see whether the data is already inputted under these files before entering the information of a new property form. If they are already inputted all that would be needed is an adjustment in the computer file.

In view of the above:

- (a) There exists the possibility that a tenement is included twice and such duplication would create data distortion;
- (b) Any new property form will have to be manually checked against these lists. This is time consuming and laborious.

Verification of Church Receipts

The property forms forwarded to the Office from the Ecclesiastical entities do not contain the period covered by the last payment and the date and number of the related receipt.

Because of this failure the Office requests that every tenant calling for the first time before effecting payment should produce the last receipt issued by the Church.

Income/Expenditure

During the years 2000 to 2002, the rent due from the ex-church property, together with the proceeds from sale of ex-church property, was by far less than the interest paid on the bonds. This deficit outcome may be due to the fact that not all rent due is being collected since the system of chasing defaulters is not adequate.

State/Church reimbursements of rent

The Joint Office stated that when it collects rent on property still owned by the Ecclesiastical Entity, the Government

reimburses the respective entity with the relative amount. When the Ecclesiastical Entity collects rent on property that has been passed on to the Government, the money due from the Ecclesiastical Entity may take longer than necessary to be refunded.

Compliance Issue

Debtors' Reports

The "Joint Office" software is not capable of generating an aged debtors' list analysis report as per MF Circular No. 10/2001. Defaulters can only be traced through the manual system. Again this is time consuming and does not guarantee that all defaulters are being pursued for payment.

Recommendations

Key Issues

Property Reconciliation

The Office should draw up a plan with the main objective of reconciling and registering the transferred property in the shortest possible time. Both the Office and the Committee should agree on the contents of the plan.

The above objective may be achieved by:

1. setting the number of meetings to be held within an agreed timeframe, in line with the main objective. Consequently, the number of meetings to be held each year could be determined;
2. establishing the number of property forms/correction sheets that are to be validated at each sitting.

Compiling the "Joint Office" Database

The office should endeavour to complete the inputting of the tenements on the database as soon as feasibly possible.

Control Issues

Invoice Generation

The software should be enhanced so as to include the generation of invoices. This

effectively involves an interface with the property database with an automatic update of the tenement accounts.

Unverified Data

The system should be enhanced to be able to generate the invoices and the reports electronically for all properties.

Verification of Church Receipt State/Church reimbursements of rent.

The Office should explore the possibility of setting-off arrangement that would enable both parties to settle directly with each other.

Income/Expenditure

An improvement in speeding up the process and in the collection of rent due would reduce the negative balance between expenditure incurred and revenue collected

Compliance Issues

Debtors' Reports

The software should support the generation of an aged debtors' list. This should enable the Office to be in a position to compile the arrears of revenue return and address the situation of lack of controls over debtor balances. The anticipated conversion to the accrual accounting basis of the Government Accounting System should serve as a spearhead to introduce this enhancement.

Management Comments

Management comments were that:

- No meaningful statement of arrears of revenue can be elicited until the compilation of the Joint Office Database is finalised;
- In view of the shortcomings in relation to Invoice Generation, Unverified Data and Debtors' Report, it was stated that with the introduction of a new software, possibly next year, invoices would be generated and the present manual process would be abrogated. Furthermore, when all the pertinent information is furnished and a debtors' list is generated, all temporary files would be transferred onto the new software;
- As regards the State/Church Reconciliation Process, management stated that a report has been drawn up regarding the actual number of properties registered, property forms and the correction sheets approved by the Control Committee as on June 2003. Moreover, a strategic plan was drawn and agreed upon for the reconciliation of a number of ex-church entities in the shortest possible time.

Corradino Correctional Facility – Stores

Background

The stores at the Corradino Correctional Facility cater for items of foodstuff to prepare meals for inmates and other items used for maintenance work within the Facility.

Officers at the stores are mainly in charge of issues of provisions and other supplies, inputting of issues and receipts in bin cards and STORIT, as well as updating of any other stores-related records during their respective shift. Moreover, they are in charge of any work related to the stores, work performed by inmates and any issues and receipts of physical objects within the stores.

Key Issues

Physical amounts do not agree with balances on bin cards

Twenty one percent of 'Provisions' and forty two percent of 'Other Items' of the samples examined did not physically agree with the recorded balances. These discrepancies indicate weak control over store items, which may result in abuse.

Control Issues

Opportunities were identified for improvement in the following areas:

- There is lack of control over stock items. A sample of items could not be checked, as these were not stocked. Since these items are not issued to maintenance personnel against a requisition, the stores officers do not have control over the physical stock and the movement of items;

- A lack of audit trail is resulting in an unreliable system of stock documentation. This was observed in discrepancies between provision issues as recorded on the daily recapitulation sheets and as noted on bin cards.

Compliance Issues

Differences between stock take figures and bin cards

A stocktaking exercise was carried out and a report of balances in stores was forwarded to NAO. From the sample chosen, (forty six percent of 'Provisions' and two percent from the 'Other Items'), the balances on bin cards shown on the date of stock take were found to differ from the balances in the stocktaking report. This indicates that records are not being updated correctly as soon as issues/receipts occur.

Bin Cards

Bin cards are not kept on the respective items in the stores, but on the store officer's desk. In addition, bin cards are being updated simultaneously with STORIT by the same person. The current procedure defeats the bin cards system and results in duplication of work once the updating of bin cards is carried out by the same official.

Level of Stock Control

Consumption rates, minimum and maximum stock levels, minimum and maximum re-order levels and re-order quantities are non-existent. This leads to items being under or over stocked, with funds being disbursed in unutilised stock. Besides, in the

case of Provisions, overstocking may result in goods exceeding the "best before" date.

Recommendations

Key Issues

Physical amounts do not agree with balances on bin cards

A stock take of all items should to be undertaken and records adjusted accordingly. Subsequently, stock records should invariably be kept up to date at all times, by recording issues and receipts as soon as they arise.

Control Issues

- Items are to be kept in stores and issued only against a requisition when these are going to be used. In the event that the items are issued and then not used, these are to be returned to the stores and shown on a form titled "Returns to Stores";
- Records should be appropriately and correctly updated with actual issues of stock.

Compliance Issues

Differences between stock take figures and bin cards

Records should be immediately updated as soon as a change occurs in the quantity of stores items. Any discrepancies between book balances and actual stock are to be reported upon by the Head of Department to the Permanent Secretary as stipulated in L.N. 83/99.

Bin Cards

Bin cards are to be placed on the respective items and immediately updated with any movement. The update of bin cards is to be carried out by an official other than the one who updates STORIT.

Level of Stock Control

The computerised system should be enhanced to incorporate these features so that a more rational system of stock management is in operation.

Management Comments

Management has not submitted a reply to our findings and recommendations.

Police Department – Arrears of Revenue

Background

The Arrears of Revenue is made up of fees due for Services given to Private Parties and Weapons Licenses. In the case of Services to Private Parties, individuals and entities can request extra services from the Police Department against a payment according to a pre-established fixed fee to which an administrative charge is added. In the case of Weapons Licenses, individuals pay an annual licence fee for keeping and/or carrying a firearm.

Key Issues

Weapons Licences

The collection of licence fee mechanism is hindered by the unreliable data held at the Police Department. Forty four percent of the holders of weapons licences were found to have passed away. Furthermore, fictitious identity card numbers still feature in the database. This situation is rendering very difficult the revenue collection effort and the

proper exercise of weapons registration controls.

Recommendations

Key Issues

Weapons Licences

A concerted effort is to be made to update the database and correct overdue licence fees. Amounts owed by deceased persons and/or time barred are to be written off so as to reflect the realistic amounts due in the annual arrears return. This will in turn result in better control over weapons licences holders.

Management Comments

Management is taking action to address the issue.

Police Department – Gozo District Revenue

Background

In addition to promoting and maintaining law and order and ensuring safety and security the Police Gozo District Headquarters is also responsible for the collection of fees and charges relating to Sporting Licenses (weapons licenses), Traffic Offences Tickets, Clamping & Towing, Fees on Visas, Services to private parties and other fees from residents of Gozo.

Control Issues

Opportunities were identified for improvement in the following areas:

- Collection of revenue is still recorded manually. The current policy to introduce computerisation across government has not yet been introduced;
- Lack of control over cash resulting from processed receipts being recorded in batches for aggregate amounts.

Recommendations

Control Issues

- Management should initiate early action to computerise the collection of revenue;
- Receipts should invariably be recorded in the cashbook separately. Furthermore, amounts in the cashbook should be regularly counter - checked for correctness.

Management Comments

Management accepted the recommendation to record separately each receipt in the cashbook and to counter - check total amounts for correctness. The recommendation to computerise revenue collection records, other than Weapon's licences, was currently considered impractical and inefficient. However, when the new computerised system for accrual accounting is implemented by Government, NAO recommendations would be reconsidered.

Citizenship & Expatriate Affairs – Revenue

Background

The Department for Citizenship & Expatriate Affairs within the portfolio of the Ministry of Home Affairs implements and administers the provisions of the Maltese Citizenship Act on citizenship, those of the Immigration Act regarding exempt person status, residence permits and employment licences, and those of the Constitution regarding freedom of movement (Section 44).

The Revenue of this department is generated from fees charged for applications for citizenship and employment licences and for the issue of citizenship certificates and residence permits. The Department comprises mainly four sections which are: nationality section, expatriates section, registry section, and computer input section.

Control Issues

Opportunities were identified for improvement in the following areas:

- The department cannot identify the components of the total amount of revenue due from Embassies and Consulates that is transferred by the Ministry of Foreign Affairs. This constitutes a lack of control in determining amounts due and revenue collected;
- Seventeen percent of files out of the total sample taken, relating to work permits, were not presented in time for verification.

Compliance Issues

Manual Records

Although the department is equipped with the D.A.S. accounting software, receipts are issued manually and recorded in five different

subsidiary cash books according to category. At the end of the day the total amount collected in each subsidiary cash book is recorded in the main cash book and a D.A.S global receipt for each total issued.

The recording of the manual receipts in the subsidiary cash book is time consuming.

Recommendations

Control Issues

- The Department is to take up the matter with the Ministry of Foreign Affairs to be provided with a breakdown of the revenue transferred from missions abroad, category of application/certificate and the name of the individual. This would serve as a control mechanism on the collection of revenue;
- The Department should be able to have access to any such files at a reasonably short notice.

Compliance Issues

Manual Records

D.A.S. receipts should be invariably drawn up for each and every payment received, and allocated to the respective revenue head and sub head. If necessary the software should be enhanced to be able to generate the daily cash statements, subdivided as necessary, and to generate any other related reports that may be required, some of which are not easy to compile under the manual system.

Management Comments

Management accepted all findings and is committed to take necessary action to improve operations.

Government Property Division – Expenditure

Background

The Accounts Section is responsible for all payments relating to the expenditure of the Division. All transactions during 2002 were carried out using the Departmental Accounting System (DAS).

For the year 2002 the expenditure budget covered payments relating to Finance and Administration, Land Department and Estates Management Department.

Control Issues

Opportunities were identified for improvements in the following areas:

- Lack of control exists in the upkeep of the inventory ledger as it is not being regularly and correctly updated. In fact, a particular asset purchased, which was not entered in the inventory ledger, could not be traced;
- Three motor vehicles' logbooks from the sample were not made available for examination in time, notwithstanding that these were requested on more than one occasion.

Compliance Issues

Submission of VAT Fiscal Receipts

In twenty-six percent of the sample, the Payment Vouchers were not covered by a VAT receipt.

Missing Certification on GSPOs

In twenty-four percent of the GSPOs examined, there was no certification by an appointed officer that the goods ordered were actually received in good condition.

GSPO issued following receipt of Invoice

In thirty percent of the sample chosen the GSPO was drawn up following receipt of the invoice from the supplier. This may result in not having enough funds to honour the actual expense.

GSPO not authorised

A GSPO for the hiring of vehicles was not signed by an authorised officer.

Arrear Charges

Payments were effected during 2002 in respect of invoices dated December 2001, without any note being entered on the Payment Voucher authorising payment. Moreover, the Department did not present a letter authorising these payments. This is in breach of Section E, Para 74 - Payment as arrear charges, of the General Financial Regulations 1966.

Tenders/Quotation

A payment for office furniture exceeding Lm1,000 was effected without the issue of a tender or quotation. No authority to procure the goods by direct order was obtained.

Contracts

Cleaning Services

- a) No tender /quotation was issued for this service to cover the year 2002. The last acceptance of quotation traced was dated 17 August 1999;
- b) The period of contract was not stated and no letters of extension of contract were traced.

Hiring of Self Drive Cars

- a) The last tender issued was in 1999;
- b) The last renewal letter dated 9 February 2001 covered a twelve-month period. The same supplier still provided the services during the subsequent months of the year 2002.

Fully Expensed Car

In fifty-five percent of the sample chosen, fuel supplied to a fully expensed car exceeded the maximum limit of 150 litres per month. This is in breach of MF Circular 5/98.

Recommendations

Control Issues

- The department should strive to update all records and maintain all necessary documentation relating to inventory, in accordance to MF Circular 14/99.
- An official is to be entrusted to carry out the examination of motor vehicles' logbooks periodically to ensure that the vehicles are not misused.

Compliance Issues

Submission of VAT Fiscal Receipts

The Department should discontinue procurement from those suppliers who do not provide a fiscal receipt. Furthermore, the VAT Department should be informed of such defaulters.

Missing Certification of GSPOs

Unless certification that items were received in good condition is endorsed on the relative GSPO, no payment is to be effected so as to avoid paying for undelivered, damaged goods or goods delivered not as ordered.

GSPO issued following receipt of Invoice

Goods and services should invariably be requested by means of a GSPO.

GSPO not authorised

GSPOs should always be approved by an authorised officer and instructions should be given to officers issuing GSPOs to invariably obtain authorisation.

Arrear Charges

The relevant authority is to be obtained and copies of the relevant documentation are to be attached to the copy of the Payment Voucher before payments are effected for amounts invoiced in the previous year.

Tenders/Quotation

Financial limits set by regulations are to be strictly adhered to so as to ensure control and efficiency in the procurement of goods and services. Should it be necessary to depart from standing regulations, authority is to be obtained.

Contracts

Period contracts are to specify the dates of commencement and termination. Unless, due to exceptional circumstances no extension beyond that period is given, a fresh call for tender is to be issued. Where an extension is indispensable, previous authority is to be obtained.

Fully Expensed Car

Fuel consumption limits set for fully expensed cars by the Ministry of Finance should be adhered to.

Management Comments

Management is taking action to rectify a number of issues. However, the replies on the following areas of concern are not to NAO's satisfaction:

- missing certification on GSPOs;
- GSPO issued following receipt of Invoice;
- fully expensed car.

Further correspondence on these matters has been taken up.

Ministry of Agriculture and Fisheries

> **Ta' Qali *Pitkali* Markets**

Ta' Qali *Pitkali* Markets in General

Background

Published statistics support the view that the stalls licensed to the private *pitkala* at Ta' Qali did not lose any of their popularity with vendors of agricultural produce through the organized markets in 2002.

The growing trust of the farmers in the foregoing stalls of the *Pitkali* entails more responsibility on the part of management in fulfilling the greater expectations.

Key Issue

The outnumbering of *pitkali* clerks by *pitkala* and the prevailing pre-sales bookings ('*twarrib*') by the latter.

Control Issues

- Management is not validating with reliable records the *pitkali* marketing subsidies. These are paid throughout the year on the basis of the figures – beneficiaries present – mainly intended for statistical purposes;
- Proper reconciliation is not being made of delivery vouchers, unsold stock reports and statements of *pitkali* sales;
- Basic knowledge and information is being lost with retiring officers;
- The examiners did not have access to the contents of a 'Vulcan' safe inside the Personnel Office. Management could not provide any information on the possible contents of the safe;
- The validity of the information that could be sought from the main records, that is the *Pitkali* Markets Management System (PMMS), may be undermined as source

documents supporting the raw data input are not being fully retained or cannot easily be referred to.

Compliance Issues

Sales to housewives

A private *pitkal* acting as a hawker, by virtue of his 'ad hoc' licence, may give rise to a conflict of interest. Sales recorded by six of the 16 *pitkala* licensed to sell to housewives exceeded the traditional ten per cent limit of total sales – to the extent of 11%, 14%, 16%, 22%, 23% and 34 per cent in these reported instances.

Petty cash

The required records and authorisation controls are lacking.

Inventory

Recent policies governing mandatory records, aimed at the eventual adoption of the Government Accruals System, as well as returns concerning inventory, are being ignored.

Recommendations

Pre-sales bookings

Pre-sales bookings are not a form of product grading. They ought to be discontinued unless assimilated in a fairer bidding process.

Basic control

Rather than increase the current complement, better use could be made of *pitkali* clerks in an alternative control system of the operations of the *Pitkali*.

As other sources commissioned to report on the systems in use had recommended, a weighbridge at the main entrance seems to be a basic control that has to be introduced. The weighing of incoming vehicles witnessed by a *pitkali* clerk offers a robust control mechanism.

Direct sales to the public

The Director needs to exercise stricter control over *pitkala*-cum-vendors in respect of the traditional limits of direct sales to the public to eliminate any possible conflict of interest.

Pitkali marketing subsidies

Validation of the basis of payment of the *pitkali* marketing subsidies to eligible cooperatives should be made against the audited accounts of the beneficiaries. Any resulting discrepancies could be settled or offset against future payments.

Moreover, the Department should ensure that *pitkali* sales figures reported in official publications are consistent with the audited accounts.

Refundable payments to farmers

Prior to the presentation of farmers' vouchers to the bank for payment and the issuance of hawkers' invoices, proper reconciliation of all the relevant records is solicited. This would reduce the incidence of overpayments to farmers, as well as the inconvenience caused when the recipients are asked to refund such payments.

Petty cash book

Though the petty cash float is of a small amount, the frequent restoration of such float could make the annual expenditure out of petty cash a significant one. A continuous audit trail of sequentially filed validated petty cash vouchers is to be maintained, in support of a petty cash book.

Procedure manual

The compilation of an operations manual would be very effective in safeguarding

knowledge and information. In the event of retiring key officers such manual would warrant the continuity of internal controls and the smooth running of the organisation.

Safe at the Personnel Office

The safe ought to be opened in the presence of a responsible official to make an inventory of the contents of the safe, possibly witnessed by a representative from the National Audit Office.

Standing regulations governing inventory

The requirements of MF Circular 14/99 should be fully adhered to.

Information systems

A copy of all the statements of the *pitkali* sales and farmers' delivery vouchers are to be retained by the *pitkali* clerks in pre-numbered order. This will give an audit trail of the source documents supporting data input in PMMS.

Management Comments

- Immediate steps were taken to address the inventory issue but the Director was more cautious to indicate a timeframe for:
 - better control over the input of raw data in PMMS;
 - the compilation of a procedure manual as part of the second phase of the envisaged operations review;
- The Director saw no reason to control the direct sales to the public by all private *pitkala* in view of the restructuring of the *pitkali* which may abolish 1952 legislation and the commission system 'to introduce direct sales both to vendors and public';
- The issue of pre-sales bookings is looked upon by management as 'one of the plus points in the existing system'. Moreover, the

- system is said to be acceptable by both farmers and hawkers;
- Management pleads that lack of human resources makes it impossible to :
 - validate *pitkali* marketing subsidies with the audited accounts of the beneficiaries;
 - carry out the reconciliation procedure recommended prior to updating the bank with the farmer and vendor transactions for payment and collection respectively;
 - Management considers that petty cash records and related controls are adequate;
 - The safe at the Personnel Office – which was not opened in the presence of a NAO representative as proposed – has been found to contain ‘a number of paid vouchers (of no value whatsoever) dated circa 1971’;
 - The inventory returns claimed to have been duly filed by *Pitkalija* were never received at the NAO.

Pitkali Market Scheme

Background

The Management Efficiency Unit report completed in 1997 entitled 'The *Pitkali* Master Plan - Evaluation of project proposal' recommended the taking up of the core activity of the *pitkali* markets (the Pitkali Market Scheme) by a 'commercial bank'. The recommendation was adopted by Government and a bank assumed the role of the 'accounting and cashing function' of the main *pitkali* activities on 1 May 1997.

The *pitkali* market at Victoria, Gozo became an integral part of the accounting system of the bank about two years after the start of its operations in Malta.

A computer-based management system, namely the *Pitkalija* Marketing Management System (PMMS), interfaces with a banking application developed for the bank in order to coordinate its specialized services to the *Pitkalija*.

Key Issues

1. It is difficult to verify the extent of the financial risk to which public funds may be exposed. Such funds comprise amounts payable to farmers who had supplied the *pitkaliji* of Malta and Gozo with agricultural produce since May 1997. A considerable amount of these are represented by stale cheques that may never be claimed;
2. No cash book is being kept of the three accounts and no reconciliation thereof takes place. The accounts held in the name of the Director of Agriculture are kept by a commercial bank.

Control Issues

The efficiency of the core system of the *Pitkalija* could be attributed to the advent of

the bank. However, a number of areas where the Department can be more proactive in improving internal controls were identified as detailed below:

- The Department is not in control of the management of unpresented cheques paid out of the bank account in the name of the Director opened for the administration of the *pitkali* market scheme funds jointly with the bank. A list of unpresented cheques drawn on 15 January 2003 included a number of stale cheques totalling Lm589,123.61. However, a statement by the bank on 25 November 2003 showed stale cheques reduced to no more than Lm18,738.71;
- No satisfactory explanation has been given of how a number of stale cheques issued to farmers were cleared off the download report of unpresented cheques. The management of *Pitkalija* and the Department were unaware of this, and prior authorisation of the Director could not be evidenced;
- It is not standard procedure for the bank to screen the master records received on PMMS uploads for authenticity. All electronic data files of new farmers are accepted at face value. The risk of collusion in hiding behind dummy farmers with a view to share understated revenue pertaining to real farmers should not be underestimated;
- Though they were being refunded, subsidies launched under the Special Markets Pricing Programme for Maltese Agriculture (SMPPMA) were

paid from the 'Pitkali' bank account. Government funds provided for the programme are separate and distinct from the *pitkali* market scheme.

in contravention to Marketing and Agricultural Produce Regulations, subparagraph 8 (d) which stipulates that: 'No *pitkal* shall refuse to accept for sale any agricultural produce.'

Compliance Issues

The main compliance issues noted in the NAO Report are being highlighted in the comments on the flowchart on the opposite page describing the interactive roles of the bank and *Pitkali* in the *pitkali* market scheme.

Unclaimed cash represented by stale cheques

The retention by the bank of unclaimed cash represented by stale cheques is seen to be in violation of section 59 (1) of the General Financial Regulations (GFR) once, in terms of the agreement between the bank and the Director of Agriculture of 17 October 1996, the monies held in trust by the bank could become a direct burden on the (public) consolidated fund.

Bank reconciliation statements

As no bank reconciliation statements are being prepared in terms of the GFR, the effect of unrepresented cheques on a favourable bank balance is being ignored. The Director was presented with a NAO Compliance Audit Report illustrating how an actual overdrawn balance (because of the time lag in the presentation of cheques for payment) could be recognized by the bank in its counterpart records as a favourable balance.

Below-the-line accounts

Below-the-line accounts required in compliance with the GFR in respect of two of the bank accounts, namely, the 'Pitkali' and 'Subsidy' bank accounts, are not being maintained.

Pitkala specializing in one single product

A licence withdrawn from a defaulting *pitkal* was issued to a *pitkal* specializing in one single product. This appears to be

Recommendations

Funds represented by stale cheques

Funds represented by stale cheques should not be retained in the bank for whatever reason.

Unpresented cheques

A cheque validity period of six months, besides lending itself to more efficient management of unpresented cheques, would also be compatible with the requirements of GFR section 59 with regard to stale cheques.

Computer records relating to farmers

All active master records of farmers ought to be authenticated by the Director in collaboration with the bank. The Director should also (a) introduce a control procedure to validate the records of every newly licenced farmer prior to being forwarded to the bank for further processing, and (b) instruct the bank to delete or deactivate any farmer who for some reason fails to renew his *pitkali* licence after the due date.

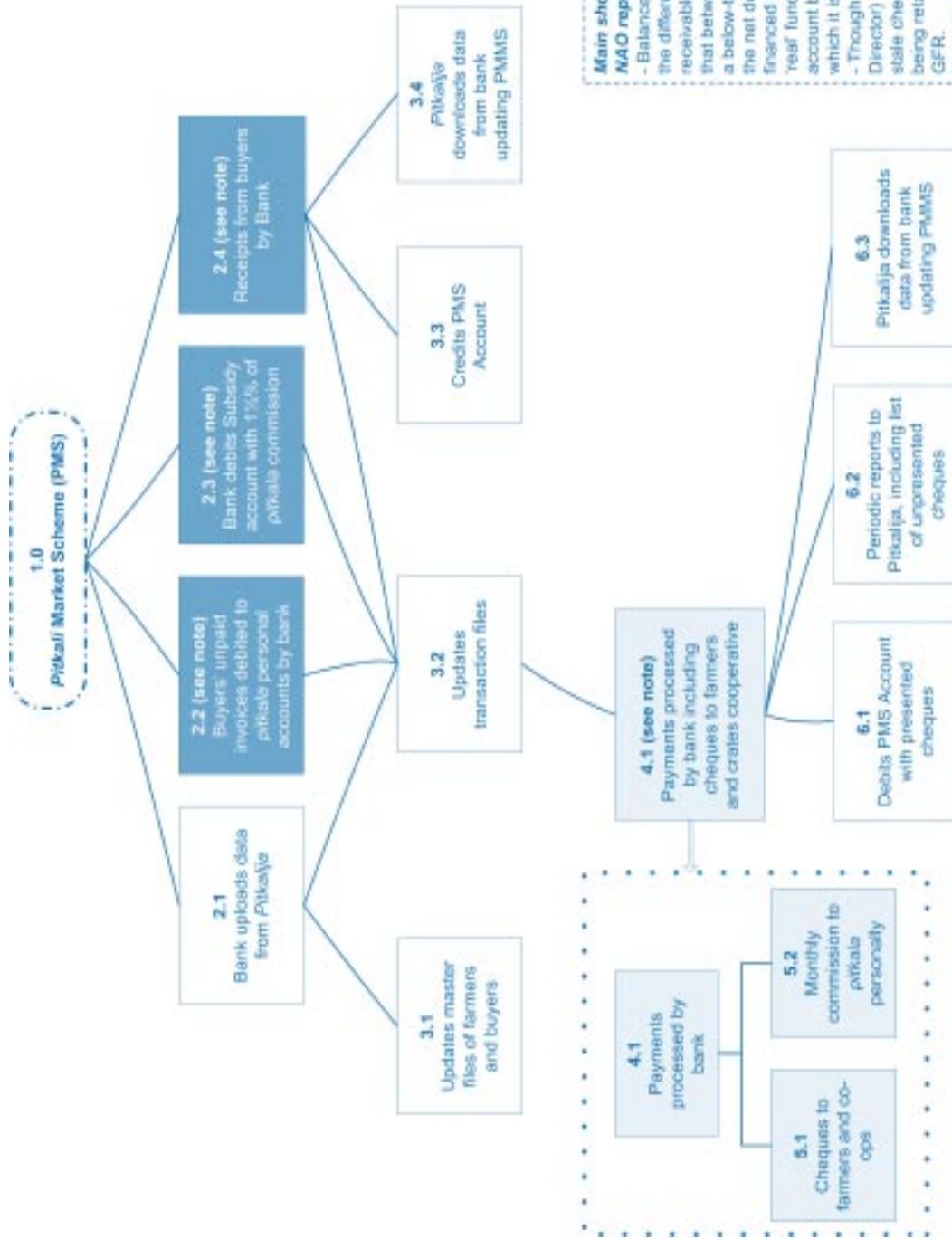
Mandatory books of account, records and reports

Cash books are to be maintained in respect of funds in the accounts held with the bank. Bank reconciliation statements are to be prepared and filed with the authorities concerned. Management is to ensure that separate complete and accurate records are held also of the debtors and creditors of the *pitkali* schemes.

SMPPMA subsidies

A separate bank account for SMPPMA is to be opened to facilitate the administration of the programme and to obviate unnecessary complexities in the control over the *pitkali* market scheme funding.

Interactive roles by bank and Pitkalija in PMS



Main shortcomings noted in the MAO report:

- Balance on PMS account is not the difference between total receivables (see note) and 4.1, but that between 2.4 and 6.1. Neither is a below-the-line account possible of the net debtors (or net creditors) financed by (or representing) the real funds available on such account because of the manner by which it is being maintained.
- Though PMS Account (the Director) is not being burdened with state cheques, related funds are being retained by the bank against GFR.

Note: 2.2, 2.3 and 2.4 represent total receivables and 4.1 total payables.

Corrected list of unrepresented cheques

The Director is to approve the re-validation of any stale cheques that may need to be presented for payment.

Pitkali licences

The reissuing of a *pitkali* licence is the sole responsibility of the Director. Any bargaining power granted to the bank, after obtaining legal advice, is to be clearly stated in a side agreement.

Management Comments

A post of *Pitkali* Markets Manager will be created as part of the reform of the *Pitkali*, which would entail a revision of the operations and staff requirement to address the non-compliance aspect.

The management of unrepresented cheques

The bank is prepared to introduce a direct credit system for the payment of farmers' vouchers.

Discussions are under way on issues related to unrepresented and stale cheques and the retention of the resultant funds by the bank. Concrete proposals will be reported in due course.

Farmers' records

An assessment of the risk of collusion between *pitkala* and *pitkali* employees, together with the vetting of new farmers' files, is being made by the Department.

Pitkali market scheme bank account

The Director remarked that the overdrawn balance (reported by NAO as unrepresented cheques) was 'watered down' to a lower figure in the report. (The balance was taken from reports with which the management of *Pitkali* was being fed for some months. The revised balance was further reduced to a more realistic figure late in 2003 on the bank's admittance that the main cause of the inflated unrepresented cheques had persisted, that is, an IT problem at the bank, which explanation the NAO accepted at face value.)

Cash books and mandatory reports

The Director maintains that the 'Subsidy' and 'Sundries' accounts held with the bank are under control.

Stale cheques validated for payment

The Director has still to verify how a number of stale cheques were re-validated for payment.

Transfer of *pitkali* licences

The Director has to explain the bank's negotiating powers regarding the issue of a *pitkali* licence.

Payment of unrelated subsidies

The Director did not make any comments on recommendations regarding the SMPPMA subsidies.

Ministry for Gozo

- > **Education Division**
- > **Information Division**
- > **Law Courts**
- > **Museums**
- > **Public Library**
- > **General Hospital**
- > **Passports**
- > **Agriculture**
- > **Projects and Development**

Gozo Education Division – Revenue and Inventory

Background

The sources of revenue for the Education Division checked were: (a) Evening Classes, (b) Drama School, (c) Gozo Sports Complex and (d) Foreign Students.

- Lack of control over inventory and asset identification. Essential details on the inventory database were missing.

Key Issues

Foreign Students

- The completeness and validity of receipts arising from foreign students could not be ascertained since the appropriate student details were missing.

Control Issues

Opportunities for improvement were identified in a number of areas:

Drama School

- Money collected by the school is not being deposited immediately with the bank.

Gozo Sports Complex

- Lack of control over cash receipts resulting from receipts not traced to the cash book, and discrepancies between application lists and cash book totals;
- Total revenue extracted from the Applications for Skola Sport does not tally with the revenue entered in the Cash Book.

Foreign Students

- Difference between amount showing on receipts and amount entered on the Foreign Students' List;

Recommendations

Drama School

Monies remitted to bank

Standing government regulations regarding deposits into bank should be strictly followed.

Gozo Sports Complex

Receipts and Cash Book

General Financial Regulations relating to the control and maintenance of receipts and Cash Books should be adhered to.

Foreign Students

Foreign Students' List

A register is kept for every scholastic year listing particulars of students. Exempt students should also be included in this register.

Information, such as the period for which payment is being made, the date of payment, the receipt number and the amount paid, and the date the student has left school or else left the islands should be recorded in this register.

Any notification made to Heads of School exempting students from payment of the prescribed fee is to be carried out in writing.

Inventory

The Inventory Database should be adjusted as soon as possible so that it is in line with MF Circular 14/99.

The *Catalogue of Heritage Items* should contain a photograph of the item and a detailed certified description by a Government appointed expert should feature on the printed copy of the Assets catalogued sheet. The catalogue of heritage items should, as a minimum, contain the information as per Appendix 'C' of MF Circular 14/99.

Management Comments

Management is to implement the recommendations made by this office as regards revenue. The division is also to abide with standing inventory control regulations.

Gozo Information Division – Inventory

Background

The principal function of the Information Division is to serve as an effective link between the public administration in general and the public. Throughout the year, this link has been maintained by the issuing, from time to time, of press releases covering a whole range of issues. This division also sells the Government Gazette and other government publications.

Control Issues

Opportunities for improvement were identified in the area mentioned below:

- Weak control over inventory due to lack of sufficient details on the inventory database and asset identification.

Recommendations

The Inventory Database should be adjusted as soon as possible to bring it in line with MF Circular 14/99.

Management Comments

Management has accepted and implemented the recommendations.

Gozo Law Courts – Revenue

Background

Gozo Courts' revenue derives from fees, fines and court deposits.

Key Issues

There is a weak enforcement mechanism in the collection of fines and installments imposed by the Courts.

Fines inflicted in 2001

Out of the one hundred and thirty four (134) outstanding fines outlined in last year's report, sixty three (63) fines have not been collected up to the time of the audit.

Fines inflicted in 2002

In 2002, a total of three hundred and twenty seven (327) fines were inflicted. One hundred and twenty two (122) of these fines i.e. 37% were not yet settled by the end of May 2003.

Fines paid by installments

In 2001 there were thirty seven (37) fines which had to be paid by installments. Only six (6) of these fines have been settled. The rest of the installments were not honoured, notwithstanding the issue of conviction tickets against fourteen (14) of the defaulters.

Furthermore, during 2002, four (4) fines payable in installments were still uncollected. Conviction notices have been served on two (2) defaulters only.

Recommendations

Fines

As already stated in last year's 'Report of the Auditor General – Public Accounts 2001' it is once again recommended that an efficient system should be adopted to ensure that:

- a) Fines imposed by the Law Courts are fully honoured within the prescribed time;
- b) Defaulters are summoned immediately upon non payment within the prescribed time;
- c) Conviction tickets are to be issued on a regular basis against all defaulters;
- d) The ID Card Number is to be entered on the 'Cash Book by Installments' as it is the unique individual reference number by which the person concerned can be traced.

Management Comments

Management has accepted and implemented the recommendations.

Gozo Museums – Revenue

Background

The aim of the Gozo Museums within the Department of Customer Services is to ensure that present and future generations are able to derive cultural, educational and economic benefit from Gozo's heritage.

The revenue of the following museums was checked:

- (a) the Folklore Museum;
- (b) the Natural Science Museum;
- (c) the Archeology Museum;
- (d) Ggantija Temples; and
- (e) the Windmill at Xaghra.

Control Issues

Money collected is not being regularly lodged with the bank in violation of standing government regulations regarding the deposit of money.

Recommendation

Money collected should be deposited more frequently and in accordance with standing government regulations. This will eliminate the risk of keeping money on site.

Management Comments

Management has acknowledged our recommendation but, in the case of Ggantija Temples, no indication was given as to how adherence to standing regulations regarding deposits into bank was to be made.

Gozo Public Library and Gozo Lending Library – Inventory

Background

The Gozo Public Library has an extensive collection of reference works. Publications, books, periodicals and newspapers that are published locally are preserved and collected. One can also find a collection of books and publications that have been published abroad.

The Gozo Public Library has implemented a computerized system and library users have availed themselves of the facilities offered through the circulation and electronic catalogue. The Ministry of Gozo continued with the programme of increasing IT hardware at the Gozo Public Libraries, whilst a fibre optic cable was laid down by Maltacom plc to strengthen and upgrade the services offered.

The Inventory assets of the Gozo Public Library and the Gozo Lending Library are recorded on one Inventory Database.

Control Issues

Opportunities for improvement were identified in the area mentioned below:

- Weak control over inventory due to lack of sufficient details on the inventory database and incorrect asset identification numbers. The Catalogue of Heritage Assets is not being kept in terms of standing directives.

Recommendations

The Inventory Database should be adjusted as soon as possible so that it is in line with MF Circular 14/99. Furthermore the *Catalogue of Heritage Items* should contain a photograph of the item. A certified detailed description by a Government appointed expert should also be kept on the printed copy of the Assets catalogued sheet. The Catalogue of Heritage Items should, as a minimum, contain the information as per Appendix 'C' of MF Circular 14/99.

Management Comments

Management has accepted and implemented the recommendations.

Gozo General Hospital – Stores (Provisions)

Background

The stores section at Gozo General Hospital is responsible for the storage, issue and receipt of expendable and permanent items, uniforms, food provisions, and maintenance parts. The audit focused on food provisions.

Key Issues

Supply of Provisions

Certain kitchen rations are issued without being weighed and quantities are determined at the discretion of the storekeeper. The daily rations established by the hospital administrator and used by the stores officer to update ledgers, are disregarded. A number of other provisions are issued to wards/kitchen on a unit of measure different from that recorded in the ledgers. As a result, discrepancies between ledger balances and physical quantities invariably occur. Weekly issue of ration quotas to wards were exceeded, in certain instances leading to apparent hoarding of supplies. This, in turn, increased running costs and the possibility of abuse.

Control Issues

Opportunities were identified for improvement in the following areas:

- Ledgers are showing unrealistic figures of store provisions, due to the fact that provisions issued by storekeepers differ from that recorded by the stores officer. As a result, differences in quantities were noted when comparing book balances against physical balances in store. This constitutes a deficiency in the recording function of the stock control system.
- Weak control over store provisions as a result of:
 - Ledgers being kept manually. Moreover, store items in ledgers are not coded for easy reference, while ledger sheets are not bound and consecutively filed;
 - The non-existence of re-ordering levels/quantities. The quantities ordered and the frequency of requests for replenishment of provisions is based solely on the personal experience of stores personnel;
 - Printed 'requisition for provisions forms' not being pre-numbered and in book form. These forms are improperly filed and manually numbered as soon as they are raised;
 - Bin cards are kept at the store officer's desk instead of against the respective items in store;
 - The unauthorised issue of items from store, resulting from daily rations supplied to wards, without any officer taking responsibility for their receipt;
 - A number of items of foodstuffs left in the passageway leading to the kitchen, instead of being housed in the stores.
- The system of storage lacks the orderliness and preservation conditions expected in a store. Ventilation and control of humidity are inadequate for the storage and handling of foodstuffs.

Compliance Issues

Stocktaking

No stocktaking reports relating to periodic or annual stock takes undertaken were made available. No return was ever received by the NAO of the annual stock take, as required by Sect. I para. 111(1) of the General Financial (Amendment) Regulations 1999 (Legal Notice 83 of 1999).

Recommendations

Key Issues

Supply of Provisions

It is imperative that only quantities as determined by the stores officer are issued to the kitchen. Furthermore, items that are normally quantified by weight, are to be issued on that basis only. Units of measure should be standardised to facilitate the process of updating ledgers and thereby establish an adequate audit trail. Moreover, a more rational Stores Management System is to be established. This is meant to:

- Eliminate the use of different quotas in use by the storekeeper and officer;
- Ensure that items are distributed according to the requirements of the wards concerned following the receipt of a requisition;
- If the system of a quota is retained, it should be revised periodically, after verifying, by means of inspections, whether overstocking is being experienced. This would drastically reduce the practice of the retention of excess stock.

Control Issues

- Stock ledgers should be kept up-to-date and show the correct balance at all times. It is recommended that, as a first step, a stock take of all items be undertaken and the ledgers adjusted accordingly. Only actual

amounts issued from the stores are to be recorded;

- Control over provisions should be improved by taking the following measures:
 - The installation of a computerised stores system with the least possible delay. This requirement increases in importance in view of government's policy to introduce an accruals based accounting system in the foreseeable future.
 - The computerised system should be enhanced to incorporate consumption rates, minimum and maximum stock levels and re-order levels and quantities, so that a more rational system of stock management is in operation.
 - Requisitions are to be pre-numbered and bound in book form to enable better control.
 - Bin cards are to be placed on the respective store item and updated immediately with every store movement.
 - Provisions delivered to wards are to be vouched for by the most senior officer in the ward by duly signing for them. This signature is to be countersigned by the stores official handing over the items.
 - No foodstuffs are to be left in the passageway but should be kept safely stored;
- Suitable storage facilities are to be provided to ensure the proper storage of provisions. It is important to ensure that the conditions present are such as to preserve stores items safely.

Compliance Issues

Stocktaking

Regular stock takes should be carried out as stipulated by Section Sect. I para. 111(1) of the General Financial (Amendment) Regulations 1999 (Legal Notice 83 of 1999). A report on each stocktaking exercise is to be drawn up. All physical checks are to be fully reported upon to the Permanent Secretary and copied to the Auditor General. It is to be ensured that, through a continuous

stock take system, all major items are counted at least once over a given period, preferably one year. All such records are to be kept and discrepancies are to be identified as soon as they arise.

Management Comments

Management concurred with all findings and will be taking the necessary action to rectify the shortcomings highlighted in our report.

Gozo Passports Office – Revenue

Background

The Office is responsible for the processing of Passports and Birth Registration applications, the issue of the relative documents and the ensuing accounting procedures. The officers are generating receipts, collecting money, updating the cash books, preparing deposit slips and drawing up statement of remittances.

Control Issues

Opportunities were identified for improvement in the following areas:

- There is a lack of segregation of duties for the issue of receipts, collection of cash, compiling of cashbook, and drawing up of Bank deposit slips. Cash deposits to bank are performed by all officers within the office. This could lead to a higher risk of intentional manipulation and/or accidental error.

Compliance Issues

Money kept overnight

There were cases where cash was kept overnight in the office safe, even though the

Office could use the facility of a bank night safe.

Recommendations

Control Issues

- Specific functions within the section must be segregated and each officer is to have clearly defined duties.

Compliance Issues

Money kept overnight

All cash collected is to be deposited on the same day, instead of depositing cash takings of the previous afternoon in the following morning. The facility of the night safe should be used.

Management Comments

Management agreed with the recommendation to start using the bank night safe facilities. With regards to segregation of duties, management stated that all officers should perform cash duties. This reply is not acceptable to NAO.

Projects and Development Dept.:

Dawwara Nursery, Experimental Farm, *Pitkalija*, Civil Abattoir and Cold Stores – Expenditure, Revenue, Stores and Inventory

Background

Several sub-divisions of the Projects and Development Department (PDD) within the Ministry for Gozo are responsible for agricultural affairs in Gozo. Audits were performed in a number of such entities, namely, the experimental farm in Xewkija, the Civil Abattoir, Cold Stores and *Pitkalija* grouped in one site in the limits of Victoria, and the Dawwara nursery in Kercem.

Key issues

- At the *Pitkalija*, the sales volume of the only private *pitkal* in 2002 saw a drop of 25 per cent from previous year's figures, and did not exceed 6 per cent of the total sales of the Gozo *Pitkali* Marketing Centre. The low-level sales earned the full-time *pitkal* a commission that does not appear to justify the 10 government employees who were mainly engaged to support the activities of the *Pitkalija*;
- No reference is made in the Annual Report 2002 – Department of Agricultural and Fisheries (Gozo Branch) – to the fact that 4 of the six chillers/freezers (upon which milk producers, farmers, butchers and fishermen depended) ceased to operate at the Cold Stores in March 2002;
- This Office is concerned with the position of the revenue arrears of the Cold Stores at the end of 2002, as well as the systems in use for

collecting revenue. Until cash books are completed and the first return of revenue arrears is received by the National Audit Office (NAO), it would not be possible to carry out verifications of the revenue procedures and cash collected.

Control Issues

Other opportunities were identified for improvement in the following areas:

Pitkalija

- The raw data being processed relating to the inflow and outflow of agricultural produce is not being supported by evidence, as the source documentation is either completely lacking or inadequate. Moreover, the examiners were informed that the unreliable link with the main server in Malta is rendering the updating of computer records an inefficient task. The computer-based management system, the same one in use by the Maltese counterpart at Ta' Qali, is only accessible by the officer in charge of the *Pitkalija* from the Head Office in central Victoria;
- Though it could be of convenience to farmers, hawkers and the public, the present timetable is being run at the expense of controls. The opening hours are incongruent with the working hours

of the *pitkali* clerks. Though daily slots are reserved for direct sales to housewives, record of such sales does not exist;

- *Pitkalija* is issuing what it regards as an unofficial receipt of the monies collected from licensed vendors/hawkers to be deposited with the commercial bank administering the main *pitkali* market scheme in Malta and Gozo. At the same time, however, the *Pitkalija* is responsible for any amounts which are not actually credited to the personal account of the vendor.

Dawwara nursery

- Dawwara nursery are purchasing consumables direct from the open market without prior requests with the Experimental Farm stores.

Experimental farm

- Store issues are not being preceded by a duly documented requisition;
- Goods or Service Purchase Orders (GSPOs) supporting the receipts into the stores are being retained by external reference, that is, commitment number. As the source documents are not consecutively filed in an uninterrupted sequence, GSPOs are difficult to trace, with the risk of getting mislaid;
- As has been reported in the departmental 'Annual Report 2002 – Department of Agriculture and Fisheries (Gozo Branch)', the experimental farm appears to lack the right number of clerical staff. This could partly explain the shortcomings and weaknesses identified in this audit;
- Entries in Permanent Items Books (PIBs) bear no direct

cross-reference to corresponding postings in the store ledgers. Furthermore, no transfer notes, and consequently no PIBs, have been drawn up for 2002.

Civil Abattoir

- The records of cash takings from poultry licences and rabbit vaccine in 2002 went missing, together with the receipt book in use at the time. Consequently, this Office was not in a position to validate the revenue received and the claim that no cash was lost.

Common observations

- Comprehensive official price lists, if at all, were found to be lacking in all the points of sale of the agricultural divisions examined;
- Inventory items bear an outdated asset identification number, if any. Tools and ancillary equipment are not coded. No personal sheets or individual record are kept of the items of this category taken on charge by responsible officers: track of their location in the PIB have not been kept since 2001.

The Auditor General is not being notified of the additions to, and intradepartmental transfers of, items of inventory for which the DPP is accountable. Quantities of saleable plants, crop and shrubs in hand (seedlings, vine rootlings and fruit tress) at the end of a control period are not being reconciled with opening figures in the examined divisions where these products are retailed. The day average of 1 – 2 cash receipts raised by the Dawwara nursery could not be verified with stock turnover due to the lack of stock records.

Compliance Issues

Suppliers' invoices and purchase orders

Thirteen per cent of the number of GSPOs examined in respect of store receipts by the Xewkija Experimental Farm, ensued rather than preceded the invoice, contrary to the standard procedure.

Stocktakings

Lack of 'perpetual inventory' checks, for the verification of store records by staff at the experimental farm, was revealed by the fact that no bin card is maintained for a number of items in stock. No record is kept of the saleable stock carried at the Dawwara nursery, where no stocktakings are carried out.

Log books and fuel requisitions

It is not sufficient for log book folios to be signed: proper monthly log book certification is required as per Public Service Management Code. It had been noted that such certification and proper fuel authorisation could be lacking due to the fact that only start- and end-of-day tachometer readings are being recorded. Furthermore, this Office could not verify records in certain locations, due to the lack of a continuous audit trail in fuel requisitions, for example, by the Civil Abattoir.

Information on government-expensed vehicles

The vehicles listed on the return in terms of MF Circular 8/90 could not be reconciled with all the agricultural units or sections of the PDD examined by the NAO. Consequently, the examiners had to rely at times on the information made available by staff as to which government-expensed vehicles were committed to the sub-divisions that were actually audited. The information that could be obtained was not always complete and precise. Besides wrong information, the foregoing return was also characterized by the absence of the names of the owners of ex-impres and leased vehicles. In addition, where the information is in actual fact available, the return did not

contain details of fuel expenses. Moreover, repair expenses were declared for only a small proportion of the pertinent number of vehicles. These factors limited to some extent the work of this Office.

Recommendations

Cold Stores

Given the equipment breakdowns in 2002, and the consequent reduction of operations to one third of the capacity that may have resulted in low revenue, the degree of commitment of the resources that are currently employed at the Cold Stores is to be reassessed and given due consideration as to what action could be taken in the immediate short-term as well as the future.

Feedback was requested on the extent to which cash books had been brought up to date. Regular returns of arrears of revenue pertaining to the Cold Stores should be submitted to this Office without fail or delay.

Pitkalija in general

A weighbridge at the main entrance seems to be the most basic control that has to be introduced, as recommended for the *Pitkalija* in Malta. This control system could mitigate considerably the risks that presently exist.

Information systems at the *Pitkalija*

For more credible support of the computer records, statements of *pitkali* sales to vendors are to be drawn up on the official form in the first instance, signed and countersigned by the *pitkali* clerk and the *pitkal*.

Pitkalija opening hours and sales direct to housewives

Control needs to be exercised in accordance with the pertinent legislation, requiring the presence of a *pitkali* clerk at all the times business is transacted. Record is to be kept of sales made direct to housewives. Government policy and legislation, ensuring that these sales do not exceed the stipulated limit, need to be followed.

Vendors' monies deposited with commercial bank

The PDD/*Pitkalija* is to exercise better control over the receipts from vendors deposited with the commercial bank. The NAO recommends that such monies, which could be deposited in an interim account opened with the bank for the purpose, are to be recorded in a cash book. Alternatively, a disclaimer could be signed by the vendors exonerating the Department from any liability that may arise from accepting monies for banking on behalf of the former.

Dawwara nursery and Experimental Farm

Price lists – Official comprehensive price lists ought to be provided and regularly updated to ensure that charges made out to customers reflect current market prices and/or the policy of the Ministry.

Stock records – Detailed stock movement records are recommended at the Dawwara nursery as well as at the Experimental Farm for all the agricultural products, not just livestock. These could support stock turnover rates and verification of cash received. DAS receipts are to be given a sequential number by which the documents could be filed. This would support the deposit of the cash takings by means of an uninterrupted continuous audit trail in the cash book of the respective points of sale. Furthermore, better coordination with the Experimental Farm is required when it comes to the procurement of stores.

Issues and receipts at the stores of the Experimental Farm

A numbered copy of the GSPO supporting receipts into store is to be filed for the better administration of stores. All store issues are to be preceded by a written requisition duly signed by the authorized officer(s). The storekeeper at the Experimental Farm would retain a copy of the requisition, with cross-reference to the corresponding SIF.

Administrative staff at the experimental farm

The PDD is to assess the risks implied by the lack of controls due to the alleged understaffed administration block at the

Xewkija Experimental Farm, and report whether an increase in the complement of clerical workers would be justified.

Physical checks of inventory and store records

A properly certified one hundred per cent check of all stock records is recommended at least once a year. This should include stocks of agricultural produce. This Office is to be provided also with a yearly declaration from the PDD to this effect. The provisions of the General Financial Regulations (GFR) relating to the proper administration of stores are to be followed – particularly the annual one hundred per cent check (copied to the Auditor General) and the writing off or disposal of unserviceable or obsolete items.

Purchase orders

A GSPO is to precede the purchase of any good or service as per GFR.

Inventory

The agricultural sub-divisions of the PDD is to be brought in line with inventory regulations. In preparation for accrual-accounting, the recording of all inventory items is to include correct and updated valuations. The NAO is to be kept posted on inventory movements, as required in terms of MF Circular 14/99.

Revenue from poultry licences and rabbit vaccine

Records are to be restituted, in terms of standing procedures, when such documents go missing.

Log book records

These should include tachometer readings for individual trips, reference to fuel requisitions and all relevant details.

Return of motor vehicle running expenses

The return of fuel costs and other motor vehicle running expenses should be more

accurate and informative, in adherence to MF Circular 8/90.

Management Comments

- The recommendation of a weighbridge at the Gozo *Pitkalija* has been noted and should be taken into consideration in the light of changes which are expected to take place in the *Pitkali* systems in Malta and Gozo;
 - *Pitkalija* staff, catering also for the needs of the Gozitan farmers' cooperative, will be reduced to five due to natural wastage in the coming months;
 - Document flow at the *Pitkalija* is being reviewed for the completeness of recorded transactions. Access to the computer-based *Pitkali* Marketing Management System is now available from the marketing centre, making the recording process more efficient. Statements of *pitkali* sales are being drawn on official forms and signed by both the *pitkal* and *pitkali* clerk;
 - Instructions had been given to those concerned to ensure that sales to housewives are recorded in accordance with the regulations;
 - Cold Store invoices had been issued to customers up to August 2003 and part of the amount due collected. Assurance was given on the completeness of the cash books for 2002;
 - Instructions had been given for the implementation of the recommendations of the NAO on the issues and receipts at the stores of the Experimental Farm, and the updating of the records of permanent items and inventory including plants, crops and shrubs. Corrective action is also being taken regarding physical checks of inventory and store records, even at the Dawwara Nursery. Internal checks would be carried out to ensure compliance with new controls and procedures. Even the alleged shortage of staff at the Farm would be looked into as proposed;
 - Sections within the Agricultural and Fisheries Branch, comprising the Dawwara Nursery, had been instructed to procure goods only through the central stores at the Government Farm;
 - Instructions have been issued to all sections to ensure that the practice of issuing purchase orders after the date of invoice is to be immediately discontinued;
 - Action is being taken to ensure that comprehensive price lists, established in agreement with the Ministry for Rural Affairs and the Environment, are displayed on notice boards at the points of sale of the Government Farm and Dawwara Nursery;
 - The cash book for poultry licences and rabbit vaccine for 2002 is still in the process of being restituted from available documents;
 - All sections within the Department have been instructed to adhere to the standing Transport Regulations and to the recommendations made by the NAO in this regard.
- Management appears to have taken exception to the recommendation of the NAO on the banking of receipts on behalf of vendors.

Projects and Development Dept.: Works Branch, CMU and MSS – Expenditure, Stores and Inventory

Background

The Projects and Development Department (PDD) within the Ministry for Gozo is responsible for the various Works sub-divisions in Gozo. Audits were carried out in three such entities, namely, the stores of the Works Branch (WB) and Construction and Maintenance Unit (CMU) in Victoria, and the garage and stores of the Manufacturing and Servicing Section (MSS) in Xewkija.

Key Issue

No records were being kept of the light vehicles committed to the store and office duties of MSS. In addition, the records of the heavy plant engines were inadequate for the required level of control over fuel consumption and authorized use.

Control Issues

Opportunities were identified for improvement in the following areas:

- Though of the same category, distinct items were being physically stocked together at the MSS Garage store, and were also being given a common store ledger code;
- Issues from all the stores were not being preceded by a duly documented requisition. The authorisation of a responsible officer was not being evidenced on the Store Issue Forms (SIFs) for direct issues from the Victoria WB Stores. The number of SIFs issued by the MSS Garage store in 2002 could not be determined;
- Goods or Service Purchase Orders (GSPOs) supporting the receipts into stores were, in most cases, being retained by external reference, that is, commitment number. As the source documents were not filed in an uninterrupted sequence, there was a risk of their getting mislaid;
- The inventory and corresponding records that were examined could be indicative of the inventory controls needed in the Works sub-divisions of the PDD in general. Inventory records lacked asset identification numbers. Tools and ancillary equipment were not coded, and no personal sheets or individual records were kept. NAO was not being notified of the additions to, and intra-departmental transfers of, items of inventory for which the DPP was accountable. At the MSS Garage, the examiners could note that the disposal procedure was still to be initiated at the time of the audit in respect of certain unserviceable heavy plant vehicles inspected. A particular vehicle understood to have emanated from the Ministry for Gozo had been garaged at MSS several years ago, but was still not included in MSS inventory records;
- Notwithstanding that MSS was not VAT-registered and, therefore, neither recovering the input tax,

VAT was being excluded from the value of receipts in the store records. The examiners were also informed that a local cooperative could be charging Local Councils for road signage works commissioned to it by various Local Councils in Gozo. This work was, however, being carried out by MSS.

Compliance Issues

Asbestos-cement stock

The PDD was not implementing the relevant regulations to discard the EU-banned material from its stores, such as the asbestos-cement sewage piping accessories.

Suppliers' invoices and purchase orders

In both stores where invoiced goods and services had been checked for proper authorisation, it was found that seventeen per cent of the GSPOs examined ensued rather than preceded the invoice, contrary to the standard procedure.

Periodic complete stocktaking

None of the stores examined could properly evidence that the responsible staff carried out the mandatory annual physical verification check of all the stock records for 2002.

Information on government-expensed vehicles

The vehicles listed on the return in terms of MF Circular 8/90 could not be identified with any unit or section of the PDD Works Unit. Consequently, the examiners had to rely on the information made available by staff as to what government-expensed vehicles were committed to the sub-divisions that were actually audited.

The information obtained did not turn out to be complete and precise. This limited the work of the examiners. Besides, information on four ex-impressed drivers and reference to one particular vehicle could not be verified.

Recommendations

Coding distinct stock items

Distinct stock items, for instance stores stacked by category at the Xewkija MSS Stores, are to be separated, recorded under one unique reference and stored in separate or distinct bin racks.

Sequential audit trail of receipts into stores

The administration of receipts, such as those issued by the Victoria WB Stores could be made more efficient. Their verification could be facilitated if the copy of the GSPO supporting the receipt is filed for future reference by means of an internal reference number given for the purpose. Moreover, the GSPO reference number is to be entered in bin cards and store records.

Source documents supporting store issues

Direct store issues, especially those concerning the Victoria WB Stores, could be preceded by a written requisition duly signed by the authorized officer(s) as is the practice at the Works Division in Malta. The storekeeper would formally acknowledge the requisition and permanently retain a copy bearing a reference number given for the purpose. Cross-reference to the corresponding store issue form should be made.

Asbestos at the Victoria WB Stores

As proposed by technical staff of the Works Division (Malta), asbestos stores may have some economic use – possibly in storm-water systems subject to the restrictions of the pertinent laws. Otherwise management must dispense with the hazardous stock in accordance with standing regulations.

Physical checks of stores

In order to mitigate the risks and the inefficiency caused by carrying dormant stocks, a properly evidenced hundred per cent check of all stock records is recommended at least once a year. A yearly declaration

from the PDD to this effect is to be forwarded to the NAO. The writing-off or disposal procedure for items which are identified as unserviceable or obsolete during the process should be initiated as required by the General Financial Regulations (GFR).

Purchase orders

A GSPO is to precede the purchase of any good or service as per GFR.

Inventory

For the various Works sub-divisions of the PDD to be brought in line with accrual-based accounting, a proper record of all inventory items is to be maintained, including correct and duly updated valuations. NAO is also to be kept posted on inventory movements, in terms of MF Circular 14/99.

VAT status of MSS

Management needs to review the VAT status and the billing procedure in use at MSS in order to check any losses of government revenue.

Vehicle log books at MSS

A log book for all the government-expensed cars and other vehicles committed to the business and operations of MSS ought to be maintained and certified in accordance with relevant regulations, stipulated in the Public Service Management Code.

Return of motor vehicle running expenses

The return of fuel costs and other motor vehicle running expenses should be more accurate and detailed by being in line with MF Circular 8/90.

Management Comments

- Distinct stock items in the stores of the MSS are now being coded

separately, and the recommendations made on reference to documents supporting store receipts and issues are being implemented;

- Observations on the recording of purchases without irrecoverable VAT have been rectified. The MSS will be registering with the VAT Department. The Section is still endeavoring to reach an agreement with the Koperattiva Sinjali u Tabelli on compensation for work carried out on behalf of the latter;
- To avoid unauthorized issues a deputy has been nominated at the Victoria WB store to authorize issues in the absence of the main authorizing officer. Pre-authorization of issues at the CMU stores will be documented;
- The recommendations on purchase orders by WB stores, a sequential audit trail of receipts into the Victoria stores, inventory records and the dispensing with asbestos stocks and unserviceable items have been adopted, as well as those relating to the physical checks of all stores. Moreover, internal checks would be carried out to ensure compliance with new controls and procedures;
- The necessary corrective action has been taken on the recommendations of NAO on the unserviceable vehicles noted at the MSS and conformity of the WB with Transport Regulations. Where log books are not practicable as in the case of heavy plant vehicles, other safeguards are in place for the control of fuel consumption.

Ministry of Health

- > **Ministry of Health**
- > **Human Resources Department**



Ministry of Health – Expenditure

Background

The duties of the Accounts Section include raising Goods and Service Purchase Orders (GSPOs) and Payment Vouchers (PVs), processing payments, and forwarding all the related documentation to Treasury. It is responsible for the expenditure of the seventeen Cost Centres within the Ministry of Health.

All transactions for the year 2002 were carried out using the Departmental Accounting System (DAS).

The audit covered only the following four Cost Centres:

- Policy and Planning
- Finance and Administration
- Human Resources
- Health Information

Key Issues

Extension of services beyond Contractual Agreement

The contractor who was awarded the project for the implementation of a Stock Control System at St. Luke's Hospital, has not finalised the System four years after being given the go-ahead to start works, although the total project duration should have been only 18 months. The total estimated cost for this tender was Lm45,000 while to-date the contractor has already been paid Lm121,167 for services rendered.

Drawing up of GSPOs

There is a high incidence of cases where goods/services were purchased/received prior to the issue of the relative GSPOs. Non-compliance ranged from 19% to 50% of the transactions in the cost centres examined.

Misallocation of Expenditure

A number of expenses were not posted to the proper account. The incidence ranged from 6% to 40% of the transactions in the cost centres examined.

The last two shortcomings were already highlighted in 2000 and 2001 during the audit of expenditure for other cost centres.

Compliance Issues

Lack of required Authorisation

GSPOs in Cost Centres "Finance and Administration" and "Human Resources" (9% and 6% respectively of the samples examined) were not authorised when ordering goods or services.

Reimbursements of Air Fares to Foreign Experts

No documentary evidence of the values to be refunded was presented in 80% of PVs examined in connection with reimbursements. The amounts of refunds were obtained by referring to previous authenticated reimbursements or to an outdated price list from Air Malta of 1996.

Vehicle Repair Works exceeding original estimate

Following a road accident between a private vehicle and a government-owned vehicle, the final cost of repairs on the latter amounting to Lm815, well exceeding the initial estimate by the Transport Office (Lm175) and the initial quotation from a private contractor (Lm230). A subsequent quotation of Lm775 was submitted. Instead of limiting repairs only to the accident, other repairs, have been included as well. The origin of these additional repairs could not be deduced from the documentation examined.

Non-Compliance with Procurement Procedures

A departmental tender was issued for the construction of a lift shaft, the original estimate of which amounted to Lm20,833. This is in breach of Public Service (Procurement) Regulations 1996 Sect. 11(2). The matter was untimely referred to the Director General Contracts.

Non-Provision of Bank Guarantee

It was observed that in two departmental tenders awarded "Construction of Lift Shaft" and "Refurbishment of Premises" the contractor did not furnish the department with a bank guarantee of 10% of the Contract value as required in the respective Form of Tender.

Incomplete Inventory database

The Inventory Database of the various departments housed at Palazzo Castellania, Merchant Street, Valletta, has not yet been compiled. However, the room lists, which are normally extracted from the database, are in place.

Inventory items of the above premises, as well as those of the Health Promotion Department in Floriana, are not permanently marked with their respective asset identification number as required by MF Circular 14/99.

Recommendations

Key Issues

Extension of services beyond Contractual Agreement

The provision of consultancy services at St Luke's Hospital on the part of the contractor, should be stopped immediately until approval for works is granted by the Director General Contracts. A proper evaluation of the remaining works, including timeframes, should be made, and the relative approval should be sought to extend the contract, if necessary. Management is to consider whether the prescribed penalty fee should be imposed on defaulting suppliers.

Drawing up of GSPOs

Good management practice demands that covering authority should be sought prior to the commissioning of works or requesting the purchase of goods, as it is a management tool to effectively control the availability of funds. Thus, goods and services should be covered by a GSPO (unless a letter of acceptance has been issued) upon placing of an order.

Misallocation of Expenditure

All items of expenditure must be appropriately accounted for in the correct account. Failure to comply will inevitably distort the comparative amounts of budgeted and actual expenditure.

Compliance Issues

Lack of required Authorisation

Goods/Services are to be ordered by means of a GSPO (unless a letter of acceptance has been issued) which is signed by an authorised official.

Reimbursements of Air Fares to Foreign Experts

All reimbursement of air fares should be made against presentation of the relative air tickets to avoid any over/under payments and any possible abuse.

Vehicle Repair Works exceeding original estimate

It is recommended that in similar situations the file should clearly document decisions as they unfold without the need to ask for clarifications.

Non-Compliance with Procurement Procedures

Due care and diligence is to be taken so that calls for tenders are invariably issued in accordance with Procurement Regulations. If there are sufficient reasons to dispensing with the provision of such regulations, covering authority should be obtained as a first step.

Non-Provision of Bank Guarantee

Provision of Bank Guarantees should be enforced in all instances.

Incomplete Inventory database

The inventory ledger should be finalised and completed in accordance with the relative circular as early as possible. Additional effort is needed by the officer in charge to speed up this exercise. Each item should be physically marked with its identification number and such mark must be indelible. Until the Inventory Database is fully complete, there can be little effective control over inventory items.

Management Comments

Management is taking action to rectify a number of issues. However the following areas

of concern are not being satisfactorily addressed:

- i) Drawing up of GSPOs;
- ii) Misallocation of Expenditure;
- iii) Lack of required Authorisation;
- iv) Non-Provision of Bank Guarantee.

As regards the Extension of Services beyond Contractual Agreement, retroactive approval was obtained from the Director General (Contracts).

Human Resources Department – Scholarships

Background

The system regulating scholarships is one of the responsibilities of the Human Resources Department (HRD) within the Ministry of Health. The HRD's role is to control staff development and employees' relations as regulated by the Staff Development Organisation (SDO).

The HRD's objective is to supervise scholarships (whether abroad or local, short or long term, on a paid or unpaid basis, etc) awarded to Ministry of Health employees. This is vital in order to conform with OPM Circular 32/99 that requires every Ministry to provide the Director of SDO with a comprehensive list of all training initiatives every six months.

All relevant details of health employees undertaking a scholarship are entered in a database which is used for record and control purposes. When any change occurs in an employee's status, (eg: upon resignation) the database is updated accordingly, while the personal file is passed on to the Records office for appropriate action to be taken.

Key Issues

Incomplete Database

A number of scholarships awarded to health employees covered by notarial deeds could not be traced in the records kept at the Health Department. The health database is not complete and as a result, information forwarded to the SDO in terms of OPM Circular 32/99 is not accurate, rendering the control function of both departments ineffective.

Control Issues

Opportunities were identified for improvement in the following areas:

- A number of personal files of employees who have resigned from the Ministry were requested for examination but could not be traced. The existing deficiencies in the filing system are resulting in a lack of audit trail;
- A pharmacist, who commenced a two-year sponsored overseas course in 1994, did not serve the Government for the period of five years as specified in the deed. This resulted in the Health Department not benefiting from the services of the pharmacist for the established period. Neither did the department recoup the amount that the employee was liable to refund for not undergoing the agreed number of years service.

Recommendations

Key Issues

Incomplete Database

A reliable database should be introduced with immediate effect in order that conditions made to employees undertaking courses, both locally and abroad, are seen to be adhered to. Public interest would be safeguarded by ensuring that all terms and conditions of award of scholarships are enforced without fail.

Control Issues

- It must be ensured that all personal files that have been put away must be adequately archived in such a way as to facilitate retrieval;

- It is recommended that the conditions regulating scholarships be enforced by introducing appropriate internal controls. Advice is to be sought on legal action to enforce the conditions

specified in the deed entered into by the pharmacist.

Management Comments

Management is taking action to remedy the points raised.

Below-the-Line Account – Nurses / Patients Fund

SVPR

Background

An 'ad hoc' below-the-line account was created to deposit cash donations by patients. As no documentary evidence could be obtained from the Health Department, it was difficult to establish the necessity to open the account. The account was opened years ago when State Homes for the Elderly still formed part of the Ministry of Health. Originally the account was used for donations made by inmates of SVPR. It was retained by the Ministry of Health to cater for donations by patients of state hospitals.

- The Record of Donations sheet included an amount of Lm32.50 (the equivalent of Stg50) donated by a particular patient. This amount is shown in the DAS Transaction History sheet but as a donation by a different donor;
- The Transaction History printout included donations of Lm967.26 (Stg1500) which were not recorded in the Return of Donations database.

Compliance Issues

Utilisation of funds

Two payments were effected from the below-the-line account which could easily have been defrayed from ordinary expenditure.

Differences between Return of Donations and DAS Transaction History

The Return of Donations database and DAS Transaction History printout show the following discrepancies:

- The Return of Donations database showed a donation of Stg250 as Lm250 whilst the DAS Transaction History printout showed this donation twice – once as Lm250 and again as Lm161.36 (the equivalent of Stg250);

Recommendations

Compliance Issues

Utilisation of funds

It would be better accounting practice if cash donations are treated as miscellaneous revenue and the below-the-line account be wound up.

Differences between Return of Donations and DAS Transaction History

All cash donations effected should be properly recorded and remitted, as stipulated in MEPF Circular 9/64.

Management Comments

Management did not agree with our recommendation to wind up this account. However it was agreed to record and remit donations as stipulated in MEPF Circular 9/64.

Ministry of Justice and Local Government

- > **Ministry**
- > **Law Courts**
- > **Office of the Attorney General**
- > **Local Councils**

Ministry of Justice and Local Government – Expenditure and Inventory

Background

The Ministry's responsibility with regard to Justice is ensuring that the set-up for the administration of justice, as well as that for the legal services afforded to both government and the public, be efficient, competent and adequately staffed.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Internal Controls in the processing of Purchase Orders were missing. There is no segregation of duties between the authorising and payment functions and purchase orders are often issued following the actual purchase of goods and services;
- Payments not covered by V.A.T. Fiscal Receipts;
- Lack of controls over vehicles - incorrect mileage recording;
- Lack of control over inventories - room lists do not include Asset Identification Number Classification;
- The Heritage Assets Catalogue not being compiled in terms of standing regulations.

Compliance Issues

Infringement in the placing of Orders for Printing Work

Printing work undertaken by the Ministry was all carried out by outside sources against

the provisions of OPM Circular 5/95 and OPM Circular 39/98.

Inventory Database

Incorrect Room Lists

Two rooms out of thirty rooms were examined. Three items featuring on the inventory room lists were not accounted for, while five non-listed items were found in these rooms.

Purchases not traced to the Departmental Inventory Database

Twenty one inventory items covered by six payment vouchers out of the two hundred and forty nine examined could not be traced to the Departmental Inventory Database.

Comparison of items added during the year with the Departmental Inventory Database

The following main discrepancies were noted in the Additions Return (comprising thirty six items) sent by the Ministry to NAO office in terms of MF Circular 14/99:

- i. Estimated values instead of actual costs were entered for the items of inventory purchased;
- ii. Reference to Payment Vouchers were not always indicated in the list of acquisitions;
- iii. Four items were included in the Additions Return but not recorded in the Departmental Inventory Database;
- iv. Five items of inventory - mainly items of equipment and furniture - which appeared in the Additions Return were found in the Departmental Inventory Database

but with a different cost from that indicated on the Additions Return;

- v. Eight items appearing in the Additions Return could not be verified against the Departmental Inventory Database either because the date of purchase was missing or because there were various entries in the Departmental Inventory Database with the same description as those in the Additions List.

Recommendations

Goods and Service Purchase Order issued after receipt of Invoice

It is imperative that, where applicable, goods and services are covered by a Goods and Services Purchase Order upon placing of an order. This procedure will ensure that proper authorisation for the purchase is not vitiated.

V.A.T. Fiscal Receipts

Every effort is to be made to ensure that official V.A.T. Receipts are obtained from suppliers. The Ministry is to furnish the V.A.T. Department with a list of suppliers who failed to issue official receipts.

Vehicle Log-Books

Since the major findings were related to the recording of the mileage, it is recommended that the Ministry of Justice keeps a closer eye on how the log-books are being maintained. The correct mileage covered during each journey is to be recorded on the log-book and signed by the officer making the journey in order to exercise proper control over the issue of fuel to Government vehicles or hired vehicles.

Infringement in the placing of Orders for Printing Work

OPM Circulars 5/95 and 39/98 stipulate that Heads of Departments are to ensure that no orders for printing works from outside sources are to be made unless the Director (Printing Press) confirms in writing that the Government Printing Press is not in a position to undertake the work. In view of the provision of these circulars, the way that orders for printing works are placed by the Ministry should be revised and affected accordingly.

Lack of Heritage Assets Catalogue

A Heritage Assets Catalogue is to be compiled for the heritage items that the Ministry of Justice has been entrusted with. As a minimum this catalogue is to contain the information as required by Appendix 'C' of MF Circular 14/99.

Inventory

- a) The Inventory Ledger is to be kept and updated in accordance with MF Circular 14/99;
- b) Updated room lists are to be in place in each room within the ministry;
- c) The officer in charge of the room is to inform the officer in charge of inventory whenever items are moved from one location to another;
- d) Codes are to be affixed to/marked on every item of inventory.

Management Comments

Recommendations were agreed to by management and are being implemented.

Law Courts: Civil Court Second Hall – Expenditure and Revenue

Background

The Second Hall is a Court of voluntary jurisdiction in matters of a civil nature, such as the tutorship of minors, adoption, the interdiction and incapacitations of persons of unsound mind, the opening of successions, and the confirmation of testamentary executors.

receipts making it impossible to trace them to CORTEX and eventually to DAS.

Key Issues

The inaccurate allocation of monies received for 'notifika' to a below-the-line account instead of crediting the revenue account. Given the fact that this has been going on since the introduction of Departmental Accounting System (DAS), the amounts involved could be considerable. For the year ending 2002 payments for 'notifika' that were allocated to the wrong account amounted to Lm 3,308.

Recommendations

Wrong allocation of payments for 'Notifika' in DAS

The amount of fees in respect of 'notifika' that was misallocated since the DAS was introduced at the Law Courts should be established and transferred to the respective revenue account. Furthermore, the amount of Lm 3,308 (covering 2002) referred to under 'Key Issues' should be adjusted forthwith.

Control Issues

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

- Whilst checking the Civil Case Management Computer System (CORTEX) report with the DAS Report in order to verify the correct allocation of the fees collected, it resulted that on one occasion the same CORTEX Sequence Number was issued for two different cases. Furthermore identical receipt numbers were quoted for two different payments. No explanation was forthcoming;
- Out of the entire receipt book which consists of 100 manual receipts, forty two receipts (i.e. 42%) were undated;
- The CORTEX Sequence Number was not entered on six manual

Same sequence number entered twice in CORTEX Report

The IT System needs to be reviewed so as to ensure that Cortex Sequence Numbers are unique to individual payments.

Manual Receipt Books

Manual receipt books are to be kept in an orderly manner with all the required information in terms of standing regulations so as to support an audit trail and ensure completeness of records.

Management Comments

Management has agreed with our recommendations regarding the orderly manner in which receipt books are to be kept and the misallocation for 2002.

The misallocation of Lm 3,308 (covering 2002) has been adjusted by transferring the amount to Revenue. However the department failed to rectify misallocations of prior years.

Law Courts – Cash Office

The main functions of the Cash Office at the Law Courts is the collection of fines inflicted by the Magistrates Courts and, up to April 2000, by the Commissioners of Justice re traffic fines.

Background

The NAO, in its Annual Report for 1999, reported serious irregularities which were detected during the auditing of the cash office of the Law Courts. A Board of Enquiry, which was set up in term of Section 3(a) of the Inquiries Act XIX of 1977, confirmed all the irregularities reported upon by NAO. The Board had, in June 2000, recommended *inter alia* that:

- further investigations be carried out by the Police;
- the subsidiary and main cash books are to be reconstructed; and
- cancelled traffic fines be reactivated.

Developments

Police investigations

The Director General, in August 2000, asked the Commissioner of Police to initiate investigations as recommended by the Board. According to the Permanent Secretary, a reminder was submitted to the Commissioner in mid-May 2001, besides various verbal reminders. In late May 2001 a Police Inspector had an interview with the Director General on the matter.

NAO's remark in the 2001 Audit Report, namely that the Director General could not say whether or not the Police concluded the investigations as recommended by the Board of Enquiry, still stands.

Reconstruction of Cash Books

Although cash books were reconstructed, as recommended by the Board of Enquiry, no statement was drawn up by the department indicating the amounts that should have been remitted to the Accounts Section for eventual deposit into bank against what was actually handed over.

Moreover, in the NAO Annual Report for 2000, it was reported that a counterfoil receipt book issued on the Cash Office in March 2000 was not presented for audit checking. No receipts pertaining to this counterfoil book could be traced in the Cash Book. However NAO has reason to believe that, at least in one instance, money was collected and was covered by a receipt issued from this counterfoil receipt book. This amount covering the receipt appears to have never reached the Accounts Section. No action regarding this matter has as yet been taken by the department.

Reactivation of traffic fines

In 2001 the department reactivated the 34 traffic fines indicated by the NAO as having been tampered with in October 1999. As a result the Director General recovered over Lm680.

It was made clear to the department that the 34 irregularities detected were the result of sample tests carried out on one particular month viz October 1999 and not a one hundred per cent check of the traffic fines receipts. It was recommended that a full scale exercise should be carried out on the remaining months until that period in the year 2000 when the irregularities ceased to occur.

The Director General however reported that the exercise of identifying and reactivating tampered fines cannot be undertaken with the present level of staff, and further stated that it is highly unlikely that staff will ever be identified for this task.

Recommendations

Permanent Secretary, OPM, who was monitoring the outcome following the Board's recommendations, has on the 22 January 2003, informed the Permanent Secretary Ministry of Justice and Local Government that in view of the long time which has elapsed since the submission of the report of the Board of Enquiry, no disciplinary action may be taken against the officers involved in the irregularities allegedly committed. He also stated that this, however, does not apply in respect of any criminal action which may be taken on the other irregularities of a criminal nature, which action may only be taken following the conclusion of the police investigations.

Immediate steps should be taken to recoup the traffic fines that were tampered with. Amounts of public funds at risk cannot

be quantified unless the exercise recommended is undertaken. Moreover, the exercise may also establish who is responsible for the loss of revenue. If amounts are unrecoverable because of prescription, write off of the amount is to be sought in terms of the Financial Regulations.

Follow up action regarding the Police investigations, which started way back in August 2000, should be pursued by the department.

As this item has been featuring in these last four (4) Audit Report and little or no progress at all has been registered since its first appearance in the Annual Report for 1999, the NAO will have to bring the subject matter again until a satisfactory outcome can be reported.

Law Courts – Revenue (Superior Registry)

Background

The Revenue Section sends bills issued from CORTEX (Civil Case Management Computer System) to individuals and companies whose cases have been decided. Payments made by cheque are payable at the Revenue Section, whilst cash payments are payable at the Superior Registry. Both the Revenue Section and the Superior Registry keep a Cash Book where these payments are recorded.

Besides issuing claims to cover Court fees, the Revenue Section also effects refunds to individuals and companies. Since following the adjudication of a case the fees due are revised, any amounts which are found to have been over claimed by the Courts are refunded.

Key Issues

The lack of proper safe keeping of important documents is a major area of concern at the Superior Registry. CORTEX and DAS Reports for the period 1 January 2002 to 9 May 2002 were not presented for audit notwithstanding the fact that several

attempts were made with the official in charge to make these documents available.

Recommendations

As the amount due on the claims issued by the Revenue Section is entered manually on the CORTEX Report it is of utmost importance that the original CORTEX and DAS Reports are properly kept. This is the only audit trail whereby one can verify that all amounts collected have in fact been accounted for and deposited.

Management Comments

Management agreed to our recommendation and action is being initiated to ensure the proper maintenance of documents.

As regards the missing records, management stated that this was a consequence of transferring documents from the Courts Annex to either the Courts of Justice main building or the department's stores.

Law Courts – Log Books and Inventory

Background

The Law Courts retain sixteen self-drive hired cars which are made use of by court marshals for duties related to the courts they are assigned to. A government-owned car is kept for general use.

Key Issues

The Inventory database which should have been completed by December 2000 as per standing regulations in December 2002 was still in its initial stages and no progress was registered since the last report.

Control Issues

There is weak control over use of vehicles - incorrect recording of mileage, lack of signatures authorizing and confirming journeys, and trips made without entering the purpose for the journey.

Recommendations

Inventory Ledger

The inventory exercise requested in MF Circular 14/99 dated 24 November 1999

should have been completed within one year. It is now long overdue and should be finalized with the least possible delay. One of the major requisites in the implementation of accrual accounting is to ascertain that inventory records are updated at all times. The absence of a complete updated and accurate Tangible Fixed Assets Records will have serious bearing on the implementation of accrual-based accounting.

Vehicle Log Books

Heads of Department are to ensure that correct mileages are recorded and signed by the officer making the official journey to ensure proper control over the issue of fuel and unauthorized use of transport facilities.

Management Comments

Management instructed employees by issuing a circular with clear instructions relating to the proper maintenance of log books. However, no clear commitment was made relating to the Inventory Database.

Law Courts – Court Deposits

Background

One of the key functions of the Law Courts is the custodianship of money or assets on behalf of others. As administrators the Law Courts should be able to identify the money or assets to the persons on whose behalf they are held. The nine Court Deposit Accounts amounted to Lm 7,653,710 as on 31 December 2002. These are made up as follows:

	Lm
Court of Appeal	518,285
Civil Court of Judicial Police	882,081
Civil Court First Hall	3,791,705
Civil Court Second Hall	4,198
Commercial Courts	1,510,244
Criminal Courts	678,101
Gozo Courts	223,147
Land Arbitration Board	15,612
Regular Court Deposits	<u>30,337</u>
	<u>7,653,710</u>

Key Issues

- Records identifying the owners of the monies and/or assets held in the above mentioned below-the-line accounts are not readily available;
- Court fees paid for services provided by the Court of Appeal, instead of being passed to revenue, are being credited to the

Court of Appeal below-the-line account.

Control Issues

Opportunities for improving internal controls were identified in all the Law Courts mentioned above:

Court of Appeal

- i. The amount of Lm 48,979 which should have been passed to revenue was credited to this below-the-line account as a result of mispostings during the period 1 January 2000 to 12 November 2002;
- ii. The amount paid by third parties as surety towards legal and lawyers' fees is revised upon adjudication of each case. However the computer system dealing with the billing and refund of such fees has been blocked since October 1997. As a result no adjustments for refunds or additional charges can be raised.

Civil Court Second Hall

Ownership of the amount of Lm 4,198 could not be determined due to lack of records. This balance has remained unchanged for a number of years. It will remain so since cases heard at the Second Hall do not involve any court deposits.

Criminal Courts

The balance covers deposits falling both under the Court of Magistrates and the Criminal Court. While records being kept at

the Court of Magistrates may lead to identify the individuals to whom deposits are still owing, there are no readily available reports at the Criminal Section.

Land Arbitration Board

The amount of Lm6,300 relating to a 'cedola ta' depozitu' (document showing that a particular person has paid the deposit for the case indicated) dated 4 December 2002 was deposited to the account erroneously. The balance of Lm9,312 is not readily identifiable to the rightful owners.

Regular Court Deposits

The balance of Lm 30,337 has remained unchanged since 31 December 1997. The balance represents precious objects including gold, silverware and foreign currency deposited at the court. Each 'cedola ta' depozitu' refers to a sealed box without any indication as to its contents and valuations. The most recent addition took place in July 2002 with no adjustment taking place on the balance of the respective below-the-line account.

Recommendations

Court of Appeal

- i. The necessary adjustments are to be made to transfer the amount indicated to revenue;

Since the amount indicated covers only the period examined by the NAO, the Courts should conduct an exercise to calculate mispostings for the years prior to year 2000 and make the necessary adjustments;
- ii. The computer programme of the Revenue Section relating to 'Securities' involving the Court of Appeal needs to be unblocked forthwith. The necessary adjustments dating back to October 1997 also need to be effected.

Criminal Courts

Since this account covers both deposits of cases falling under the Court of Magistrates and the Criminal Section, any reconciliation has to be carried out conjointly by these two Courts.

Land Arbitration Board

Payments made from the Court Deposits relating to the Land Arbitration Board should be listed and checked with payments made by the Lands Department as originally these were deposits made by the Lands Department to cover the architects' expenses when land was expropriated by the Government. Furthermore, the amount of Lm6,300 should be transferred to the appropriate account. The Board needs to reconcile the cases still pending with the Land Department so as to arrive at the right balance of the below-the-line account.

Regular Court Deposits

The section is to compile a proper list of objects held under custodianship by the Court. Professional valuations are to be sought so as to determine the values of the objects held in custody.

General

- i. An exercise should be undertaken to identify all deposits still pending with the Courts and reconcile totals to balances shown on DAS accounts. Upon completion of such reconciliation monthly updates should be undertaken;
- ii. An interfaced IT system should be devised so as to facilitate the search function for receipt and withdrawal of deposits. The manual element should be phased out completely;
- iii. The Registrar of the Law Courts should issue a manual of procedures as to how these Below-the-line Accounts should be

kept and what kind of records should be maintained. Each court official operating these accounts is to be well aware of the responsibilities in operating deposits and withdrawals to and from these Below-the-Line Accounts. The records maintained should be known by all personnel involved and be kept regularly updated.

Management Comments

Management has agreed with the findings and action is being taken to rectify

current shortcomings in Below-the-Line Accounts.

Steps are being taken to 'unblock' the computer programme at the Revenue Section relating to 'Securities' involving the Court of appeal.

Adjustments regarding Court of appeal (Im48,979) and Land Arbitration Board (Lm6,300) have been effected. However, no action has as yet been taken to credit to Revenue any amounts that have been erroneously posted to the Court of Appeal Below-the-Line Account instead of to Revenue.

Office of the Attorney General – Expenditure, Revenue and Inventory

Background

The Attorney General is the principal legal officer to the Administration. He holds an advisory role on proposed legislation relating to the implementation of Government policies.

In carrying out this function, the Office of the Attorney General prepares draft legislation, and vets legislation drafted by other Government Departments. In both cases, the Office assists the Ministers concerned during the passage of the proposed laws through the House of Representatives.

Other functions of the Attorney General's Office relate to providing legal advice to Government Entities and appearing as Counsel on their behalf in Court cases. The Office also handles public prosecutions before the Courts, and carries out such other duties for which it is responsible under the provisions of the Constitution and other legislation.

During the year ended 31 December 2002 The Office of the Attorney General collected revenue from Affidavits, Legal Fees, Process Verbal and from photocopies of legal documents, government gazettes, etc. Furthermore, monies covering warrants of seizure from third parties are also collected by the Attorney General's Office on behalf of Government departments.

Key Issues

- Records of requests for copies of 'Process Verbal' issued against payment are not being kept with the consequence that completeness of all revenue received could not be verified;
- No register is kept to record amounts due by third parties for

legal fees. As a result amounts due cannot be ascertained. Moreover amounts collected by other departments on its behalf cannot be confirmed.

Control Issues

Opportunities for improvement were identified in the following areas:

- Goods and Service Purchase Orders (GSPO) and Payment Vouchers (PV) signed by the same person;
- Payments not covered by V.A.T. Fiscal Receipts;
- Incorrect recording of mileage relating to the use of cars.

Compliance Issues

Incorrect Inventory Records

Fourteen (14) items appearing on Room Inventory Lists could not be traced physically, while other items which did not feature in the room lists were found in the respective rooms.

Asset Identification Number on Room Lists not according to MF Circular 14/99

The Asset Identification Numbers listed on the Room Lists do not comply with the requirements of MF Circular 14/99. The circular gives a detailed explanation of how this asset identification number is to be formulated. This identification number is to be the same as that listed on the Departmental Inventory Database.

Recommendations

No Record is kept of all 'Process Verbal' issued

A complete record of 'Process Verbal' copies issued against payment should be kept. This would form a sufficient audit trail to verify the completeness of revenue collected.

Register of Legal Fees due not available

A register of legal fees due is to be compiled to ensure that all revenue due from third parties is collected.

Goods and Service Purchase Orders (GSPO) and Payment Vouchers (PV) signed by the same person

GSPOs and the corresponding Payment Vouchers are to be signed by two different officers.

V.A.T. Fiscal Receipts

The Office of the Attorney General is to furnish the VAT Department, on a quarterly basis as per MF Circular 5/2002, with a list of those suppliers who failed to submit a V.A.T. receipt following payment of supplies for goods and/or services. Every effort is to be made to enforce the principle that official V.A.T. receipts are obtained from suppliers.

Incorrect mileage recorded

The officer in charge is to ensure that mileage covered by each journey is recorded in the log book and certified by the official making the journey. This will encourage the effective control of fuel consumption.

Inventory

The Inventory Ledger is to be kept and updated in accordance with MF Circular 14/99. Room lists are to be provided for each room at the Chambers of the Attorney General.

The officer in charge of the room is to inform the officer in charge of inventory when items are moved from one location to another. Codes should be affixed to/marked on each item of inventory.

Management Comments

Management has agreed with the recommendations and is taking action on the audit findings but explained that, in the case of 'Legal Fees', it was physically impossible to keep a record of all the legal expenses since most of the government departments that filed acts in Court did not have an account with the court registry.

In such cases their court expenses were directly settled by the Chambers.

Local Councils – Financial Statements

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 the Auditor General by seven private audit firms. These were appointed as Local Government Auditors following the issue of a call for application.

The financial year under review is that ending 31 March 2003. The Government allocated Lm10.24m to Local Councils plus another Lm 300,000 towards their e-Government programmes.

Audit reports and financial statements of each of the sixty-eight Local Councils were to be submitted by not later than 30 June 2003.

The audit of the Local Councils Association was carried out by a private audit firm appointed in terms of Part V1, section 36 of the Local Councils (Association) (Amendment) Regulations, 1999. The audit report had to be submitted by not later than twelve weeks from the end of the financial year. The financial year under review is that ending 31 December 2002. The Government allocated Lm30,000 to the Association.

Key Issues

Qualified Reports

Fifty-two (76 %) audit reports were qualified, twenty-eight of which for one of the following concerns:

1. exclusion of the budgeted figures from the financial statements;
2. income and debtors from local enforcement system (LES) not verifiable;
3. incorrect treatment of fixed assets;
4. omission of accounting entries/disclosures;
5. incorrect accounting or unauthorised use of Special Needs Funds (SNF);
6. shortage of liquid funds;
7. inability to meet financial obligations;
8. incorrect accounting treatment;
9. financial situation indicator benchmark not maintained;
10. banking not in accordance with financial regulations.

Furthermore, eighteen reports were qualified for two of the above-mentioned reasons, two were qualified for three reasons, two for four reasons and two for five reasons. (Vide Table on opposite page)

One report, which was qualified for one of the above-mentioned reasons, included also an emphasis of matter (Table on opposite page). This was:

- 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 three Councils the expenditure of which 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 31/03/03 Lm	Excess Income as at 31/03/02 Lm
Kalkara	(22,677)	15,348
Safi	(29,732)	32,645
Xghajra	(2,358)	9,758

Qualified Reports

Qualification	1	2	3	4	5	6	7	8	9	10	11*
Valletta		x			x					x	
Birgu						x					
Bormla	x					x					
Qormi	x										
Zebbug	x		x	x			x				
Zabbar	x										
Siggiewi	x		x								
Zejtun	x							x			
Rabat (G)	x	x		x			x				
Attard	x	x									
B'Kara	x	x	x	x	x						
Dingli	x										
Fontana	x	x									
Gzira			x								
Gh Sielem	x										
Gharb	x										
Gharghur	x	x									
Ghasri	x										
Ghaxaq	x										
Hamrun	x		x	x							
Iklin	x	x									
Kalkara	x								x		
Kercem	x										
Kirkop	x										
Lija	x	x									
Luqa	x										
Marsa	x										
Mellieha	x	x									
Mosta	x		x	x			x	x			
Mqabba	x										
Msida		x									
M'Skala	x										
Munxar	x	x									
M'Xlokk	x										
Nadur	x	x									
Pembroke	x	x									
Pieta'	x										
Qala	x	x									
Qrendi	x										x
Safi	x										
S. Giljan		x			x						
S. Lawrenz	x										
Sannat	x										
Sliema	x	x									
S. Lucija	x										
S. Venera		x									
Swieqi		x									
Ta' Xbiex	x	x									
Tarxien					x						
Xewkija	x										
Xghajra	x										
Mtarfa	x										
Total	44	19	6	5	4	3	3	2	1	1	1

* Emphasis of Matter

Working Capital

Six Local Councils recorded a negative working capital. The following table lists these Councils, the amount for the year under review and the corresponding figures for the previous year.

Local Council	2002-2003 Lm	2001-2002 Lm
Birgu	(26,636)	(13,797)
Rabat (G)	(15,728)	10,190
Kalkara	(1,813)	(173)
Mosta	(424)	(51,622)
San Lawrenz	(423)	432
Xewkija	(661)	(26,201)

Financial Situation Indicator

Fifteen Local Councils registered a financial situation indicator below the 10% benchmark set out in Regulation 4c of LN 155 of 1993 - Local Councils Financial Regulations 1993, as amended by Section 2 of LN 324 of 2002 - Local Councils (Financial) (Amendment) Regulations, 2002. These are shown in the table below:

Local Council	Working Capital Lm	Government Allocation Lm	Financial Situation Indicator %
Birgu	(26,636)	97,476	(27.33)
Isla	7,280	88,515	8.22
Zebbug	22,361	237,376	9.42
Siggiewi	15,578	248,500	6.27
Rabat (G)	(15,728)	163,110	(9.64)
B'Kara	31,851	371,576	8.57
Ghajnsielem	9,487	106,608	8.90
Ghasri	2,158	55,287	3.90
Kalkara	(1,813)	83,859	(2.16)
Mosta	(424)	347,800	(0.12)
Qala	5,968	88,919	6.71
Safi	3,885	74,807	5.19
San Lawrenz	(423)	49,824	(0.85)
Swieqi	3,974	160,600	2.47
Xewkija	(661)	108,647	(0.61)

Control Issues

Local Government Auditors identified opportunities for improving controls in a number of areas:

- a) Receipts/Invoices not always issued;
- b) Receipts/Invoices not consecutively numbered;
- c) More than one receipt book in hand;
- d) Irregular treatment of reimbursements;
- e) Lack of accounting of income and expenditure from cultural activities;
- f) Insufficient control and monitoring of expenditure against budgeted projections;
- g) Lack of stock control of books published/distributed by councils.

Compliance Issues

Audit Report and Financial Statements

Sixty-one reports were delivered on time i.e. by 30 June 2003. The remaining seven reports were received in July. The late submissions were due to the negligence on behalf of the Local Councils concerned.

Management Letters

Management letters were submitted highlighting audit findings and recommendations. To date, 48 Local Councils (71% i.e. 48 of 68) sent a response to the management letter as required by Section 7, sub-section (3) and (4) of Legal Notice 156 of 1993 - Local Councils (Audit) Regulations, 1993. There were only thirteen instances where reply was submitted on time.

The table overleaf 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	56
Local Enforcement System	53
Vat receipts	43
Creditors/ Accruals	41
Tenders/contracts/quotations	39
Bank	29
Accounts	27
Salaries	26
Insurance	26
Debtors/ Prepayments	22
Donations	19
Re-imbusement/Allowances	19
Petty cash and other payments	18
Purchase Orders	16
Liquidity	12
Special Needs Funds	11
Stock	7
Community & Hospitality	6

Fixed Assets

- a) Fixed assets register not regularly updated with all necessary details;
- b) Discrepancy in cost, accumulated depreciation, description, category and location between the nominal ledger and the fixed asset register;
- c) Accounting entries of works carried out not sufficiently descriptive to identify the individual assets ;
- d) Low value items included in the Fixed Assets register;
- e) New depreciation rates on tangible assets not applied;
- f) Provision for depreciation not calculated on a monthly basis;
- g) Too many accounts opened for tangible assets;
- h) Capitalisation of recurrent expenditure;
- i) Assets expensed instead of capitalised;
- j) Fixed assets either not appropriately tagged or not tagged

at all in accordance with the register codes;

- k) Assets disposed of, or obsolete, not removed from nominal ledger and fixed asset register;
- l) Assets funded from special needs funds not fully expensed when acquired.

Local Enforcement System (LES)

- a) Discrepancies between amounts deposited and the LES report are not followed up;
- b) No written monthly reconciliation statements carried out;
- c) Contraventions over one year old still outstanding and without the relative provision being created;
- d) Councils forming part of a Joint Committee unable to account correctly for debtors/income as the Joint Committees are not generating and forwarding statements of income from contraventions;
- e) Contraventions are being recorded when banked and not when receipted;
- f) Bank guarantee in favour of Joint Committee not raised;
- g) Fines paid at the licensing and testing department deposited into the council's bank account just once a month;
- h) Report generated for a specific time range varies when printed at a future date;
- i) Payment of contraventions issued by the police not being accepted before details are included in the computer system;
- j) Unidentified deposits not included with creditors;
- k) Any excess of income over expenditure attributed to the period from 1 September 2002 to 31 March 2003 not included in the financial statements.

VAT Receipts

- a) Petty cash and cheque payments not supported by a fiscal receipt;
- b) Fiscal receipts for payments not drawn up in the Council's name.

Creditors/Accruals

- a) Discrepancy between the creditors list and the creditors' control account in the general ledger;
- b) Supplier statements not requested regularly to verify amounts shown in the creditors' ledger;
- c) No write off of long outstanding balances unclaimed by service providers;
- d) Creditor lists not periodically reviewed and updated and still includes balances in dispute;
- e) Opening accruals not being posted to appropriate accounts while year-end accruals not being calculated for inclusion in the financial statements.

Tenders/ Contracts/ Quotations

- a) Quotations not obtained for expenditure over Lm 500;
- b) Missing documentation in the tender file;
- c) Letter of acceptance not issued;
- d) Closing dates for tenders less than one month from date of publication;
- e) Performance guarantee/ bond not received before the commencement of work;
- f) Schedule of tenders not signed and/or not properly filed;
- g) Tender awarded on the basis of past performance notwithstanding not being the cheapest;
- h) Bank guarantee expired before the term of the contract and not renewed

- i) Contract extended automatically instead of being reissued/renewed every year;
- j) Payment over the tendered price effected without approval;
- k) Payment for services not included in the specifications of the tender;
- l) Tender awarded on the recommendation of a selection committee submitted in an unsigned report;
- m) Quotations requested instead of tenders for purchases/ services over Lm 2000;
- n) Contracts awarded to tenderers presenting incomplete tender documents;
- o) Management fee not deducted from payment to contractor;
- p) Payments made to contractors without any valid contract;
- q) Payments effected for works/ services without being certified by a qualified person;
- r) Hand written adjustment to Bills of Quantities.

Bank

- a) Cash not deposited daily;
- b) Cash batch postings upon bank deposits;
- c) Cash received not deposited by sequential receipt number, but deposited in batches by activity;
- d) Deposit slips containing insufficient details;
- e) Stale cheques and unreconciled deposit included in the bank reconciliation statement;
- f) Bank and cash reconciliations not prepared on a regular basis;

- g) Failure to adjust accounts in the case of long outstanding unpresented cheques issued by the Council;
- h) Loans not reconciled with bank statements;
- i) No documentation to cover income.

Accounts

- a) No report drawn up to reflect the income generated and expenditure incurred in organising social activities;
- b) Income from permits, activities, tenders and re-imburements all recorded in the same account;
- c) Different nominal codes used to account for income derived from similar activities;
- d) Adjustments effected by auditors at year end in respect of incomplete accruals, pre-payments and interest receivable as well as to correct income figures;
- e) Payment vouchers not properly cross-referenced to the schedule of payments as approved in the Council's minutes;
- f) Budget report not prepared in accordance with financial regulations;
- g) Untimely submission of Financial statements for review by the auditor and certain reconciliatory work still in progress;
- h) Audit adjustments following last year's audit not posted in books of accounts;
- i) The Council's failure to approve in time the budget for financial year ending 31 March 2004;
- j) Adjustment and closing of books of a financial year inappropriately effected after the opening balances

for the new financial year have been posted;

- k) Schedule for Special Needs Funds not reflected in financial statements;
- l) The notes to the financial statements, as prepared by the Council, not agreeing with the relative references in the income and expenditure account ;
- m) The opening balances not appropriated to the correct account or not posted at all.

Salaries

- a) Regular monthly reconciliation of the wages and salaries accounts with the FSS return not effected;
- b) Discrepancies in gross wages between the financial statements and the FSS returns;
- c) Errors in details in the monthly FSS returns;
- d) The statutory and performance bonuses not included in the FSS returns;
- e) Mayor's honoraria incorrectly classified as income from part time work, and secretary's allowances not included in the FSS returns;
- f) Penalties incurred for late submission of the FSS returns and late monthly payments to Inland Revenue Department;
- g) Discrepancy between the FS5 and FS7 forms;
- h) Incorrect amounts of NI Contributions in FSS forms.

Insurance

- a) Councillors included in the Health Insurance scheme;
- b) Insurance policy covering buildings not owned, and employees not employed, by the Council;

- c) Assets overvalued or undervalued for insurance purposes.

Debtors/Prepayments

- a) No action taken to recover or write off amounts long overdue;
- b) Debtors and prepayments year end balance inaccurate.

Donations

- a) Total donations to entities exceeding the 0.5% of the annual allocation and individual donations exceeding Lm 50;
- b) Donations in cash or in kind to institutions/entities not listed in the Eight Schedule of the Local Councils Act;
- c) Payments for sponsorships shown as payments for services rendered to the council;
- d) Sponsorships/donations not supported by any invoice or receipt and the payment voucher not signed.

Reimbursements/Allowances

- a) Fixed monthly allowance established to reimburse expenses incurred by councillors;
- b) Reimbursement for telephone/mobile phone bills, mobile phone cards and travelling expenses effected without any supporting documents attached;
- c) Mobile phone cards given to councillors and employees.

Petty Cash and Other Payments

- a) A number of petty expenses not accounted for;
- b) The nominal ledger balance not reconciled with the petty cash float;

- c) Payments of over Lm10 from petty cash;
- d) Separate payments on the same day for petty purchases from the same supplier in total exceeding Lm10;
- e) Petty cash statement not drawn up when re-imbursing expenses;
- f) Discrepancy between petty cash book balances and the financial statements ;
- g) Payments for unspecified purchases;
- h) Invoices without VAT number, approved and paid;
- i) Schedule of payments not signed and referenced against cheque;
- j) Cash register chits not in compliance with VAT legislation requirements.

Purchase Orders

- a) Purchases exceeding Lm10 not supported by a purchase order.

Liquidity

- a) The net current asset position being less than 10% of the government allocation

Special Needs Funds (SNF)

- a) Payments for projects covered by SNF not paid from the relevant bank account;
- b) Omissions in recording transfer from SNF to Grant Reserve;
- c) Discrepancy between the SNF and the SNF bank account;
- d) SNF used to finance recurrent expenditure;
- e) Surplus of funds not deposited in a savings or term deposit account;
- f) SNF not covered by a separate bank account.

Stock

- a) Stock of books sold by the Council wrongly accounted for;
- b) Stock figures not adjusted to reflect movement during the year;
- c) Inadequate internal control on stocks;
- d) Discrepancy between value of stock in hand as per stock list and that in the financial statements.

Community and Hospitality

- a) Actual expenditure exceeding that budgeted.

Other Concerns

Although the following concerns occurred individually in different Councils, their materiality warrants separate mention:

- a) Project cost for an Ecological Corridor has increased over and above the variation recorded in the previous financial year. Apart from the 6% architect fees and the 2% fee for the preparation of bills of quantities, a further invoice (Lm3,812) has been approved by the Council for extra fees and expenses incurred for works carried out. Furthermore, the Council is in litigation with the contractor concerned for a discrepancy of Lm13,918 in the works invoiced. No provision was made for this extra expenditure in the financial statements since this has not been certified by the architect as having been carried out;
- b) Council minutes not being signed on approval during the following meeting. The schedule of payments was not referenced to the relative meeting and attached to the minutes. Minutes are not bound in book form and are kept loose in a box file. Only the last page of the minutes is signed, and, in some cases, the Mayor's signature was computer generated. Minutes are also not sufficiently detailed;
- c) Although Lm5,000 was budgeted for Community and Hospitality expenses, Lm12,996 were actually incurred;
- d) Overtime requests still not being authorized beforehand and documented;
- e) A Christmas activity for all councillors, staff and spouses was organized at a five star hotel at the cost of Lm 658;
- f) Road Works extension authorised by Mayor, without prior approval by the Council;
- g) A Council accepted to double for an indefinite period the payment of the yearly rent (from Lm 450 to Lm900) of a garage, rented from a company in which the Mayor has a majority interest. This was carried out without first resorting to a call for tenders/quotations;
- h) Airline tickets (Lm1,607) and accommodation expenses and subsistence allowance (Lm 3,926) were incurred. There was no evidence of a report for the subsistence allowance paid in connection with the relevant visits;
- i) As part of a twinning agreement the Council accommodated fourteen foreign students in Malta for a 9-week English course costing Lm 6,578;
- j) A Council used funds from the Special Programme accounts to fund road patching and maintenance of public verges ;
- k) A Council approved payment in lieu of 28 days vacation leave to a Council's clerk;
- l) Heritage Route project will be costing Lm158,514 in excess of the original cost in tender;
- m) A Council exceeded the number of employees which it may employ;

- n) The debtors' list includes an amount of Lm1,500 due to a Council by a firm, which was given a loan by the outgoing Mayor, without the Council's approval. The Local Councils Department is taking the necessary action.

of Performance Indicators) have not yet been addressed.

Other Matters

Previous Year's Weaknesses

Three Local Councils addressed all weaknesses highlighted in their management letter for the previous financial year. The weaknesses were only partially addressed or were not addressed at all in the other Councils.

Local Councils' Association

The audit report of the association was qualified for the omission of budgeted 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) The asset register is not updated;
- b) Adjustments were necessary to correct mispostings and errors;
- c) Petty cash invoices were not addressed to Association;
- d) No request for tender was issued for expenditure exceeding Lm2,000;
- e) No formal rental agreement for premises was drawn up.

Request for Investigation

The Minister responsible for local government requested NAO and the Police to investigate allegations raised in a report commissioned by Bormla Local Council. Following legal advice, the Minister was informed that NAO will take necessary action after the conclusion of police investigations.

Department of Local Councils

Amendments to current legislation that were recommended by NAO and agreed to by the Department (including the drawing up

Recommendations

- As in previous reports most weaknesses highlighted are the effect of weak internal controls. NAO recommended various amendments to the Local Councils Act, Regulations and Procedures to address this issue;
- In 1998, NAO recommended the setting up of a Local Councils Support Unit within the Local Councils Department. The role of the Unit was intended to address internal controls and other weaknesses not related to finance. This recommendation was agreed to during the Public Accounts Committee meeting of October 24, 2001;
- Although the department, with its limited human resources, is trying to implement this recommendation, action taken was not followed up by the department following the receipt of unsatisfactory replies from defaulting Councils;
- Shortcomings in the LES software are still evident notwithstanding that the matter was already reported in the annual audit reports for 2000 and 2001;
- A major concern refers to the pooling agreement entered into by different Councils to facilitate the collection of fines arising from contraventions under the LES;
- Councils are dependent upon reports generated by the Joint Committee set up within the said pooling agreement system. Reports were not made available to Councils in time to enable the auditor to verify the income generated from LES. Corrective action should be taken to produce these reports in a timely manner so that this concern could be resolved.

Ministry of Foreign Affairs

- > **Ministry of Foreign Affairs**
- > **Embassies**
- > **Protocol Division**
- > **EU Directorate**

Ministry – Expenditure and Inventory

Background

The mission of the Ministry of Foreign Affairs is to assist in the formulation, projection and implementation of foreign policy on behalf of the Government of Malta, taking into account the evolution in bilateral, regional and international relations. The Ministry also safeguards and enhances Malta's interests and those of its citizens abroad.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Goods or Service Purchase Order issued after receipt of Invoice and details between the two documents at times did not match;
- Misallocation of Expenditure;
- Payments not covered by V.A.T. Fiscal Receipts;
- Lack of controls over chauffeur driven cars;
- Lack of control over the receipt of goods and services;
- Items shown in 2001 Inventory Ledger not included in 2002 Ledger.

Compliance

Period Contracts Dishonoured

Photo/duplicating paper and envelopes were purchased from suppliers other than those who were awarded the period contract for these items of stationery.

Services of a Software Engineering Consultant not covered by a valid contract

The services of a software engineering consultant were still being utilised after his contract was not renewed.

Items transferred to the Armed Forces of Malta (AFM)

A list of inventory items which were transferred to the Armed Forces of Malta did not carry the signature of the AFM officer acknowledging receipt of goods.

Inventory Database

The Inventory database is not fully in compliance with standing regulations:-

- a) Ninety five (95) assets marked as 'Heritage' and thirteen (13) donated assets were given no value and no date of valuation;
- b) A donated asset had the date of acquisition but no value;
- c) Six (6) assets did not show the asset type and cost/value;
- d) A motor vehicle purchased on 5 November 2002 was not included in the Inventory Database;
- e) The half yearly returns for inventory items purchased or manufactured during the previous six months are not being submitted to the NAO.

Recommendations

Goods or Service Purchase Order issued after receipt of Invoice

It is necessary that, where applicable, goods and services are covered by a Goods or Service Purchase Order upon the placing of an order. This ensures that prior

authorisation for the purchase is obtained as stipulated by regulations.

Misallocation of Expenditure

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

Payments not covered by V.A.T. Fiscal Receipts

V.A.T. receipts are to be attached to payment vouchers as envisaged in Treasury Circular 6/2000. The Ministry should continue to inform, on a quarterly basis, the V.A.T. Department about those suppliers who failed to submit a V.A.T. receipt following payment for supplies of goods and/or services. Moreover, if a supplier submits a fiscal receipt covering more than one payment voucher, photocopies of the fiscal receipt are to be attached with every payment voucher covered by that fiscal receipt.

Chauffeur Driven Vehicles

Internal controls in the certification of tickets covering journeys made need to be reinforced. These tickets should be checked to ensure that duration of trip is correct before being certified by an authorized officer. Tickets are then to be checked against contractor report before effecting payments.

Lack of control over the receipt of goods and services

The section of the GSPO certifying that the goods or services were received in good

order and condition should be signed by the person receiving the items to enhance the internal control: payments should only be effected upon the declaration by the receiver that the items being paid for have actually been received.

Items shown in 2001 Inventory Ledger not included in 2002 Ledger

Inventory items that are of a relatively permanent nature are to be included in the Fixed Assets Register.

Items transferred to the Armed Forces of Malta (AFM)

The list of items transferred is to be signed by an authorized AFM officer to certify receipt of items. This is to be filed and the procedure is to be repeated every time a transfer of inventory items is effected to any other division of the Ministry of Foreign Affairs which has its own Inventory Database or to any other department not within the Ministry.

Inventory Database

The Inventory Database is to be kept and updated according to MF Circular 14/99. Moreover, every six months, a list of items added to the Departmental Inventory, whether purchased or manufactured during the previous months, should be submitted.

Management Comments

The recommendations have been addressed and action taken to adhere to the pertinent regulations. However management failed to justify as to why the services of a Software Engineering Consultant are still being required although there is no valid contract.

Embassies – Revenue and Expenditure

Background

Berlin, Brussels, Paris, Strasbourg and Tripoli are the five embassies in respect of which revenue and expenditure have been audited.

Control Issues

Opportunities for improvement were identified in a number of embassies:

Berlin

- Misallocation of Expenditure of salaries and allowances.

Brussels

- The opening and closing balances for the months of June and July 2002 are not shown in the Cash Book. A reconciliation between the cash book and the bank statement could therefore not be carried out;
- Misallocation of Expenditure;
- No statement of revenue was provided against which revenue shown in cash book and on manual working sheets could be compared.

Tripoli

- The bank reconciliation statement submitted for the months of March 2002 and April 2002 does not reconcile the cash book balance with the bank balance;
- Misallocation of Revenue.

General

- No audit could be carried out on the salaries of Locally Engaged Personnel (LEP's) as no back-up documentation was locally available;
- Revenue recorded in cash books could not be ascertained as it could not be verified against source;
- Accounting officers in charge of the various embassies are using their own individual filing system;
- Any queries on the Inventory of the Embassies under review could not be answered by any official at the Ministry.

Compliance Issues

Paris

Child Allowance Overpaid

When checking the allowances with rates obtained from the Ministry of Foreign Affairs, it was noted that in both May 2002 and June 2002 an officer was being paid more than he was entitled to as child allowance. Although the amount overpaid is insignificant, one must abide with the official rates, which are those approved by the Ministry.

Approval not obtained correctly for medical re-imburement

A payment voucher was issued to cover three medical re-imburements all belonging to the same individual. It was noted, however, that all three (3) claims were certified correct by claimant himself instead of by the Head of Mission. Moreover, the Payment voucher was also signed by this same individual.

Recommendations

Misallocation of Expenditure

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

No Statement of Revenue provided

Officers are to ensure that embassies submit a statement of revenue, so that revenue recorded in cash book can be verified.

Authorisation for Expenditure

Officers in charge of the embassies should always make sure that all expenditure is authorised by the designated officers.

Filing System

Filing of documents submitted by the various embassies should be carried out in a consistent way by all officers. For ease of reference, the documents listed below should all be kept in the same file:

- Copy of cash book;
- Bank statements for the month;
- Bank reconciliation;
- Statement of revenue;
- Payment vouchers backed up by relevant invoices;
- DAS Posting sheets;
- Manual working sheets.

Management Comments

Audit report was reviewed by the Director Corporate Services and respective mission officers. Conclusions reached were communicated to the National Audit Office.

Berlin

The matter was addressed by the mission officer to allocate properly the expenditure indicated.

Brussels

The necessary adjustments have been made to address shortcomings and a statement of revenue was provided.

Paris

Head of Mission was asked by the Ministry to certify medical re-imbursements, while excess child allowance was refunded.

Tripoli

Although misallocation of revenue is said to have been addressed and rectified, a clarification requested has still to be received. As regards Bank Reconciliation, the Bank balances have now been provided but a list of un-presented cheques covering the months under review is still to be submitted.

General

Other General comments are being dealt with and actions are being taken to implement recommendations submitted.

Embassies & Official Residences – Inventory

Background

One of the major tasks in the implementation of accrual accounting is to ensure that inventory records containing the Tangible Fixed Assets within each Ministry and their respective Departments (Embassies in the case of the Ministry of Foreign Affairs) are updated with complete, accurate and timely information.

With this objective in mind, Government, on the 24 November 1999, issued MF Circular 14/99 to revise and streamline the existing inventory control regulations and procedures with the view to:

- a) Standardising the procedural systems in all Ministries and Departments;
- b) Standardising the contents of the inventory database;
- c) Facilitating the task of maintaining an up to date Tangible Fixed Asset Register;
- d) Ensuring that more effective control is maintained;
- e) Ensuring that continuous checks are made to detect losses and discrepancies in a timely manner.

An exercise was carried out to ascertain that Inventory Databases for the Chanceries and the Official Residences were compiled in accordance with instructions contained in MF Circular 14/99.

The databases of the following Embassies were examined – Athens, Beijing, Berlin, Brussels, Cairo, Canberra, Copenhagen, Geneva, London, Madrid, Moscow, New York, Paris, Riyadh, Rome, Stockholm, Strasbourg, The Hague, Toronto, Tripoli, Tunis, Vienna and

Washington. The Malta Embassy for the United Nations Specialised Agencies, Israel, Switzerland and Albania which is housed in Rome was also examined.

Key Issues

The compilation of inventory records according to MF Circular 14/99 should have been completed within one year from the issue of the said circular. However, in most embassies the inventory records maintained were not in complete adherence to this circular, which is one of the circulars that the Ministry of Finance issued in view of preparing the Government Ministries and Departments to Accrual Accounting.

Compliance Issues

There were certain requisites in the above mentioned circular which were not adhered to. The following significant discrepancies were identified:

- a) Sequence Numbers allocated to assets not consistent from one year to the next;
- b) Mode of allocation of sequence numbers;
- c) Discrepancies in the recording of the correct information under the appropriate headings of the Inventory Database sheets;
- d) No Inventory Database ever submitted to NAO;
- e) Assets not given a monetary value;
- f) Items listed in the database of a particular year but not shown in a subsequent year or vice-versa;

- g) 'Six Monthly' returns showing the Additions in Inventories not being submitted to NAO;
- h) Wrong 'Department Code' used or not indicated for every asset;
- i) Assets purchased during the year not included in Inventory Database.

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.

Recommendations

MF Circular 14/99 needs to be fully adhered to. The Inventory ledger is to be duly kept and updated with every purchase or relocation of inventory items. The asset

Management Comments

All Embassies and High Commissions have accepted and implemented the recommendations.

Protocol Division – Revenue

Background

The service rendered by the Protocol Division consists in the legalisation of commercial and non-commercial documents.

Key Issues

Cancellation of cash receipts are not accompanied by the relative withdrawn legalised documents.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Details on pre-printed computer receipts are sometimes written manually;
- Computerised receipts not signed by an authorised officer;
- Revenue not being deposited regularly;
- No Segregation of Duties.

Compliance Issues

Receipts Not Found

A total of sixteen (16) receipts appearing in the Cash Book (different dates in September 2002, i.e. month covered during the audit) could not be traced. Of these sixteen (16) receipts, eight (8) are marked as having been cancelled. However, each of the sixteen (16) receipts had an amount included in the Cash Book. It could not be ascertained whether the amounts quoted in the cash book were correct and that the eight receipts were actually cancelled.

Recommendations

Certificates not attached with Cancelled receipts

In the case of cancelled receipts it is to be ensured that original receipt and the relative certificates are attached to the duplicate receipt and filed.

Misuse of pre-printed computer receipts

A general receipt book bearing printed consecutive numbers is to be kept at the Division and used in the case of printer failure. Pre-printed computer receipts should never substitute general receipts.

Pre-printed computer receipts not signed and No Segregation of Duties

All receipts issued are to be signed by an authorized officer, preferably a different officer from the one issuing the certificates. This segregation of duties helps prevent errors and also enables transactions to be traced from source.

Revenue not being deposited regularly

In the first part of the year, deposits were not being affected regularly, thus resulting in substantial amounts of money being kept at the Division. The situation has since improved and monies are being remitted to bank more frequently. Officer in charge is to ensure that, as far as possible, revenue received is banked on the same day in terms of MF Circular 8/2002.

Receipts Not Found

All duplicate receipts are to be kept at the Division and made available if and when requested. In the case of cancelled receipts, the original receipt is to be attached to the duplicate. Duplicate receipts are to have the necessary details such as receipt number,

date, amount, and person to whom receipt was issued.

General Recommendations

The use of a rubber stamp instead of a computerised certificate is meant to be made use of only when the computerised system fails. This stamp is to be kept under lock and key by an officer other than the one entrusted with the issuing of certificates. It should be made available only if, as and when the need arises. This will eliminate the

possibility of making unnecessary use of this rubber stamp.

The computerised legalisation system should be amended so that the receipts issued would also include the legalisation number allocated to the respective certificate.

Management Comments

Findings and comments were noted and action has been taken to implement recommendations.

European Union Directorate – Expenditure and Inventory

Background

The EU Directorate assists in the formulation and projection of foreign policy as it relates to the European Union.

Control Issues

Opportunities for improvement were identified in a number of areas:

- Goods or Service Purchase Order (GSPO) issued after receipt of Invoice;
- Goods or Service Purchase Order (GSPO) and Payment Voucher (PV) signed by the same person;
- Description of items between Goods or Service Purchase Order (GSPO) and invoice could not be verified;
- Uncertified receipt of Goods and Services;
- Payments not covered by V.A.T. Fiscal Receipts.

Compliance Issues

Lack of controls over use of vehicles

No log books kept in 2002 by the Directorate for the two vehicles used during the year. The last entries in the log books date back to 2000.

Keeping of Inventory Database and Room Inventory Lists

- Two hundred and thirty (230) assets did not show the asset type. There was thus no indication as to whether any of the

assets were heritage or donated items and whether the actual cost or a valuation was applied to the asset;

- Eight four (84) assets did not show date of asset acquired/valuation;
- Two (2) assets recorded as "Heritage (H)" were given no value and date of valuation;
- The bi-annual return of items added to the inventory was not submitted to the National Audit Office as indicated in MF Circular 14/99.

Recommendations

Goods or Service Purchase Orders (GSPO) issued after receipt of Invoice

It is important that, whenever possible, goods and services are covered by a Goods or Service Purchase Order upon the placing of an order. This will ensure that proper authorisation for the purchase is not vitiated.

Goods or Service Purchase Order (GSPO) and Payment Voucher (PV) signed by the same person

GSPOs and the corresponding Payment Vouchers are, as far as possible, to be signed by two different officers.

Description of Items between Goods or Service Purchase Order (GSPO) and Invoice could not be verified

Items purchased should be listed on the GSPO and not shown as 'items as per attached invoice' as this renders the verification of the items purchased difficult.

Uncertified receipt of Goods and Services

The section of the GSPO certifying that the Goods and Services were received in good order and condition should be filled in and signed by the person receiving the items. The certification enhances the internal controls as payments should only be effected upon the declaration that the items being paid for have actually been received or the service provided.

Payments not covered by V.A.T. Fiscal Receipts

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

Vehicle Log Books

Heads of Department are required to ensure that a log book is kept for every Government-owned vehicle and that the exact mileage covered during each journey is recorded in the log book and signed by the officer making the journey. Heads of

Department should also ensure that all the vehicles for which they are responsible are equipped with a mile-o-meter which is in good working order. This is essential to enable certifying officers to exercise proper control over the issue of fuel to Government-owned vehicles. Every log book is to be examined by the Head of Department from time to time and cases of irregular use of vehicles duly reported.

Inventory

The inventory ledger should be kept updated according to MF Circular 14/99. Updated room lists should be provided to each room and the officer in charge of the room should inform the officer in charge of inventory when items are moved from one location to another. Asset Identification Codes should be affixed to/marked on each item of inventory.

Management Comments

The European Union Directorate has agreed with the recommendations and action on the findings is being taken.

Other Reports

- > Implementation of Benchmarking in Government Departments
- > Property (Stores) Management
- > Renting of Property for Social Housing Purposes

Implementation of Benchmarking in Government Departments

Report Objective

Chapter 396 of the Laws of Malta, setting out the duties and the manner the Auditor General reports to parliament, enables him to make special reports dealing with value for money audits relating to the economy, efficiency and effectiveness of any department, office or body. In the Annual Report the Auditor General shall bring the attention of the House, in particular, any cases he may have observed that *“satisfactory procedures have not been established to measure and report the effectiveness of expenditure programmes, where such procedures should reasonably have been established”* (Auditor General and National Audit Office Act, 1997, First Schedule, para. 6(v)).

The implementation and, subsequently, the objective assessment of the effectiveness of expenditure programmes call for the establishment of appropriate performance indicators or benchmarks throughout the public sector.

The main objectives of this preliminary report were to establish:

- the current status of the implementation of benchmarking within government departments;
- the extent to which benchmarking initiatives were being implemented, as outlined in the Minister of Finance’s budget speeches for 2001 and 2002, and as intended in order to enhance the efficiency of the Public Service.

¹ Sources: Audit Commission UK, ‘Getting Better all the Time: Making Benchmarking Work,’ Management Paper, 2000. MEU ‘Benchmarking Guidebook – A Tool for Public Sector Efficiency Reviews,’ 2002.

Background

Benchmarking is an ongoing process of measuring and comparing results, processes and practices against leaders in the field. It is an effective way of helping organisations to deliver better services by comparing performance and learning from other organisations. Its use is increasing in the public sector across the globe and governments are keen to promote its benefits. Comparing performance is central to the success of best value for the government and improving services and achieving the goals set. More formally, benchmarking is a key instrument to improve efficiency and the effectiveness of services resulting in a value for money service.¹

Benchmarking may be utilised to achieve the following outcomes:

- cost reduction;
- better value for money;
- improved ‘customer’ satisfaction;
- achievement of targets; and/or
- implementation of good practice.

Most benchmarking in the public sector is assessed against results of similar organisations or of the same activity over time.

Previous NAO Coverage

Previous coverage by the National Audit Office of the subject matter featured in the Report of the Auditor General for financial year 1999. It was reported that:

1. As far back as 1996, the NAO embarked unsuccessfully on a project to promote awareness of concepts related to benchmarking

and performance indicators in the public sector. This was mainly due to an apparent lack of knowledge and awareness of the subject matter within the Public Service;

2. The compilation of benchmarks and performance indicators in terms of Local Councils (Audit Regulations (1993) were not in place. The absence of such benchmarks prevented reliable value for money reports regarding Local Councils' operations from being compiled;
3. Although, at the time, 23 Government departments had established Quality Service Charters, such benchmarks/performance indicators were generally customer-oriented and had limited scope to assess the economy and efficiency of operations;
4. The introduction of benchmarks/performance indicators featured strongly on Government's agenda. Moreover, the European Union's National Programme for the Adoption of the Acquis, published in 2000, set, as a medium term priority, the identification and application of appropriate public management performance outputs.

The NAO report concluded that the Offices of Review, established to champion Government's change programme, would be responsible, and would have a leading role in designing and implementing benchmarks / performance indicators, in order to enhance Public Service output.

Initial Benchmarking Initiatives in 2001

The Minister of Finance, in his budget speech for 2001, announced that the Malta public sector would be introducing benchmarking as a tool that would provide it with a means for improving its service delivery

and the quality of this service. Thus, a Steering Committee was appointed within the Ministry of Finance in order to strategically direct the undertaking of benchmarking.

Two benchmarking pilot projects were undertaken during 2001. These concerned the benchmarking of the Homes for the Elderly (Ministry for Social Policy) and the Government Garage (Ministry for Resources and Infrastructure).

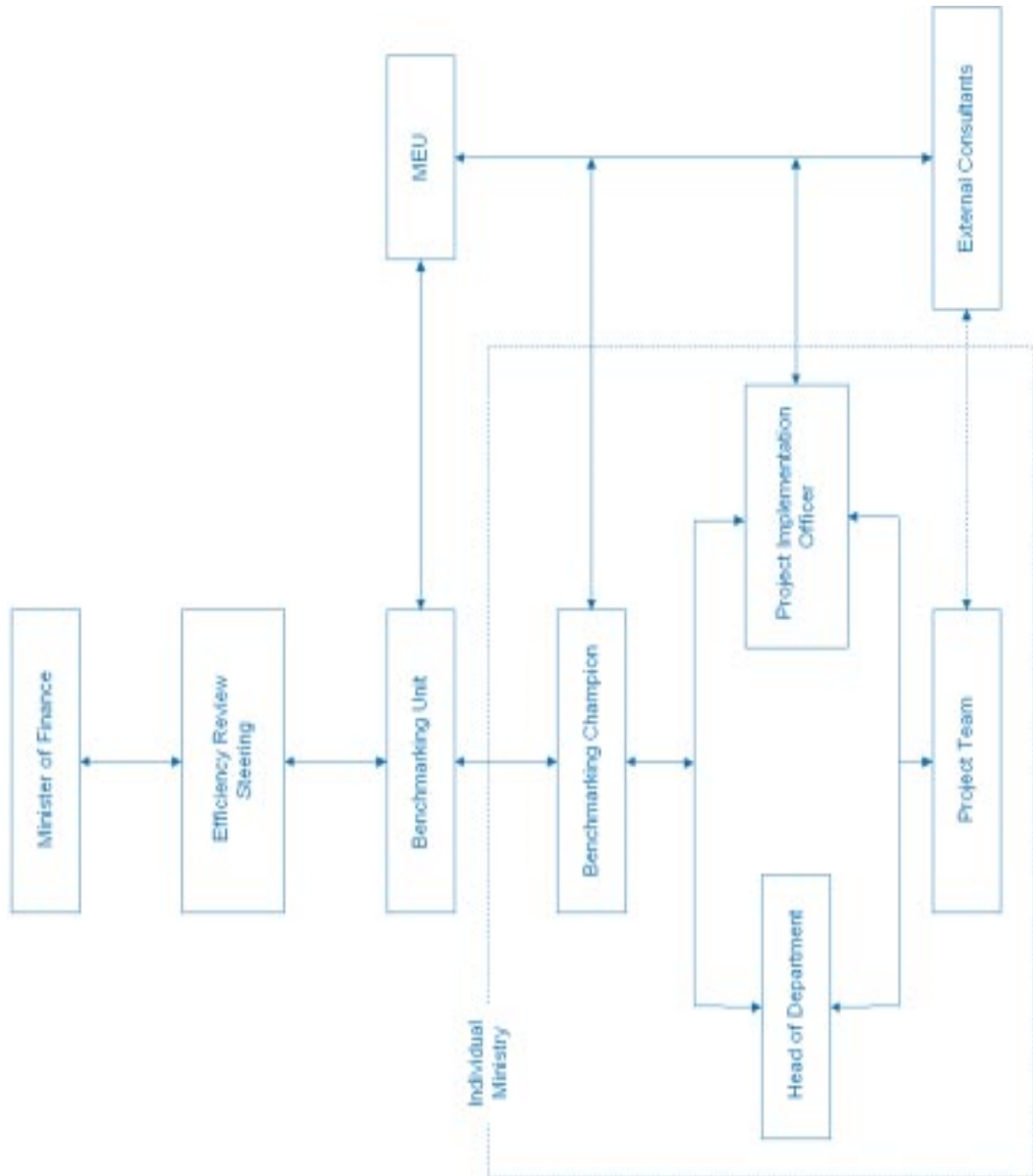
The review at the Homes for the Elderly led to positive results, where 73 benchmarks were developed from local and international research, reflecting four aspects: financial and human resources, hospitality, social environment, and infrastructure and physical characteristics. Three main overall conclusions emerged from the review:

- in general, Government homes for the elderly performed at least at par with that of non-Government homes;
- purpose-built homes generally had better benchmarking results than converted homes in respect of their physical characteristics and infrastructure; and
- although on average the performance of all participant homes emerged as similar, each home had different strengths and weaknesses.

Subsequent to this report, good practice guidelines had to be developed. However, as at 26 June 2003, the Ministry of Finance had not been informed of any progress.

The review at the Ministry for Resources and Infrastructure, concerning the Government Garage, revealed that this entity operates below benchmarks established by the private sector. The report identified 25 targets to improve efficiency. Action was being taken to implement the recommendations contained in the report. The latest information at the Ministry of Finance, dated August 2002, indicated that 12 areas of concern were being addressed. However, implementation seemed to have stopped (or slowed down) due to key personnel leaving the department concerned.

Figure 1 - Reporting Structure for Efficiency Reviews



Areas for Efficiency Reviews to be identified by Permanent Secretaries (2002)

In the budget speech for the year 2002, the Minister of Finance established that the benchmarking initiative was wide in scope and aimed at improving efficiency and reducing costs. Consequently, on the basis of efficiency reviews, benchmarking was to be carried out by all ministries, in order to help Government identify any inefficiencies and waste as well as recommended remedies.

The efficiency review project is a top down initiative. There is a formal reporting structure that starts with the Minister of Finance and works its way through the Public sector framework. The formal reporting structure is depicted in Figure 1 overleaf, extracted from the 'Benchmarking Guidebook – A Tool for Public Sector Efficiency Reviews' developed by the Management Efficiency Unit in 2002.

Following the budget speech, the Ministry of Finance issued a letter Circular MF/54/2001 on the 14 January 2002, stating that each Permanent Secretary was to identify areas for which efficiency reviews shall be carried out. In line with his standard duties, the Permanent Secretary has the main task of providing the Ministry Benchmarking Champion with the necessary resources and support for assuring that the efficiency reviews are carried out by his/her ministry.

Nine of the fourteen ministries responded to the request to undertake at least one efficiency review in the course of 2002. However, although the objective was to foster a value for money culture, not all the projects embarked upon offered sufficient scope for such an objective to be achieved.

Consequently, the results forthcoming were in some cases unsatisfactory and inconclusive. For the same exercise in 2003 only three ministries, namely, Finance,

Tourism (extension of the original review) and Education, were conducting efficiency reviews.

Conclusions

The findings from this study are quite short of expectations. Marginal progress was registered since the NAO reported on the subject matter in its Annual Report for financial year 1999. Despite the establishment of the Offices of Review within ministries in order to champion Government's change programme, there still seems to be a lack of understanding of the importance of benchmarking.

Two years following the announcement by the Ministry of Finance that the Malta public sector would be introducing benchmarking as a tool that would provide it with a means for improving its efficiency and quality of service, results are still scarce. Moreover, the structure for implementing benchmarking was not given the required priority, and, thus, was not supported by human and financial resources specifically allocated for the task.

It is evident that the vital importance of benchmarking was not acknowledged by a number of ministries. In turn, this led to a lack of cooperation between ministries and other players involved, namely, the Benchmarking Unit and the Management Efficiency Unit.

The NAO recommends that ministries should implement benchmarking of their various activities, in accordance with Government's stated policy, as a matter of priority. Thus an initiative calls for effective communication between all parties concerned in order to minimise possible resistance from key players.

Successful benchmarking initiatives would not only improve efficiency in government departments but would also provide valuable information which could be utilised by other government entities concerned with data, such as the National Statistics Office and the Central Bank of Malta, as well as the National Audit Office.

Property (Stores) Management

Background

Property is a valuable resource that has a direct impact on the delivery of services by departments. Property is also costly to run and maintain. As with all investments, owning property has an opportunity cost in the form of day-to-day running costs or interest payments on borrowing. This means that retaining a property ties up investment that could be directed elsewhere.

The Estate Management Department (EMD) of the Government Property Division (Ministry for Justice and Home Affairs) plays a pivotal role in helping government deliver its immovable property agenda. The EMD's role is to implement government policy by providing property-related advice and services¹ which include modernizing and updating the property database, as well as processing and allocating properties to requesting Government Departments.

Following allocation, it is then the responsibility of government departments to make optimal use of property including stores allocated to them and to assess their future property needs.

Previous Coverage by the NAO

In 2002, the Report of the Auditor General, covering the audit of government financial statements for the year ended 31 December 2001, revealed that Government's immovable property records (database) maintained by EMD was not updated and that departments were exchanging property and sites without informing EMD. These findings highlighted a major concern in asset management practices by government departments.

Property Designated as Stores

In view of the critical importance to property management, the NAO opted to review Government's property management

¹ Annual Report by Government Departments 2002.

through a performance audit of property designated as stores. This approach also enabled an overview of general property management practices pertaining to all property. Consequently, although the main focus of the report remains on property designated as stores, where relevant, comments will also be made on general property management.

However, the present database of Government owned property, maintained by the Estate Management Department (EMD) of the Government Property Division does not fully reflect the current status of property held by government departments due to the following reasons:

- Some of the property recorded as belonging to one department is in fact being used by another department;
- other property is no longer being used by government departments but has been transferred to third parties;
- some of the property has been demolished or is not recorded under the correct classification.

Methodology

In two separate meetings with the Permanent Secretary and the Directors, Corporate Services (DCSs), emphases were made on the importance of maintaining a total property portfolio including property valuations by government departments and the maintenance of an updated database by EMD of government-owned immovable property. These two meetings gave no useful result since Ministries, through their DCSs, have not all submitted immovable property details pertaining to their respective portfolios, and information on the EMD database is still not fully updated.

In order to address the situation, the EMD forwarded to all Ministries a list of all the property recorded for each Ministry in the EMD database, spanning 159 different government entities. Within one month, every Ministry had to update its property inventory and submit the relevant details to EMD. By 31 July 2003, only 52 property lists out of all entities contacted had been submitted, out of which 35 lists are still being checked by EMD due to insufficient details provided by these entities.

As a result of the above, the full scope of this audit could not be executed. Consequently the NAO limited its review to a small number of randomly selected properties designated as stores.

Audit objectives redefined

The redefined objectives of this audit were to assess the extent to which:

1. Management control and utilisation of Government owned stores is effective;
2. There is proper monitoring and control of stores operating costs.

For the purpose of this audit, property management was reviewed in terms of the following criteria:

- effective stores utilisation is being exercised by government departments through determining the volume of unutilised space and the extent of storage of obsolete and slow moving items;
- storage property safeguarding measures are taken to protect the property from unauthorised access and hazardous events; and
- The monitoring of stores operating costs is implemented by government departments.

Initially a sample of 31 stores, spanning 13 departments, was selected from the EMD database in order to attain the above audit objectives. However, the NAO could only

perform on site inspections in 10 cases since:

- In nine cases, departmental ownership of the property was not confirmed by either the department concerned or the Government Property Division;
- five stores and part of another store were transferred to third parties, including voluntary associations free of charge;
- four properties are illegally occupied by third parties (one of which was retrieved following drafting of this report);
- one property is being utilized as an office;
- one property has been demolished;
- one property has been abandoned and is in dangerous condition.

Audit findings

Property management procedures by departments

The original 31 stores selected in the sample spanned 13 departments. Only five departments out of 13 departments (38%) maintain a list of property, including stores held by the department. However, only three departments regularly update it.

Six departments out of 13 departments have assessed their future property needs in general, and a further six departments have planned structural changes to present property. However, none of the departments reported planned changes to present stores.

The eight departments that do not maintain a list of property are in contravention of MF Circular number 14/99 that requires Ministries and Government departments to maintain inventory records of tangible fixed assets.

Table 1 – Stores running costs

Details	Name of store										Average	
	Department of Social Security	Works Division Contracts and Procurement Section	Works Division MSD Kordin	Works Division Shed no 2, Beltissebh, Floriana	Comm. of Inland Revenue	Director of Contracts	Registrar of Law Courts, Merchants Street, Valletta	National Statistics Office	Director of Agriculture	Registrar of Law Courts, South Street, Valletta		
Nature of storage	Stationery forms, uniforms and common user items	General stores	Spare parts	Files	Stationery forms and common user items	Files, obsolete stock	Files	Old public. and files	Obsolete stock	Obsolete stock		
	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm
2002 expenses												
Cleaning expenses	1,235	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	124
Maintenance, security and other expenses	20	22,410	9,048 ²	4,117	Nil	753	Nil	Nil	Nil	Nil	Nil	3,635
Utility costs	2,898	1,714	2,034 ³	Nil	Nil	84	Nil	Nil	Nil	Nil	Nil	673
Rent	540	700	550	440	170	2,970	70	60	3,700	230	Nil	943
Administrative expenses ⁴	10,815	15,084	46,498	Nil	500	Nil	Nil	Nil	Nil	Nil	Nil	7,290
Total costs	15,508	39,908	58,130	4,557	670	3,807	70	60	3,700	230	Nil	12,665
Total stores volume (m ³)	500	2,477	4,126	547	383	5,346	111	153	14,921	1,154	Nil	2,972
Cost per cubic metre	Lm 31.02	Lm 16.11	Lm 14.09	Lm 8.33	Lm 1.75	Lm 0.71	Lm 0.63	Lm 0.39	Lm 0.25	Lm 0.20	Lm 0.20	Lm 4.26

Source: NAO working papers

² Based on an estimate³ As above.⁴ Administrative expenses consist of storekeeper and store clerks salaries.

Stores running costs

The table opposite shows the operating costs for the 10 stores covered by this report.

Maintenance, security and other expenses and administrative expenses constitute the major part of stores operating expenses amounting to 29% and 58% respectively of total average cost.

Storage of obsolete stock represents unnecessary expenditure whereas the discrepancies between the cost per cubic metre of stores with similar operations indicates inefficiency in the running of some stores. These stores can be placed to more profitable use or rented out to third parties at a commercial fee.

Utilisation of property designated as stores

The utilisation rate of the 10 stores visited was assessed to determine the extent of property utilisation as per the following criteria:

1. Determination of volume of "unshelved space" and unutilised shelving in the store;
2. The volume of space being taken up by obsolete, redundant and unserviceable items;
3. Computation of rate of stock turnover in terms of volume and frequency of access requirements;
4. The availability of the stored items from the open market.

Storage space utilisation

The utilization of storage space in the case of the 10 stores visited is shown in the table opposite:

The stores visited contained a substantial proportion of unutilised space amounting to 39% of total average volume. This was mainly due to the fact that:

- The store belonging to the Registrar of Law Courts, South Street, Valletta is wholly unutilised;

- stores belonging to the Department of Agriculture, Department of Social Security and the Director of Contracts contain a significant portion of unutilized space.

The above indicates that no effective planning of stores property needs was implemented in the 10 stores visited. This unutilised space incurs avoidable costs estimated to amount to Lm 4,939 per annum, representing 39% of total average cost of Lm 12,665. Avoidable costs would increase substantially, if this incidence of unutilised storage space is projected to all property designated as stores within the Public Service. Furthermore, government incurs an opportunity cost as a result of not utilising stores to more effective use.

Low turnover of storage items

Out of 10 stores visited, only four stores contained moving stock. The rate of stock turnover of store pertaining to the Department of Social Security amounted to 2.14 per annum. This is a relatively low rate of stock turnover when one takes into consideration that items stored consist mostly of consumable items. This indicates a low utilisation of storage space at this store.

The information on stock turnover in respect of the other three stores, namely stores in the name of the Contracts and Procurement Section and Manufacturing and Services Department of the Works Division, and to Inland Revenue Department could not be reliably extracted from records kept at their end. The need for adequate stock management information systems is of paramount importance to the efficient operation of stores and optimal utilisation of storage space available.

In addition, items stored by the Department of Social Security and the Inland Revenue Department consist of consumable items that can be easily obtained from the open market or through government period contracts. Therefore the 753 cubic metres of storage space occupied can be put to more efficient use.

Table 2 – Utilisation of storage space

Details	Name of store										
	Department of Social Security	Works Division Contracts and Procurement Section	Works Division MSD Kordin	Works Division Shed no 2, Beltissebh, Floriana	Comm. of Inland Revenue	Director of Contracts	Registrar of Law Courts, Merchants Street, Valletta	National Statistics Office	Director of Agriculture	Registrar of Law Courts, South Street, Valletta	Average
Nature of storage	Stationery forms, uniforms and common user items	General stores	Spare parts	Files	Stationery forms and common user items	Files, obsolete stock	Files	Old public and files	Obsolete stock	Obsolete stock	
Total volume in m³	500	2,477	4,126	547	383	5,346	111	153	14,921	1,154	2,972
Unutilised space in m ³	92	158	Nil	Nil	38	1,553	Nil	Nil	5,477	Nil	732
Storage of unserviceable stock in m ³	Nil	Nil	Nil	Nil	Nil	170	Nil	10	2,963	1,154	430
Total unutilised space in m³	92	158	Nil	Nil	38	1,723	Nil	10	8,440	1,154	1,162
Proportion of :											
- unutilised space to total volume	18%	6%	Nil	Nil	10%	29%	Nil	Nil	37%	Nil	25%
- unserviceable stock to total volume	Nil	Nil	Nil	Nil	Nil	3%	Nil	7%	20%	100%	14%
Total proportion of unutilised space	18%	6%	Nil	Nil	10%	32%	Nil	7%	57%	100%	39%

Source: NAO working papers

Property transferred to third parties

One store and part of another store belonging to the Director of Agriculture, out of the six stores transferred to third parties, covering an area as per EMD database of 761 square metres, have been transferred to third parties without the authorisation of the Commissioner of Land. This may constitute a *prima facie* breach of article 3 of the Disposal of Government Land Act (Chapter 268).

Conclusions

1. Property management practices by government departments need to be improved. Government departments generally do not maintain a proper database of the property owned by their departments. Moreover, advance planning of future property requirements needs to be enhanced. Valuation of property has never been performed;

2. The database of property belonging to government departments maintained by EMD is not yet fully updated. This mainly is the result of a lack of feedback by government departments given to the EMD in relation to property movements and transactions;

3. There is low utilization of stores owned by government departments. Government property designated as stores seems to be substantially unutilized and/or is used to house unserviceable stock. Stock turnover ratio could either not be determined or is low in the government stores containing moveable stock;

4. Management control of stores is weak. Running costs are not effectively monitored. Property safeguarding and the risks of fire are not being adequately catered for.

Recommendations

1. Property management should be included in the departmental planning process. Property needs should be clearly identified and included in the business plans submitted by departments. In addition, surplus property is to be disposed of or transferred to another department requiring the property, through the Estate Management Department;

2. Management control of property should be strengthened. Property running costs are to be constantly monitored, and any disposal of property is to be effected with the approval of the Commissioner of Land. Effective safeguarding of property and fire preventive measures should be implemented;

3. Inventory records of government-owned property owned by Ministries and Departments should be maintained and regularly updated in terms of MF Circular number 14/1999. Apart from control purposes, this register would also facilitate the implementation of accrual accounting;

4. A concerted effort by EMD and government departments should be made to ensure that the database of property maintained by EMD reflects the current status of property held by government departments.

Renting of Property for Social Housing Purposes

Introduction

The Value for Money Section of the National Audit Office (NAO) had planned to carry out the performance audit: Renting of Property for Social Housing Purposes, during the period November 2002 – June 2003.

The Department of Social Housing (DSH) manages the register of applicants for, and the allocation of, public rental housing. The DSH falls within the remit of the Ministry for Social Policy. The Department's records indicated that as at the end of 2002, its housing stock consisted of 19,166 units, including 8,948¹ Government-owned premises, and the remaining 11,218 of those properties which had been requisitioned by Government prior to March 1995.²

In accordance with government policy, a Waiting List of applicants is maintained by the DSH. Applications are sorted on a points system which gives relative weighting to a number of factors including income, the size of the household, and the condition and suitability of present accommodation. At the discretion of the Director, special needs cases are given priority attention, irrespective of their ranking within the points systems.

Towards the end of 2001, a more comprehensive points system was approved by Government. The new points system featured in the report of the Housing Authority for 2001 – 2002, and was discussed in Parliament in November 2002. This system gives significantly higher weighting to the quality of existing accommodation in relation to the number of occupants. As at end 2002, this new system had not yet officially replaced the previous points system.

¹ The Department's database was incomplete. The relative records at the Land Department, copied to the NAO in January 2003, included 9,716 units.

² The requisitioning of property was discontinued in 1995. The DSH has been carrying out an extensive programme to derequisition requisitioned properties.

Objectives of the Performance Audit

The objectives of this audit were to establish whether the Department of Social Housing:

- i. has structures, policies and business objectives that are clearly defined and implemented;
- ii. has adequate management information structures to enable effective planning and decision making;
- iii. processes social housing applications efficiently and effectively;
- iv. allocates its available stock of housing units in accordance with government policy, and in a timely manner.

Audit Findings

Following preliminary work based on interviews with the Director, and an initial examination of copies of the Department's applications and property databases, the NAO considered that emerging deficiencies would hinder, to a significant degree, the full conduct of this audit, and would prevent the NAO from achieving all its planned audit objectives.

Shortcomings highlighted in the preliminary audit work include the following:

1. The insufficiency of documented key policies and the absence of clear implementation guidelines have led to a situation whereby the Department's operational practices have been developed over time, at the discretion of the Director;
2. A Ministerial directive to maintain a Waiting List of applicants in

- accordance with the old points system was not followed. The officially operative points system database was not updated with new applications;
3. Management information systems in use by the DSH were inadequate to support the Department's operations. The databases in use were unreliable, did not support the allocation process, and lacked audit trails;
 4. In addition, the Housing allocation process was flawed as:
 - i. Applications were not being vetted comprehensively and consistently;
 - ii. Outstanding applications were not being updated periodically.
 - iii. Deficiencies emerged in the operation of the points systems databases;
 - iv. Undue consideration was being given to applicants' preferred location, although this was not an allocation criterion;
 - v. Waiting List management may not be fully transparent;
 - vi. Not all special needs cases were weighted in the points system. The NAO considers that 'special needs' should be allocated appropriate weightings, (i.e. the number of points that will reflect the requirement to move to the top of the Waiting List) in order to provide an adequate trail;
 5. Management of assets at the disposal of the DSH was considered to be weak due to the following reasons:
 - As at end 2002, the DSH property record included 768 units less than the corresponding database of rented government-owned residential units maintained for the collection of rents at the Government Property Division. Records maintained by the DSH and the Government Property Division have not been reconciled at the time of going to press;
 - There was evidence of a mismatch of units made available by the Housing Authority for renting by the DSH, in comparison with applicants' requirements. Specifically, more single-bedroom units were needed instead of some of the three-bedroom units provided by the Housing Authority. This problem was recently discussed in Parliament, and is being addressed by the Housing Authority;
 - According to DSH records, there were significant delays in allocating new units, following receipt of the relative property keys by the DSH. The NAO was informed that delays were generally due to a lack of standard utilities (e.g. water, electricity, and drainage) and other unfinished items in the new units at the time the relative keys were received by the DSH;
 6. The planned merger of the DSH with the Housing Authority, which should result in greater co-ordination of the social housing function, appears to have been delayed.

Conclusions

The shortcomings revealed during preliminary audit work at the Department for Social Housing, mainly the absence of reliable data, the need to further clarify processes, and the absence of adequate audit trails in the existing databases, prevented the

NAO from carrying out this performance audit as originally planned.

While the Ministry's recent initiative to have in place an integrated housing information system will contribute towards addressing the main shortcomings, it is recommended that, until this system is fully implemented, the issues raised in this report are addressed as a matter of priority.

Management Comments

The Ministry for Social Policy is aware that the current information systems at the DSH do not satisfactorily support the Department's operations. In fact the Ministry has commissioned a detailed scope study of IT requirements within the housing sector, which includes the DSH, with a view of having an integrated housing

information system. In addition, the project document on the Housing Management Systems (HOMES) was presented to the Ministry at the end of last June. The implementation of this project, which is subject to the availability of funds, is estimated at Lm200,000 over three years.

Staffing constraints, which prevailed despite the DSH's request for additional resources, have hindered the DSH in harmonising its 'points systems' with that in use by the Housing Authority. As a result, the amalgamation of the DSH with the Housing Authority, and the investigation of applicants' declarations have been delayed.

The Ministry for Social Housing is of the opinion that sensitive cases, *'involving a very high element of confidentiality and that require to be dealt with urgency, cannot be weighted'*.

ISBN 99932-33-14-5

Printed at the Government Press - Marsa, Malta



Layout and production by the Information Technology Unit, National Audit Office, Malta.

Published by:

The National Audit Office
Notre Dame Ravelin
Floriana CMR 02
Malta

Telephone: (+356) 2122 4013/4/5
Fax: (+356) 2122 0708
E-mail: nao.malta@gov.mt

This report can be found on the
National Audit Office, Malta
website at www.nao.gov.mt

ISBN 99932-33-14-5

Printed at the Government Press
Marsa, Malta