



# Report by the Auditor General

**Public Accounts  
2003**



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# Guide to using the 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, although, 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 a number of reports on NGO's and government wide issues, 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 encourage them to correct or 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 department 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

## 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 2003, 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:

- Vouchers amounting to approximately Lm 8.5 million, raised by Ministries and Departments and forwarded to the Treasury Department during December 2002, were authorized for payment in January 2003 and therefore were accounted for in financial year 2003. Warrant No 3 of 2003 relates. These payments were issued through the Multi-Payment system, thereby bypassing controls in the Payment Voucher system. Various other multi-payments were also issued for services rendered during the year. (page 17)
- Since the enactment of Act XV of 2003, all loans and related interest to Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd. were assumed by Government. With the coming into force of the Act on 7 November 2003, loans amounting to approximately Lm166.1 million should not have featured as dues to Government in the Statement of Assets and Liabilities. (page 24)
- The Electronic Bank Reconciliation of the Public Account held at the Central Bank of Malta was carried out on a monthly basis as from 1 January 2002. As at September 2004, Treasury completed the automated bank reconciliation till the month of November 2003. Management plans that by March 2005, the automated bank reconciliation would be up to date.

However, no progress was made in the manual reconciliation of the Public Account bank balance for the period June 1992 to December 2001. Management is of the opinion that allocating staff to rectify matters for a whole decade is practically impossible considering that data for the period is not uniform, is unstructured and sparse. (page 37)

- Arrears of Revenue, totalling over Lm 360.8 million as at 31 December 2003, of which one third are estimated as not collectible, is still an area where significant improvement can be registered by introducing efficient procedures for the collection of debt, enforcement procedures for the settlement of fines and correct documentation for the settlement thereof. (page 65)
- Follow-up action by the Capital Transfer Duty Department, within the Inland Revenue Department, is not in conformity with commitments made during PAC Sitting No. 60 held on 21 March 2001. Very weak control was noted throughout the full process of collection of duty on credit cards issued by Commercial Banks and duty on premia collected by Insurance Companies, including inspections carried out by the Inspectorate Team. (page 136)
- Over a span of eleven (11) years, the number of outstanding travel advances is considered substantial and preoccupying. The total outstanding travel advances for the 1993-2003 is 559 carrying a face value of Lm 261,647. In its report, NAO highlighted various areas of concern and recommendations addressing these concerns. (page 49)
- Recommendations forwarded by the Working Group, set up by the Ministry of Finance, in collaboration with the Office of the Prime Minister and the Internal Audit and Investigations directorate, have to date not been taken into account in updating the guidelines and regulations regarding government transport. (page 59)
- During the year, the compliance aspect and internal controls within the ambit of Local Councils continued to deteriorate. Furthermore, there was an increase in the number of defaulting Councils and qualified audit reports. (page 242)
- Recovery effort by the Social Security Department were weak in the collection of arrears resulting in overpayments amounting to Lm 2.7 million. Furthermore, no interface existed between the Social Security Department and Inland Revenue in the collection of outstanding National Insurance Contributions preceeding 1998, amounting to Lm 5.1 million. (page 102)
- It was only in October 2004, following NAO's initial report that the Cooperatives Societies Board resolved to issue a Dissolution Order in respect of the inoperative *Kooperattiva Indafa Pubblika* (KIP). KIP's debts amounted to more than Lm1 million. (page 127)
- No audit trail is in place in respect of items purchased using Students' Maintenance Grants (SMG) swipe cards resulting in insufficient proof that funds are being used for their intended purpose. (page 127)
- The VFM Section of the NAO carried out a pilot study on the Quality Service Charter Initiative in 2001 and followed this up with an audit in 2004. The audit dealt with the launch and management of the Initiative and with the upholding of charters. Weaknesses in the overall monitoring functions rendered NAO unable to determine whether the services being delivered reflect standards stipulated in the charters. (page 278)

Weaknesses repeatedly featuring in the Auditor General's Annual Reports remain unaddressed, particularly those relating to internal control, namely:



### 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 those budgeted.
- Lack of verification before authorizing invoices for payment.

### Revenue

- 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 misuse and adversely affecting the cash liquidity of Government.

### Transport

- Inadequate record-keeping and monthly certification of general use cars' log-books, resulting in poor control over the issue of fuel and use of government owned vehicles.
- Unofficial use and lack of proper authorization for the use of government owned vehicles after office hours.

### Inventory

- Compliance with the provisions of inventory regulations still weak, hindering asset valuation necessary for the introduction of accrual-based accounting.

### Stores

- Mandatory annual physical stocktaking of various stores not performed, creating difficulty in identifying slow moving, deteriorating or obsolete items, as well as discrepancies occurring during the year.
- Variances between physical as against recorded balances and store items not properly coded.
- Non-existence of stock control through the maintenance of a store ledger.
- Procedure for write-offs not in line with General Financial Regulations.

### Cash and Bank

- Although lack of control over cash and bank balances resulting from a large number of missing receipt books was only encountered in one (1) Department, its nature and effect

warrant mention. Moreover, the reconciliation of bank account balances was also not carried out in a number of instances.

### Below-the-Line Accounts

- Details of the closing balances of various Below-the-line accounts were not kept. Idle funds which should eventually be transferred to the Deposits Fund Account, as required by the Financial Administration and Audit Act, could not be effected.



N A O  
National Audit Office  
MALTA

SUBJECT

MAO: Intern



Ministry of Finance and Economic Affairs

# ECONOMIC SURVEY

January-September 2003

## Audit Opinion

Finance

SPEECH



Ministry of Finance

# FINANCIAL ESTIMATES 2003

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

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### 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 2003. 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 me 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 my 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.

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

The Audit Report covers only matters which have been examined on a risk, systems and sample basis. 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 Government. This is necessary for better financial control and management.

Audit examinations carried out have revealed the following issues of particular concern for 2003:

- Lack of adherence to regulations relating to government transport and insufficient control over the utilisation of vehicles and fuel.
- Advances made through the Treasury Clearance Fund remaining outstanding for several years.
- Lack of proper use and accounting of certain Below the Line Accounts.
- Lack of proper use and recording of inventory and stores.
- Certain revenue generating departments lacking controls to ensure

complete and accurate recording of revenues.

- Lack of adequate controls for the collection of government duty from commercial banks and insurance companies.
- Substantial amounts of arrears of revenue due to government, and the incomplete or inaccurate recording thereof.
- Insufficient adherence to regulations governing the purchase process cycle.
- Lack of compliance with Circulars issued by Ministry of Finance and Treasury.
- Local Councils' internal controls continued to deteriorate - an increase in the number of defaulting Councils and qualified audit reports.
- Statement of Assets and Liabilities still reflecting loans taken over by the government from the Malta Drydocks and Malta Shipbuilding following Act XV of 2003.

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 2003.

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 2004





SUBJECT



Government of Malta

FINANCIAL REPORT

Financial Report 2003

Ministry of Finance

FINANCIAL ESTIMATES  
2003

Ministry of Finance

BUDGET SPEECH  
2003

2003

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## Analysis of the Financial Report 2003

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### Introduction

The Financial Report statements and accounts for year 2003 were submitted to NAO 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 2002 and 2003, and the receipts and payments of funds created by law were laid on the Table of the House of Representatives in Sitting No. 125 on 4 May 2004 after being reconciled with Treasury Books by NAO 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 Government financial operations, reference should be made to both this Audit Report and the Financial Report for 2003.

### Consolidated Fund Statement – 2003

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 Consolidated Fund - 2003 statement (Table 1) comprises the aggregate annual receipts and payments administered by Government and comparative estimates for 2003.

After the House of Representatives adopted the year 2003 Budget (Original Estimates) for an expenditure of Lm858,046,000 as authorised by Warrant No. 1 issued on 27 December 2002, and a further Lm36,999,002 as approved by Supplementary Estimates Warrant No. 2 dated 23 December 2003, it was estimated that Revenue was to exceed Expenditure by Lm42,584,998. Following the closure of the 2003 Accounts, it resulted that Revenue had actually exceeded Expenditure by Lm16,082,168.

A detailed breakdown of the Consolidated Fund as compared with the approved Budget and the 2002 figures is given in Financial Report 2003.

### Warrant No. 3 of 2003

Warrant No. 3 was issued by the Minister of Finance on 8 January 2003, for an amount not exceeding Lm8,500,000 *“in order to process and effect payments during 2003 related to various Votes of expenditure until the corresponding Vote of expenditure in the Consolidated Fund is identified.”*



**Table 1 - Consolidated Fund - 2003**

	Estimated (Original & Supplementary)		Actual	
	Lm	Lm	Lm	Lm
Opening Deficit Balance				(96,399,229)
<i>Revenue</i>				
Ordinary (incl. Grants)	770,530,000		739,220,865	
Extraordinary	54,600,000		2,137,074	
Loans	112,500,000	937,630,000	132,129,162	873,487,101
<i>Expenditure</i>				
Recurrent	(702,926,001)		(677,655,290)	
Public Debt Servicing	(76,706,000) <sup>a1</sup>		(75,780,939) <sup>a2</sup>	
Capital	(115,413,001)	(895,045,002)	(103,968,704)	(857,404,933)
Surplus 2003		42,584,998		16,082,168
Closing Balance as on 31/12/03				(80,317,061)

<sup>a1</sup>) These exclude Lm2,552,000 (Estimates<sup>a1</sup>)/Lm1,079,402 (Actual<sup>a2</sup>) 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 40 – Government Property Division.

## Observations

- Vouchers, amounting to approximately Lm8.5 million, raised by Ministries/Departments and forwarded to the Treasury Department during December 2002, were authorised for payment in January 2003 and therefore were accounted for in financial year 2003. Treasury acted upon “instructions from the Ministry of Finance, which is ultimately responsible for the overall management of public funds and budgets.” (Treasury letter dated 3 June 2004 refers).
- Ministries/Departments had already processed these vouchers through the normal routine under the relative DAS datasets. However, related payments were processed through the multi-payment routine, in order not to put unwarranted and added pressure on the Ministries/Departments to reverse the process. Although relevant data could be found under the relative Datasets’ cashbooks for 2003, such payments did not feature in the Purchases ledger reports showing the list of payments forwarded to various suppliers.

The use of multi-payments may give rise to violation of VAT and Tax Laws as payments may go undeclared.

- No records were presented for examination of the meetings held or of any reports issued by MITTS Ltd., indicating that the course of action taken was due to urgency and technical issues. In fact, “this line of action was agreed upon at a meeting at the Treasury between officials from the Ministry, the Treasury and MITTS for which it was not felt necessary at time to keep records”.

## Recommendation

The Ministry of Finance should implement proper controls in order to minimise instances of Departments accumulating transactions for payment at the end of the financial year. Payments due are to be settled without delay, to take possible advantage of any interest-free credit period that may be offered by suppliers.

## Revenue

Details of Revenue collected during 2003, classified by heads and subheads, as compared with the Estimates, are shown in the Financial Report. Explanatory comments regarding variations between actual and budgeted revenue, as forwarded by the Ministry of Finance, are provided in the Financial Report 2003<sup>1</sup>.

However, the general reasons given under the variation analysis are not considered adequate. Generic explanations in the form of "higher receipts than expected from ....." are to be suitably replaced by specific reasons for the variances.

Major sources of revenue for Years 2001 – 2003 are given in Table 2 hereunder.

**Table 2 - Government Ordinary Revenue by Major Sources in Lm (000's)**

Year	Tax Revenue						Non-Tax Revenue*
	Income Tax	National Ins. Cont.	Value Added Tax	Licenses, Taxes &	Customs & Excise Fines	Total	
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
2003	205,218	188,427	123,910	89,160	61,576	668,291	70,930

\* Non-Tax Revenue for 2003 includes such items as Central Bank of Malta profit (Lm24,782,536), Fees of Office (Lm12,289,648), Rents (Lm9,814,971) and Miscellaneous Receipts (Lm8,448,175).

Budgeted ordinary revenue for 2003 was Lm770,530,000. Actual ordinary revenue for 2003 amounted to Lm739,220,865, a decrease of Lm31,309,135, when compared to the amount budgeted for.

## Foreign Loans and Grants

Foreign loans and grants received by Government in 2003 amounted to Lm32,196,162 and Lm2,516,627 respectively. Actual revenue derived from the reimbursement of expenditure on projects financed by foreign loans and grants shows an adverse variance of Lm463,211 from the 2003 approved Estimates. Table 3 refers.

## Expenditure

The appropriations for expenditure during 2003 were authorised 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)	579,691,588
(ii) In terms of Special Laws	300,018,977
(iii) In terms of the Constitution	15,334,437

<sup>1</sup> Part 1 pp. xiv, xv of the Financial Report 2003

Table 3 - Foreign Loans and Grants

Grants/Loans	Budget 2003	Actual Revenue 2003	Variation	Reason for Variation (Source: Financial Report 2003 p. xv)
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	
<b>GRANTS:</b>				
<b>E.U. Fourth Financial Protocol</b>	-	35,241	35,241	
<b>E.U. – 2000/3 Pre-Accession Funds</b>	8,676,000	2,481,386	(6,194,614)	Funds under the EU-Pre Accession Programmes for 2000/3 were only partly utilised during the year.
<b>Italy – Fifth Financial Protocol</b>	14,000,000	-	(14,000,000)	Funds under the Fifth Italian Protocol were not utilised during 2003.
<i>TOTAL</i>	<i>22,676,000</i>	<i>2,516,627</i>	<i>(20,159,373)</i>	
<b>LOANS:</b>				
<b>C.O.E. – S.D.F. (Mater Dei Hospital Project)</b>	<b>12,500,000</b>	<b>32,196,162</b>	<b>19,696,162</b>	Loan used to finance part of the Mater Dei Hospital project.

### Analysis of Appropriations

#### Appropriation Act (Voted Services)

	<b>Lm</b>
Appropriated by Act XXVIII of 2002	563,681,586
Appropriated by Act XIX of 2003 (Second Appropriation Act)	<u>16,010,002</u>
	<b><u>579,691,588</u></b>

#### Special Laws

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

	<b>Lm</b>
a) Expenses of the Electoral Commission – General Elections Act (Act XXI of 1991)	200,000
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)	50,600

d)	Expenses under Re-letting of Urban Property (Regulation) – (Ordinance XXI of 1931) and Agriculture Leases (Re-letting) Act (Act XVI of 1967)	3,000
e)	Land Acquisition (Public Purposes) Ordinance (Ordinance XL of 1935)	53,200
f)	Social Security Act, 1987 (Act X of 1987)	205,723,000
g)	Pensions Ordinance (Ordinance XVII of 1937)	27,000,000
h)	Expenses of the Office of the Ombudsman, Ombudsman Act, 1995 (Act XXI of 1995)	170,000
i)	Expenses of the Permanent Commission Against Corruption (Act XXII of 1988)	30,000
j)	Interest plus contribution to the Sinking Funds i.r.o. Local Government Stock – Local Loans (Registered Stock and Securities) Ordinance, 1959 (Ordinance XVIII of 1959)	63,138,107
k)	Interest plus contribution to the Sinking Funds i.r.o. Foreign Loans	1,422,070
l)	Malta Arbitration Centre, Arbitration Act (Act II of 1996)	30,000
m)	Expenses of the National Audit Office (Act XVII of 1997)*	800,000
n)	Refunds under V.A.T. (Act XXIII of 1998) /C.E.T.(Act XII of 1997)	600,000
o)	Widows' and Orphans' Pensions Act (Act XIX of 1927)	175,000
p)	Personal Injuries (Emergency Provisions) Ordinance (Ordinance IX of 1941)	38,000
q)	Members of Parliament (Retiring Allowances) (Act XVII of 1966), Members of Parliament Pensions Act (Act XXVI of 1979)	316,000
		<u><b>300,018,977</b></u>

\* The salary and allowances of the Auditor General are included in these expenses. As repeatedly reported in previous Audit Reports, salary and allowances should have been shown as permanently appropriated under Section 107 (2) 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:

	<b>Lm</b>
The President of Malta	18,174
The Attorney General	16,429
Judges and Magistrates	576,899
The Public Service Commission	<u>25,112</u>
	636,614
In terms of Section 106 as applied to the Public Debt	<u>14,697,823</u>
	<u><b>15,334,437</b></u>

## Excess of Expenditure over Estimates

Supplementary Estimates for 2003 which amounted to Lm36,999,002 were approved by the House of Representatives at Sitting No. 84 on 16 December 2003, Act No. XIX of 2003 (explanations for excesses are found in the said Estimates).

Other overspending on various items under different Votes resulted. However, this 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.

Votes and Items where excess expenditure resulted over original/revised estimates exceeding Lm200,000 occurred in the instances shown in Table 4.

**Table 4 - Excess of Expenditure over Revised Estimates**

Vote, Item	Actual 2002	Revised Estimates 2003	Actual 2003	Variation Actual 03/ Rev Est 03
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Vote 14: Care of the Elderly and Community Services Item 30: Contractual Services	50,255	18,000	224,606	206,606
Vote 17: Ministry of Education Item 5024: Contribution towards the Financing of Church Schools Item 5364: Students' Maintenance Grants	9,450,000 6,899,613	9,700,000 7,000,000	9,920,444 7,591,073	220,444 591,073
Vote 30: Ministry for Transport and Communications Item 5236: Guaranteed Earnings Agreement with the Public Transport Association Item 6009: Malta Transport Authority	839,136 49,885	450,000 2,184,000	1,404,012 2,637,352	954,012 453,352
Vote 32: Ministry for Economic Services Item 6017: Malta Drydocks	15,150,581	14,500,000	15,099,313	599,313
Vote 42: Ministry of Agriculture and Fisheries Item 5250: Public Private Partnership	-	2,566,000	3,466,163	900,163
Vote 44: Ministry of Health Item 6029: Mount Carmel Hospital	-	5,494,000	6,348,000	854,000
Vote 48: Ministry of Foreign Affairs Item 28: Travel	368,233	320,000	535,284	215,284
Capital Vote I: Office of the Prime Minister Item 7158: CIMU Corporate Projects	-	608,000	881,105	273,105
Capital Vote V: Ministry for (the Environment) Resources and Infrastructure Item 7041: Sewerage System Extensions/Improvements Item 7042: Sewage treatment plants Item 7056: Relocation costs in connection with new capital projects Item 7164: Waste Management Services	1,557,738 469,000 80,869 -	1,850,000 150,000 90,000 1,100,000	2,068,847 380,503 730,176 1,781,000	218,847 230,503 640,176 681,000
Capital Vote VII: Ministry for Transport and Communications Item 7076: Sundry road improvements Item 7072: Purchase of new route buses – Subsidy	498,899 112,000	600,000 1,600,000	1,399,978 3,488,000	799,978 1,888,000

## Under Utilisation of Appropriated Funds

Contrary to previous years, the actual expenditure in connection with Item 5386: National Programme for the Adoption of the Acquis was less than the amount budgeted for by Lm367,232 (Table 5 refers). This compares to a variation of Lm8,037,616 for financial year 2002.

**Table 5 - NPAA Variation of Budget vs Actual 2003**

Department	Budget 2003	Actual Expenditure 2003	Variation
	Lm	Lm	Lm
Vote 5: Office of the Prime Minister	335,000	263,070	(71,930)
Vote 7: Armed Forces of Malta	100,000	-	(100,000)
Vote 10: Ministry for Social Policy	139,000	114,881	(24,119)
Vote 16: Industrial and Employment Relations	80,000	35,021	(44,979)
Vote 17: Ministry of Education	630,000	750,790	120,790
Vote 21: Ministry of Finance	10,000	-	(10,000)
Vote 27: Contracts	25,000	8,087	(16,913)
Vote 28: Ministry for (the Environment) Resources and Infrastructure	100,000	33,034	(66,966)
Vote 29: Ministry for Tourism	20,000	19,795	(205)
Vote 30: Ministry for Transport and Communications	90,000	87,483	(2,517)
Vote 31: Civil Aviation	35,000	39,658	4,658
Vote 32: Ministry for Economic Services	365,000	398,577	33,577
Vote 33: Economic Policy	224,000	199,769	(24,231)
Vote 34: Commerce	20,000	13,741	(6,259)
Vote 35: Consumer and Competition	55,000	30,665	(24,335)
Vote 36: Ministry for Home Affairs and the Environment	1	109,912	109,911
Vote 37: Police	50,000	47,645	(2,355)
Vote 42: Ministry of Agriculture and Fisheries	380,000	358,334	(21,666)
Vote 44: Ministry of Health	527,000	269,401	(257,599)
Vote 45: Ministry of Justice and Local Government	108,000	188,975	80,975
Vote 47: Judicial	25,000	12,484	(12,516)
Vote 48: Ministry of Foreign Affairs	37,000	6,447	(30,553)
<b>TOTAL</b>	<b>3,355,001</b>	<b>2,987,769</b>	<b>(367,232)</b>

## 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 resulting 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.

## Assets

The Statement of Assets, as shown in Appendix I of the Financial Report 2003, is reproduced in Table 6.

**Table 6 - Statement of Assets**

	2003 Lm(000's)		2002 Lm(000's)	
<b>Public Credit</b>				
Share Holding	133,575		132,214	
Other Investments	70,061		70,066	
Loans	<u>203,662</u>	<b>407,298</b>	<u>195,025</u>	<b>397,305</b>
<b>Investments held on behalf of</b>				
Sinking Funds (Local)	52,568 <sup>1</sup>		49,134	
Sinking Funds (Foreign)	12,245		10,452	
Trust Funds	355		314	
Court and Other Deposits	<u>408</u>	<b>65,576</b>	<u>472</u>	<b>60,372</b>
<b>Advances</b>				
Unallocated Stores	1,458		1,564	
Advances	122,454		124,834	
Loans	<u>-</u>	<b>123,912</b>	<u>-</u>	<b>126,398</b>
<b>Bank and Cash</b>				
Banks	477		330	
Cash at Treasury	-		-	
C.B.M. – Public Account	<u>44,476</u>	<b>44,953</b>	<u>13,515</u>	<b>13,845</b>
<b>TOTAL ASSETS</b>		<b><u>641,739</u></b>		<b><u>597,920</u></b>

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

	Lm
Central Bank of Malta Deposit accounts	38,694,511
Treasury Bills	-
Malta Government Stocks	172,000
13,049,654 Ordinary Shares of 25c – Maltacom plc	<u>13,702,137</u>
	<u>52,568,648</u>

The year end balance of Investments held on behalf of Sinking Funds (Local) relates to an investment in 5.9 per cent MGS 2009 III.

## Shareholding

Shareholding is being discussed under Investments on page 27.

## Loans made by Government and Repayments thereof

### Loans

Balances and other details of all loans issued by Government as on 31 December 2003, are summarised as follows:

	<b>Lm</b>
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	186,295,635
	<u>203,661,552</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 2003, leaving an unchanged closing balance over the previous years, as shown hereunder:

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

Other Loans at III include the following:

	<b>Lm</b>
Housing Scheme	64,003
Aids to Industries Scheme	1,596
MGI – (i) MDC – Investment in Industry	4,973,998
(ii) Malta Shipbuilding Co. Ltd.	121,187,702
Malta Drydocks Corporation	1,039,711
Malta Drydocks Corporation	24,600,000
Gozo Ferries Ltd.	29,143,277
Water Services Corporation	3,346,694
Malta Drydocks Corporation 1999	1,890,382

Since the enactment of Act XV of 2003, on 7 November 2003, all loans and related interest to Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd. should not have been shown as dues to Government in Financial Report 2003.

Treasury was not in a position to effect necessary changes in Financial Year 2003 since the exact transaction amounts arising from the debt cancellation/assumption agreements could not be determined before year end.



### New Loan Issues

New loans issued by Government during 2003, as reported in Appendix E of the Financial Report 2003, amounted to Lm9,105,665. These loans were made to Gozo Ferries Ltd. (Lm4,095,408) and Malta Shipbuilding Co. Ltd. (Lm5,010,257).

However, Treasury records were not adjusted to reflect the following transactions, since MGI informed Treasury on 25 May 2004, when it was too late to account for them in the Financial Report under review:

- The writing-off of a loan of Lm38,811 to Bahhar u Sewwi Ltd.
- The issue of Lm145,000 loan to Gozo Heliport regarding payments by Government of license fees (Lm15,000) and wages (Lm130,000).
- The issue of a loan amounting to Lm98,826 to Malta Export House Ltd. with respect to payment of bank interest by Government.
- The issue of a loan of Lm6,623 to Kalaxlokk Ltd., as payment of a terminal benefit in terms of the Voluntary Redundancy Scheme, launched in 1999. This payment was in relation to an employee who terminated his employment and received the terminal benefit in 2003. This was issued after all outstanding Kalaxlokk Ltd. loan balances were written-off following authorisation from the Ministry of Finance.

### Loan Repayments

During the year under review a loan amounting to Lm153,306 was set-off against part of the loan due from Water Services Corporation as authorised by the Ministry of Finance on 8 March 2004. This transaction was intended to settle in full all water consumption dues up to the end of 2003 by Malta Drydocks Corporation, Malta Shipyards Co. Ltd. and Malta Shipbuilding Co. Ltd.

### Observations

Interest receivable (Lm47,991) on a Malta Shipbuilding Co. Ltd. loan advanced by MGI could not be verified since Treasury never received documentation, supporting this interest amount, from MGI.

Moreover, observations made in the last four years' Audit Reports are being repeated once previous years' non-compliance to relevant General Financial Regulations, 1966 was again noted. No terms for repayment of loans were to date negotiated, namely:

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

No new agreements were negotiated during 2003. This observation also applies to new loans issued during the year under review. Table 7 provides further details regarding loans advanced to companies not covered by an agreement stipulating terms and conditions of repayment.

**Table 7 - Loans Advanced to and Interest Due by Companies not covered by Repayment Agreement as at 31 December 2003**

Company Name	Loans Advanced as at 31 Dec 2003	Interests Due as at 31 Dec 2003	Total
	Lm	Lm	Lm
Air Supplies & Catering Co. Ltd.	605	73,221	73,826
Quality Trading and Services Ltd. (C)	54,474	Interest Free	54,474
	45,775	12,361 <sup>2</sup>	58,136
Libma International Construction Ltd. <sup>4</sup>	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
Malta Drydocks Corp. <sup>1</sup> 1999 Loan	1,890,382	Interest Free	1,890,382
Gozo Ferries Ltd. <sup>3</sup>	29,143,277	Interest Free	29,143,277
Water Services Corporation	3,346,694	Interest Free	3,346,694
Malta Shipbuilding Co. Ltd. <sup>1</sup> 3 per cent Loan	94,359,247	25,742,841	120,102,088
8 per cent Loan	26,828,456	22,824,592	49,653,048
Aids to Industries	1,596	Interest Free	1,596
<b>TOTAL</b>	<b>156,077,729</b>	<b>48,653,015</b>	<b>204,730,744</b>

C – Company ceased operations

L – Company undergoing liquidation procedures

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

<sup>1</sup> No loan agreements will be entered into with Malta Drydocks Corporation and with Malta Shipbuilding Co. Ltd. following Act XV of 2003, since these loans have become due by Government itself. In fact, these loans should no longer be shown as being due to Government.

<sup>2</sup> Per MGI letter to Treasury, dated 25 May 2004, during 2003 an additional interest charge of Lm1,374 was made to Quality Trading and Services Ltd., thus increasing the outstanding interest balance at 31 December 2003 to Lm13,735. Treasury did not adjust its records and the Financial Report 2003 with this transaction, since it received this information late during 2004. It should be updating its records accordingly in 2004.

<sup>3</sup> In a letter dated 8 March 1999, Ministry of Finance informed Treasury that: “*This Ministry is in the process of drafting a loan agreement (when the proper amounts are known) to be entered into between Government and the Company*”. However, no developments have been reported to date.

<sup>4</sup> A discrepancy exists between MGI and Treasury records with regards to the loan advanced to Libma International Construction Ltd. Since loan inception, Treasury records have shown Lm362 in excess of the amount shown in MGI records.

#### Recommendation

It is once again recommended that Ministry of Finance should consider examining those loans not covered by terms and conditions and negotiate an agreement on modalities.

However, loans due by companies struck off the Register are to be written-off following the Ministry's approval.

### Loans and Interest Written-Off

The adjustment of Lm315,910 in respect of MGI-MDC-Investment in Industry relates to the writing-off of loans to Melita Knitwear Ltd. as approved by the Permanent Secretary, Ministry of Finance. Interest amounting to Lm382,207, due from Melita Knitwear Ltd., was also written-off.

However, in terms of MGI records, the outstanding loan and interest balances due from Melita Knitwear Ltd. were Lm256,183 and Lm284,419 respectively. It was pointed out that discrepancies between MGI records and those of Treasury have long existed due to different loan classifications adopted by the two. Both have written-off outstanding balances. The write-off indicated in Financial Report 2003 refers to the balance in Treasury's books.

### Outstanding Loan Repayments

Outstanding loan repayments and interest stood at Lm71,317,506, of which Lm56,542,140 are outstanding interest payments, as on 31 December 2003. Interest is no longer being charged to companies which are in the liquidation process or have ceased operations.

A breakdown of the outstanding loan repayments and interest figure is shown in Table 8:

**Table 8 - Outstanding Loan Repayments and Interest**

Beneficiaries	Loan	Interest	Total
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Hotels	6,672	3,368	10,040
Industries	2,008,694	49,826,578	51,835,272
Malta Drydocks Corp.	2,460,000	1,843,194	4,303,194
Ex-Posterity Fund	10,300,000	4,869,000	15,169,000

Discrepancies were noted between transactions recorded in the Return of Arrears of Revenue 2003 and those recorded in Treasury's records during the same period:

- As already commented earlier on, amounts due to Government by Malta Shipbuilding Co. Ltd. and Malta Drydocks Corporation following the enactment of Act XV of 2003 should not have featured as dues to Government in Financial Report 2003. However, the required transactions were not effected during 2003. On the other hand, the necessary adjustments were accounted for in the Return of Arrears of Revenue 2003, due to the reporting time lag.
- Interest on loans to Quality Trading and Services Ltd. of Lm1,374 due for Financial Year 2003, was not accounted for in Treasury's books, in 2003, but was accounted for in the Return of Arrears of Revenue 2003.

### Investments

The estimated market value of investments as shown in the Financial Report as at 31 December 2003 was Lm199,151,800 as against Lm192,585,622 as at 31 December 2002, an increase of Lm6,566,178.

These investments are as listed as per Table 9.

**Table 9 - Market Value of Government Investments as on 31 December 2003**

	Lm
Shareholding	133,575,306
Court and other deposits	395,088
Custodian of Enemy Property	13,270
Sinking Funds	64,813,440
Trust Funds	354,696

The following were the major changes in Treasury Clearance Fund/Consolidated Fund investments during the year:

**(i) New Investments**

- During 2003, Government purchased 9,999 shares at Lm1 each, in Industrial Projects and Services Ltd.
- In October 2003, Government also purchased 9,999 shares at Lm1 each, in Malta Shipyards Ltd.

**(ii) Changes in Investments**

In November 2002, a resolution was passed during the Mediterranean Offshore Bunkering Co. Ltd. Annual General Meeting, to change the company's reporting currency from Lm to USD, and to approve relative changes in the Memorandum and Articles of Association. As a result, with effect from October 2002, Government's holding in the company was converted from 1,680,000 'A' Ordinary Shares in Lm to 3,901,296 'A' Ordinary Shares in USD and from 319,999 'B' Ordinary Shares in Lm to 743,102 'B' Ordinary Shares in USD.

Treasury received the new share certificates in 2003 and accounted for the change, as follows:

- The new USD denominated investment was converted to Lm, using the 31 December 2003 USD-Lm exchange rate.
- The difference between the Lm value of the USD investment obtained at year end (Lm1,594,917) and the original value of the Lm denominated investment (Lm4,476,168) was considered as being depreciation (Lm2,881,251) in investment value.

Treasury did not record the new USD investment converted to Lm at transfer date but treated the transfer as though it occurred at the end of 2003.

**(iii) Increase in Investments**

- The investment in the European Bank for Reconstruction and Development (EBRD) of 100 Subscription Shares of Euro 10,000 each (30 per cent paid up) appreciated to a market value of Lm129,495 by the end of 2003, due to changes in the Euro rate of exchange. The remaining 100 Subscription Shares were 17.25 per cent paid up following the sixth payment of Euro 28,750 (Lm12,346). The final appreciated market value of this investment was Lm74,459. In total the investment in the EBRD increased by Lm18,246.

- Government's investment in Bank of Valletta Ltd. has risen by Lm1,514,708, when compared to the previous year. This increase is attributable to a bonus issue of 2,330,320 Lm1 shares to Government, on 10 January 2003, valued at Lm5,592,768.

This increase was partially set-off by a depreciation in Bank of Valletta plc shares. Shares were valued at Lm0.36 per share less, when compared to the previous year.

- The market value per share of Middle Sea Insurance amounted to Lm2.399 as at 31 December 2003 compared to Lm2 at the end of the previous year, resulting in Lm786,889 appreciation over the year.
- The value of the investment of 47,736,634 shares in Maltacom plc increased by Lm3,102,881 over the year as a result of an increase in market share price of Lm0.065.
- The investment in Eutelsat SA increased by Lm13,036 in 2003, due to changes in the Euro rate of exchange.

#### (iv) Decrease in Investments

- On 23 August 2002, Public Broadcasting Services Co. Ltd. had an extraordinary meeting during which, an extraordinary resolution to reduce the company's issued share capital to offset accumulated losses incurred by the company, was made. Consequently, Government's shareholding was decreased from 1,004,999 shares to 899,999 shares of Lm1 each. PBS provided Treasury with the new share certificate on 18 November 2003 and hence Treasury adjusted its records accordingly in 2003.
- During 2003, the value of the investments in:
  - Council of Europe Resettlement Fund for National Refugees and over population;
  - International Bank for Reconstruction and Development;
  - Malta Freeport Corporation Ltd.; and
  - Multilateral Investment Guarantee Agency

decreased due to adverse changes in the USD exchange rate.

- The investment of 27,059,995 shares in Malta International Airport depreciated by Lm811,800. Shares were valued at Lm0.03 per share less, when compared to the previous year.

Government's investment in Leader Marine Co. Ltd., of nominal value USD 2,790, was not converted to its Lm equivalent at 31 December 2003. The last valuation for the same amount was made at 31 December 1995.

*As already recommended in last year's report, the investment ledger should be updated annually to reflect changes in nominal value, cost and market value.*

#### Other Investments

At the end of 2003, the total of these investments amounted to Lm70,060,865 as against Lm70,065,863 on 31 December 2002, a decrease of Lm4,998 over the previous year. This decrease is sub-classified as per Table 10:

Table 10 - Other Investments

	Lm
<b>New Indirect Investments:</b>	
Gozo Heliport Ltd. <sup>1</sup>	20,000
Industrial Projects and Services Ltd.	1
Malta Shipyards Ltd.	1
Maltapost plc <sup>1</sup>	20,000
Mediterranean Offshore Bunkering Ltd. <sup>1</sup>	1
Wasteserv Malta Ltd. <sup>1</sup>	20,000
<b>Less: investment reductions/write-offs:</b>	
Malta International Airport <sup>1</sup>	(1)
Melita Knitwear	(65,000)
<b>Net change in investments during 2003</b>	<b><u>(4,998)</u></b>

<sup>1</sup> These new indirect investments and reduction actually refer to new investments/reduction which occurred during financial year 2002. These movements had not been reported in Financial Report 2002 since MGI notified Treasury regarding these movements on 27 March 2003, when it was too late to include such amounts in Financial Report 2002. This problem repeated itself for financial year 2003. In actual fact, during financial year 2003, there should have been additional investment write-offs as follows:

	Lm
<b>Investment write-offs:</b>	
Bahhar u Sewwi Ltd.	(500,000)
Dredging Works Ltd.	(80,001)
<b>Additional reduction in investments during 2003</b>	<b><u>(580,001)</u></b>

As already proposed in last year's report, it is essential that in order to clearly indicate the annual Government financial position, MGI should start informing Treasury regarding the previous year's investments position on a timely basis for inclusion in the related Financial Report.

Investments in Industry comprise Government shareholding in ninety-five (95) 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 Lm1,140,000 funds allocated by Government to MGI for further investments during 2003, Lm15,356 were used to advance loans to subsidiaries for 'Payment of Creditors'. According to MGI Schedule of Loans Advanced to Subsidiaries for Payment of Creditors, during 2003, provision for doubtful debts of Lm356 was created in connection with a new loan advanced to LIMSUK, during 2003.

The opening capital amounts, at 1 January 2003, of loans advanced to subsidiaries by MGI for payment of creditors, during 2003, did not tally with the respective closing balances at 31 December 2002. Table 11 refers.

**Table 11 - Balances of Loans advanced to Subsidiaries by MGI for Payment of Creditors**

Company name	Loan balance at 31 December 2002	Loan balance at 1 January 2003
	Lm	Lm
Interprint Ltd.	50,000	-
Interprint (MIMCOL advances)	328,059	899
Interprint Ltd.	228,492	-

Similarly, there was a mismatch between the opening balances at 1 January 2003 and closing balances at 31 December 2002 of the provision for bad debt balances. Table 12 refers:

**Table 12 - Provision for Bad Debt Balances by MGI**

Company name	Provision balance at 31 December 2002	Provision balance at 1 January 2003
	Lm	Lm
Malta Export House*	3,500,000	3,700,000
Interprint Ltd.	50,000	-
Interprint (MIMCOL advances)	328,059	899
Interprint Ltd.	228,492	-

\* previously the balance of Lm3,500,000 was shown as a provision against the loan due by Malta Countertrade.

Treasury could not justify these differences since such balances refer to loans advanced and provided for by MGI from its own funds and therefore do not fall within Treasury's direct responsibility.

## Investments through MGI

In 1988, the bulk of the investments made over the years through the Malta Development Corporation (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 Lm31,758,515 as at 31 December 2003.

However, it was estimated that the net book value of these companies only amounted to Lm6,423,800 after an accumulated provisional loss of Lm25,334,715. Further details are provided in Table 13:

**Table 13 - Investments through MGI**

Investment Type	No. of Companies	Cost	Provision	Net Book Value
		Lm	Lm	Lm
Subsidiary Companies	44	30,510,365	24,188,315	6,322,050
Associated Companies	14	1,150,616	1,051,297	99,319
Other Companies	22	97,534	95,103	2,431

The return also pointed out that thirty two (32) of these companies were undergoing liquidation procedures, five (5) have ceased operations, eleven (11) are awaiting tax clearance before they can be struck off and three (3) never commenced operations.

### Inspection of Securities/Investments

#### Board of Securities

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

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

The Board was set up for a period of 3 years with effect from 1 September 2000. Hence, a new Board should have been appointed upon expiration of appointment of the previous Board in 2003. However, in August 2004, such Board still had not been officially appointed and the old members carried out the List of Securities inspection. Upon enquiry, the Secretary of the Board remarked that the existing Board members will be reappointed in addition to a new member.

Records and meetings of the Board of Securities are held at the Treasury. The List of Securities as at 31 December 2003 was inspected against original certificates of holdings and related documents. No discrepancies were reported.

With regards to the status of companies in which investments exist, Treasury relies on information provided by MGI and does not carry out any independent checking. It was pointed out that MGI performs regular checks, to identify any changes in relevant companies' status and any investments in struck-off companies are written-off.

*However, since a number of Investments represent amounts invested in companies which have ceased operations, due to dissolution or liquidation procedures, it is recommended that Treasury carries out an exercise whereby:*

- *details of any changes in status of companies in which investments exist, are obtained directly from the Malta Financial Services Authority; and*
- *Ministry of Finance authorisation is obtained to appropriately write-off any investments in liquidated, dissolved and struck-off companies, which actually carry nil values.*

#### Boards of Survey

Boards of Survey were 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 2003.

The reports from the Boards of Survey were received by this Office on 4 May 2004 and 13 July 2004, relating to moneys, deposits and other values at the Ministry for Gozo and Treasury respectively. The Boards certified the correctness of the instruments and documents provided and had no adverse remarks to make with regard to the validity, authenticity and legality of the said documents. In this regard, the Boards also took cognisance of the certification reports issued by various Bodies entrusted with the custody of such valuables.

However, the Board appointed to take account of moneys, deposits and other values at Treasury, could not reconcile the balance shown on the Public Account as per Cash Book



with the statement submitted by the Central Bank of Malta, since no Bank Reconciliation Statements were available at Treasury.

## Unallocated Stores

The total book value of the unallocated stores stood at Lm1,457,971. These were held by:

- Department of Information (Government Printing Press) – Lm207,475
- Contracts Department

	<b>Lm</b>
Central Supplies	604,246
Equipment	<u>684</u>
	<u>604,930</u>

- Ministry for Resources and Infrastructure

	<b>Lm</b>
Diesel	384,956
Precast Concrete	<u>260,610</u>
	<u>645,566</u>

In March 2004, the Ministry of Finance approved a virement from Capital Vote V, Ministry for Resources and Infrastructure Item 7041, Sewerage System Extensions/Improvements, to net-off the unallocated stores – petrol of the Ministry for Resources and Infrastructure, amounting to Lm103,269.

## 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 2003, in respect of advances made to various Government Departments, agencies and organisations.

Pending advances amounted to Lm122,453,922 as on 31 December 2003, as against Lm124,834,512 outstanding on 31 December 2002.

The main outstanding advances are shown in Table 14.

**Table 14 - Main Outstanding Advances**

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 Pietà' Act (No. XXXIX) of 1976	425,277
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 privatisation 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 privatisation of MOBC Ltd.	476,168
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	2,200,000
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 Mid-Med Bank plc in 1999	4,499,135
Accountant General, for the purchase of Maltapost shares from Mid-Med Bank plc in 1999	337,500
Accountant General, for the purchase of Medigrain shares from Mid-Med Bank 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 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 for Economic Services, to meet expenditure in connection with the privatisation process of the Malta Freeport operations	909,617
Permanent Secretary, Ministry for Economic Services, for the purpose of settling Malta Freeport equipment claims	4,500,000
Permanent Secretary, Ministry of Finance, advanced to Mid-Med Employees Foundation, for the purpose of investment, pursuant to the agreement dated 3 December 2002 and entered into between Malta Government and the Foundation in the interest of the members of the said Foundation	3,000,000
Permanent Secretary, Ministry of Finance and Economic Affairs, advanced in favour of the Malta Stock Exchange for the purpose of capital investment by Government in the Malta Stock Exchange	1,000,000
Permanent Secretary, Ministry for Information Technology and Investment, to enable Gozo Channel Co. Ltd. to settle urgent debts, including social security contributions and income tax (FSS) payments*	500,000

\* This advance warrant was indicated as falling under the responsibility of the Ministry for Economic Services in Financial Report 2003 whilst in actual fact this had originally been issued to the Ministry for Information Technology and Investment, the Ministry, then responsible for Gozo Channel Co. Ltd. The amount so advanced is to be repaid by 31 March 2005.

### Observations

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

**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.

Although specific repayment terms were not established for the Advance Warrant relating to the **Construction of new factory – Brandt International – Lm2,200,000**, the Advance

Warrant instructed that: *“The amount so advanced shall be accounted for and repaid out of Government’s annual budgetary allocation towards the Corporation’s Construction of Factories programme (minimum Lm1 million annually) within five years commencing in the year 2000.”* However, only Lm500,000 were repaid during 2003.

Following the issue of Act XV of 2003, the closing off of advances to Malta Drydocks Corporation and to Malta Shipbuilding Co. Ltd., must be borne by Government. As a result, the following advances in Table 15 are to be gradually repaid from the Consolidated Fund.

**Table 15 - Advances to Malta Shipbuilding Co Ltd and Malta Drydocks**

	<b>Lm</b>
Construction of ships at Malta Shipbuilding	9,291,722
Malta Drydocks Corporation – 1995	1,990,245
Malta Drydocks Corporation – 1996	4,650,583
Malta Drydocks Corporation – 1997	15,402,775
Malta Drydocks Corporation – 1998	11,428,404
Malta Drydocks Corporation – 1999	7,999,646
Malta Drydocks Corporation – 2000	11,000,000
Malta Drydocks Corporation – 2001	12,873,563
<b>Total</b>	<b><u>74,636,938</u></b>

LM5 million have been voted for repayment out of the Consolidated Fund for 2005.

### Bank – C.B.M. Public Account

Monies held in trust, received or paid by the Government of Malta as at 31 December 2003, ended with a year end debit book balance of Lm44,476,461 as accounted for in Treasury’s Books. However, the Central Bank of Malta Public Account statement ended with a closing balance of Lm19,781,322 as opposed to the closing balance reported in Part I (p.i) of the Financial Report 2003 of Lm21,795,578 as on the same date.

In Financial Report 2003 Part I p.i, it was reported that the discrepancy, between the Public Account’s closing balance in Treasury’s books and the Central Bank’s statement, mainly arose from a Treasury Bill transaction amounting to around Lm21 million. This Treasury Bill was due for repayment on 2 January 2004, but could not be affected by the Central Bank on that date, due to a bank holiday. Consequently, the Central Bank debited the amount to the Public Account on 31 December 2003, (i.e. before the transaction date), whilst Treasury adjusted its records, on the maturity date of the Bill. Treasury did not forgo any interest in this transaction, since funds were passed to Banks and any additional interest received by the latter, due to earlier receipt of funds from the Public Account held at C.B.M., was refunded to Treasury.

### Developments re Public Account Reconciliation

**The Electronic Bank Reconciliation System (“BRS”) was finalised by MITTS Ltd.**

MITTS Ltd. has completed its work on the BRS and is providing support to the Treasury Cash and Reconciliation Section, when day-to-day reconciliation problems are encountered. It provided training on the BRS manual matching process during June 2004.

Additionally, MITTS Ltd. conducted an IT system audit in 2004. In its report, it assessed BRS, identified possible weaknesses and recommended improvements to the system, to enhance controls and to ensure compliance with Accrual Accounting principles.

Treasury pointed out that recommendations made by MITTS Ltd. have been noted and that action has been taken accordingly.

In the *Bank Reconciliation System IT System Report*, Section 6.2, MITTS Ltd. pointed out three fundamental issues, which “are making the current BRS exercise futile”. Additionally, the following was stated:

“When taking cognizance of all these fundamental issues associated with the BRS process, a decision has to be taken whether it pays to start a clean sheet with the reconciliation process. In this case, an audit clearance has to be obtained from the National Audit Office.”

According to the Auditor General and National Audit Office Act (Cap. 396), First Schedule (Article 5), Section 4, the Auditor General is not entitled “.....to go into the merits of any policy or objective of any such department, office or body”. Hence, the Auditor General may only give advice on a matter but cannot issue an audit clearance as proposed by MITTS Ltd.

### Electronic Bank Reconciliation Statement (first cut)

The electronic bank reconciliation was carried out on a monthly basis as from 1 January 2002 taking the opening balance of the Public Account as shown by CBM. As at September 2004, Treasury completed the automated bank reconciliation (first cut) till the month of November 2003 and started working on the December 2003 reconciliation.

The BRS (first cut) automatically matches non-cheque/cheque transactions only if the reference/cheque number and amount exactly agree. It normally captures over seventy-five per cent (75%) of them. However, if either the reference/cheque number or amount is incorrectly recorded by the Central Bank or Treasury, the transaction results as a ‘Discrepancy’ on the BRS statement. Unreconciled items started being analysed and matched manually so that any reconciliation adjustments necessary will be made and reconciling items cleared.

The Treasury is now in a position to identify mismatched transactions and rectify them accordingly, which is ultimately the aim of the whole reconciliation process. As on September 2004, Treasury had started clearing 2002 reconciling items. In fact, investigations/queries for the year 2002 were finalised as regards Cheques, Debit Advices and Schedules. Work is in progress as regards Adjustments on Deposits/Direct Credits/Debit Advices, Deposits and Direct Credits.

Additionally, it issued Treasury Circular 8/2004 - “*Procedure for Deposits at the Central Bank of Malta*”, to provide guidelines on the procedure to be adopted by Government Departments when they deposit moneys with the Central Bank. These guidelines will help enhance uniformity in deposit procedures. Hence the number of items may have to be reconciled manually after the first cut, because they could not be automatically matched by BRS, will be considerably reduced once Departments comply with the requirements of the Circular.

This Office is satisfied with the progress registered to date. Monthly Bank Reconciliation Statements, for the period January 2002 till November 2003, were forwarded to this Office. During 2004, the Treasury’s Cash and Reconciliation Section staff complement was strengthened to support the electronic BRS in the longer term. Moreover, it is planned that the system would be up-to-date by March 2005.

### No progress in Manual Bank Reconciliation

No progress was made in the manual reconciliation of the Public Account bank balance for the period June 1992 to December 2001. Treasury pointed out that it is improbable that the manual reconciliation will be tackled at this stage, especially since time and energy are being devoted to the electronic reconciliation.

## Management Comments

- Treasury is of the opinion that January 2002 should be officially recognised as the start-off date for the new reconciliation exercise. Allocating staff to rectify matters for a whole decade is practically impossible and it would only put excessive pressure on the current reconciliation process. Moreover, it has to be stated that in the period 1992-2001, there had been various changes both in the government's accounting system and that of Central Bank. Suffice to state that in the period 1992-1996, some departments were 'live' on DAS whilst others were still using the manual system. Therefore data relating to the period 1992-2001 is not uniform, is unstructured and sparse.

Although the lack of sufficient human resources to undertake the manual reconciliation is indeed a problem, the reasons stated above pose the major obstacles in attempting to pursue such a route. Moreover, one also needs to consider the cost effectiveness and worthiness of actually effecting a reconciliation of more than a decade ago, given the current circumstances.

## Cash Flow Projections

Whilst Treasury Circular 10/2001 "*Cash Flow Projections*" laid down the specific requirements regarding submission of statements of projected cash receipts and payments, Treasury Circular 6/2003 emphasised the importance of the timely and accurate submission of such projections by Departments. Cash flow projections are necessary to be able to plan short-term financial requirements on the Public Account and hence secure maximum benefit from Government's flows of cash.

## Developments

Treasury's Cash and Reconciliation Section may lack the human resources necessary to concurrently manage efficiently, the cash flow projections and bank reconciliation processes, hence the latter is being given precedence.

### Submission of Officers' details

Treasury Circular 6/2003 (paragraph 3) required Departments to provide Treasury (Cash Office) with names and contact details of at least two Officers responsible for cash flow management. It transpired that only four out of fifty-one Departments (i.e. 7.8%) forwarded these details. The Departments complying were Police, Education, Armed Forces of Malta and Public Registry.

### Submission of periodical projections

None of the twenty-one Departmental Votes, falling under Group 2, complied with the requirement of submitting quarterly cash flow projections, analysed on a weekly basis, for the period April to June 2004. Furthermore, only five out of thirteen Group 3 Departmental Votes (i.e. 38.5%) filed monthly projections for May 2004, with the Treasury Department.

Treasury Circular 6/2003 advised that: "*The Treasury will not process any payment vouchers of departments, which fail to submit their cash flow projections in time.*" Up to May 2004, this measure was never resorted to, possibly due to lack of monitoring and enforcement by Treasury.

### Weekly monitoring of cash flow projections

Through the use of software packages and weekly reporting, Treasury monitors weekly Departmental income and expenditure. This ensures that the Treasury Department is continuously aware of main cash inflows and outflows, in particular, any cash shortfalls.

## Quarterly performance reports

The Treasury Cash and Reconciliation Section is responsible for monitoring the Department's cash flow projections against actual receipts and payments. In furtherance of this objective, Treasury is to send quarterly performance reports to the Permanent Secretary of every Ministry. These reports highlight variations of projected revenue and payments against actual Departmental Vote figures. Such comparisons enable the investigation of shortfalls, especially the most significant ones.

However, Treasury failed to prepare and send regularly quarterly performance reports to the Permanent Secretaries. The latest reports forwarded date back to the second quarter of 2003.

## Amalgamation of cash flow returns

Currently, Treasury has two Sections which deal with cash flow returns:

- The Cash and Reconciliation Section, which deals with returns submitted in terms of Treasury Circular 10/2001 "Cash Flow Projections".
- The recently set up Accrual Accounting Methodology and Compliance Section, which deals with accrual accounting cash flow projections submitted in terms of MF Circular No. 8/2002 "Government Accrual Accounting: Procedures for the Management of Cash".

To facilitate administration work for Government Departments, Treasury is aiming to amalgamate the two returns, by the end of 2004. The information in this return will then be made available to both Sections concerned with cash flows to be processed accordingly.

## Liabilities

The Statement of Liabilities, as featured in Appendix I of the Financial Report 2003, is reproduced in Table 16.

**Table 16 - Statement of Liabilities**

	2003		2002	
	Lm(000's)		Lm(000's)	
<b>Public Debt</b>		<b>985,658</b>		<b>858,184</b>
<b>Treasury Bills</b>		<b>227,858</b>		<b>216,189</b>
<b>Deposits</b>				
Court and other deposits	21,171		20,160	
Other	30	<b>21,201</b>	29	<b>20,189</b>
<b>Funds</b>				
Sinking Funds	64,813		59,586	
Public Lotto	14		225	
Contingencies Fund	500		500	
Trust Funds	372	<b>65,699</b>	325	<b>60,636</b>
<b>Accumulated Fund</b>				
Cons. Fund at year end	(80,317)		(96,399)	
Net Public (Debt)	<u>(578,360)</u>	<u><b>(658,677)</b></u>	<u>(460,879)</u>	<u><b>(557,278)</b></u>
<b>TOTAL LIABILITIES</b>		<u><b>641,739</b></u>		<u><b>597,920</b></u>

## Public Debt

On 31 December 2003, the Public Debt (inclusive of Treasury Bills outstanding at year end) amounted to Lm1,213,515,923. This amount represents an increase of Lm139,142,888 over the corresponding reported figure for 2002.

This increase works out as follows:

	<b>Lm</b>
Total of New Loans	904,109,458
Total Repayment of Loans	(764,807,352)
Currency Adjustments	<u>(159,218)</u>
Net increase in Public Debt	<u>139,142,888</u>

The following payments in Table 17 in connection with the Public Debt were made out of the Consolidated Fund (Vote 49 – Public Debt Servicing and Vote 40 – Government Property Division).

**Table 17 - Payments from Consolidated Fund**

	Vote 49 Public Debt Servicing	Vote 40 Government Property Division	Total
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
(i) Interest on Loans	55,781,840	1,076,402	56,858,242
(ii) Interest on Short-term borrowing (Treasury Bills)	7,259,992	-	7,259,992
(iii) Contribution to Sinking Funds	12,287,610	3,000	12,290,610
(iv) Loan repayment 'Sumitomo Bank'	451,497	-	451,497
<b>Total</b>	<b>75,780,939</b>	<b>1,079,402</b>	<b>76,860,341</b>

The amount of Lm451,497 was paid to Sumitomo Bank Ltd. directly from recurrent expenditure.

The following payments in Table 18 were made out of the Sinking Funds:

**Table 18 - Payments from Sinking Funds**

	<i>Lm</i>
(i) Payment of Local Loans	4,943,774
(ii) Payment of Foreign Loans	4,111,601
(iii) Loss on currency adjustments (Foreign Loans)	145,332
(iv) Revaluation of Sinking Funds Investments	(2,004,305)
<b>Total</b>	<b>7,196,402</b>



## Foreign Loans

### European Union Loan F

As reported in the Audit Report 2001, NAO has to date not been forwarded with the explanation necessitating the adjustment, during 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, NAO 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 to date.

### Italian Loan – 1985

The interest payment made with respect to this loan on 30 December 2003, was incorrectly updated in the spreadsheet prepared by the Treasury – Public Debt Section. Although the USD 769 and USD: Lm exchange rate of 2.8733, were correctly stated, the translation to Maltese Liri showed Lm939 instead of Lm268.

## Public Debt since 1985

Table 19 on page 42 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 2003.

The Public Debt levels reported in Financial Report 2003 (Lm1,213,515,923), do not include the amount of approximately Lm40 million by way of debt assumption of the former Malta Shipbuilding Co. Ltd. and the Malta Drydocks Corporation. This adjustment should have been accounted for in the Government Accounts in 2003.

## Letters of Comfort/Bank Guarantees

The position of Contingent Liabilities as at 31 December 2003 (Table 20 refers) is reported upon in Part I of the Financial Report, 2003. The component parts are made up of (a) Government Guarantees and (b) Letters of Comfort as follows:

**Table 20 - Contingent Liabilities – 2003**

	<i>Lm</i>	<i>Lm</i>
Government Guarantees:		
Local	184,067,536	
Foreign	<u>107,253,147</u>	291,320,683
Letters of Comfort		<u>23,701,822</u>
		<u>315,022,505</u>

A detailed list of Letters of Comfort/Bank Guarantees (vide Table 21 on page 43) submitted to this Office by the Ministry of Finance showed a balance of Lm315,022,505 as on 31 December 2003 (against Lm374,007,704 as on 31 December 2002 and Lm416,822,282 on 31 December 2001).

Table 19 - Public Debt since 1985

Year	Local Loans ( i ) ( ii )	Foreign Loans	Total Debt	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	per cent	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	39,251	920,988	(iv) 1,558,233	59.10	(+) 83,981
2001	968,978	40,494	1,009,472	(v) 1,630,373	61.92	(+) 88,484
2002	1,029,219	45,154	1,074,373	(v) 1,685,627	63.74	(+) 64,901
2003	1,140,888	72,628	1,213,516	(v) 1,712,165	70.88	(+) 139,143

(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 2004:2.

(iv) As amended.

(v) Provisional.

Table 21 - Letters of Comfort/Bank Guarantees

Beneficiary	31.12.01	31.12.02	31.12.03
	Lm	Lm	Lm
Air Malta Co. Ltd. (Foreign)	26,518,163	nil	nil
Air Malta Co. Ltd. (Local)	8,100,000	8,100,000	8,100,000
Malta Drydocks Corporation	39,204,460	40,641,020	40,620,736
Malta Export House Co. Ltd.	3,393,730	5,901,791	5,690,513
Malta External Trade Corp. Ltd. (Metco)	2,795,163	nil	nil
Enemalta Corporation	49,631,232	45,552,853	40,544,616
Gozo Ferries Co. Ltd.	38,818,694	35,833,125	12,354,367
Housing Authority	13,327,121	12,903,591	3,439,792
HSBC Home Loans (Malta) Ltd. <sup>1</sup>	30,000,000	30,000,000	30,000,000
Malta Development Corporation	4,352,321	4,296,195	4,233,956
Malpro Ltd.	1,000,000	800,000	700,000
Malta Government Investments Ltd.	18,273,191	18,060,126	16,993,775
Public Broadcasting Services Ltd.	1,290,423	1,275,273	1,242,496
ST Microelectronics (Malta) Ltd.	2,800,000	2,800,000	nil
Self Employment Scheme	2,775	1,570	nil
Malta Shipbuilding Co. Ltd.	2,124,341	2,606,946	1,090,081
Water Services Corporation	32,133,584	31,108,172	28,392,157
Malta Win Cargo Containers Ltd.	3,372,557	nil	nil
Malta Freeport Corporation	134,865,639	126,044,426	110,727,327
Medigrain Co. Ltd.	921	nil	160,995
Malta Desalination Services Ltd.	1,390,936	939,045	984,008
Tripoli Sewage Treatment Plant	665,488	665,488	665,488
Malta Tourism Authority	2,757,032	2,412,402	3,067,772
YSSS - Jean Paul Mifsud	1,985	1,466	1,558
YSSS - Nikolai Cassar	2,526	nil	nil
Foundation for Medical Services	nil	2,213,106	nil
Foundation for Tomorrow's Schools	nil	450,408	3,012,868
Gozo Channel Co. Ltd.	nil	500,000	500,000
Malta Maritime Authority	nil	500,000	2,500,000
Malta Stock Exchange	nil	400,701	nil
<b>TOTAL</b>	<b>416,822,282</b>	<b>374,007,704</b>	<b>315,022,505</b>

<sup>1</sup> Previously shown as Lohombus Corporation.

## 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 Appendix N of the Financial Report 2003:

- i) The amount of Lm23,984 Cash Losses shown under the Ministry of Education (Examinations) relates to an amount found missing from the Exams Branch on 27 November 1990. The amount was written-off following approval from the Ministry of Finance on 31 January 2003. However, the Stores Written-Off and Cash Losses Return for 2003, prepared by the Examinations Department did not report this amount under Cash Losses. In fact, a "NIL" return was submitted.
- ii) Stores Written-Off by the Education Department, amounting to Lm895, could not be verified by this Office since no supporting Return could be found in either Treasury or National Audit Office files.
- iii) Stores Written-Off by the Ministry for Resources and Infrastructure (Lm2,204) included various items, totalling Lm1,992, which relate to unserviceable items. These items should not have been included in Appendix N, since such items actually carry nil values. Therefore, the amount of Stores Written-Off should read Lm212.
- iv) The amount of Stores Written-Off by the Ministry for Transport and Communications (Wireless Telegraphy) totalling Lm19,759, relates to unserviceable items written-off, which should not have been included in the Financial Report.
- v) All amounts included in the Lm58,798, in respect of the Ministry of Agriculture and Fisheries, were wrongly classified as Cash Losses. Classifications should have been as follows:

	<b>Lm</b>
Abandoned Claims	58,743
Stores Written-Off	55

- vi) Lm763,117 Abandoned Claims under 'Public Credit' actually relate to Abandoned Claims by the Ministry for Economic Services. The amount written-off consists of a loan (Lm315,910) and related interest (Lm382,207) due by Melita Knitwear Ltd., as well as investment (Lm65,000) in the same company, as detailed in 'Loans made by Government and Repayments thereof – Loans and Interest Written-off' on page 27 and 'Other Investments' on page 29.
- vii) In its Return for financial year 2003, the Public Health Office – Customer Services, Gozo, showed a list of Stores Written-Off, having a "nil" or scrap value, but without quoting figures. The Return did not indicate whether these items were lost, stolen or obsolete. Similarly, the Customer Services – Culture Section did not indicate, in its Return, whether Stores Written-Off were lost, stolen or obsolete. Thus, it is possible that the Returns include items lost or stolen whose value should have been included in Appendix N.
- viii) No Abandoned Claims, Cash Losses or Stores Written-Off by the Police Department, were reported in Appendix N of Financial Report 2003. However, the 2003 Return prepared by the Department revealed that four Crash Barriers, totalling Lm172, should have been included in Appendix N since they relate to stolen store items.

Additionally, it could not be established whether a further twenty Crash Barriers, totalling Lm431, should have been included in Financial Report 2003, Appendix N, since no reason for write-off was provided.



**Corporate Issues**

## Hospitality

### Background

The Financial Estimates defines the term 'Hospitality' as a Standard Object of Expenditure connected with:

- the hosting of foreign delegations;
- organising international meetings in Malta;
- gifts to foreign personalities;
- accommodation, food, transportation, secretarial and other amenities provided to individuals other than civil servants; and
- other official entertainment.

An allocation for every cost centre features in the Approved Expenditure on a yearly basis. These funds can be augmented by provisions from savings of other items of expenditure within the same Vote.

### Development

Hospitality expenditure relating to Programmes and Initiatives, Contribution to Government Entities and Capital Votes, is now being analysed separately by project number.

### Findings

During 2003, recurrent expenditure under Hospitality totalled Lm374,195 as against Lm333,769 for 2002, an increase of Lm40,426. Excess on the budgetary allocation by Ministry or Department for 2003 amounted to Lm65,395.

In addition, during the year under review, further expenditure under Hospitality totalled Lm88,954.

A breakdown of hospitality expenses as indicated in the Treasury Books is given below:

#### *Hospitality Recurrent Expenditure*

	Lm
Entertainment	149,901
Conference Expenses	11,557
Visits by Foreign Dignitaries	38,288
Other Hospitality Expenses	<u>174,449</u>
	<u>374,195</u>

#### *Hospitality Expenditure – Programmes and Initiatives/Contribution to Government Entities/Capital Votes*

	Lm
Entertainment	47,674
Conference Expenses	33,386
Visits by Foreign Dignitaries	<u>7,894</u>
	<u>88,954</u>

Further analysis by Project Number and Departments/Ministries is provided in Tables 1 and 2 respectively.

### Developments following Financial Year 1999 Audit Report

Reference was made in the 1999 Report of the Auditor General, to the Working Group made up of Government officials from the Office of the Prime Minister and the Ministries of Finance and Foreign Affairs. This was set up to consider and clarify the rules as laid down in the Public Service Management Code (PSMC) regarding Government Hospitality.

Following a request made by the Public Accounts Committee during the meeting held on 4 April 2001, the Working Group presented its Report and gave an account

of action taken during the August 2001 sitting.

The following is a summary of the action taken:

- The PSMC provisions were updated to include Finance Circular 3/92 and the norms set out in the Code of Ethics.
- A new set of guidelines was drawn up and sent to all Heads of Departments. These guidelines were included in the PSMC under section 8.4.2. These guidelines amplify the norms set out in the PSMC and provide further assistance to public officers in exercising their judgement of how public funds should be used.
- The updated version of the PSMC and guidelines were sent to the Cabinet Secretary so as to consider, following consultation with the Prime Minister,

issuing guidelines on Hospitality to Ministers and Permanent Secretaries.

- The Permanent Secretary within the Ministry of Foreign Affairs was requested to consider supplementing the guidelines with any other directives regarding missions abroad.

## Audit Concern

Although Section F (para. 22) of the Code of Ethics provides a generic guideline in stating that public officers should: *“strive to obtain value for public money spent, and avoid waste and extravagance in the use of public resources”*, in various instances, NAO still encounters difficulties to establish whether some of the expenses are fair and reasonable once the regulations do not indicate any parameters about these expenses.

TABLE 1: Breakdown of Hospitality Expenditure by Project Number for 2003

Project Number	Description of Project	Actual Expenditure			Total
		Entertainment	Conference Expenses	Visits by Foreign Dignitaries	
		Lm	Lm	Lm	Lm
5017	eGovernment Programme	0	143	0	143
5026	Lifelong Learning	0	823	0	823
5035	Premju II-Haddiem tas-Sena	1,264	0	0	1,264
5043	National Bioethics Consultative Commission	0	402	0	402
5057	Health Education and Nutrition Unit	1,122	0	0	1,122
5082	Institute of Tourism Studies	899	2,255	0	3,154
5185	General Youth Activities and Exchanges	983	0	5,493	6,476
5219	Electoral Commission Activities	13,296	0	0	13,296
5225	ILO Conference	1,504	0	0	1,504
5231	WTO Commission for Europe Meeting	0	498	0	498
5242	National Commission Mental Health Reform	916	224	0	1,140
5288	National Consumers Affairs Council	164	0	0	164
5355	Econometric Model	38	0	1,919	1,957
5364	Students' Maintenance Grants	8	0	0	8
5369	National Minimum Curriculum	1,439	11,715	0	13,154
5372	Specific Learning Difficulty Unit	0	90	0	90
5373	Development of Science Centre	0	119	0	119
5386	National Programme for the Adoption of the Acquis	6,089	3,091	482	9,662
5387	EU Pre-Accession Programmes	7,402	205	0	7,607
5388	Anzjan tas-Sena	2,620	0	0	2,620
6021	Medical Products Regulatory Authority	2,481	0	0	2,481
6022	eMalta Commission	440	976	0	1,416
6032	Malta Council for Culture and the Arts	1,722	0	0	1,722
6161	Running costs of the Electoral Commission	1,416	0	0	1,416
6162	Employment Commission	7	0	0	7
6455	Management Efficiency Unit	1,140	0	0	1,140
6459	Malta/EU Information Centre	102	9,695	0	9,797
6675	Tax Compliance Unit	1,010	0	0	1,010
6999	Building Industry Consultative Council	474	0	0	474
7019	Further Agricultural Programmes for the Adoption of the Acquis	0	718	0	718
7134	Construction of Mater Dei hospital	1,138	2,432	0	3,570
TOTAL		47,674	33,386	7,894	88,954

TABLE 2: Breakdown of Hospitality Expenses by Ministry/Department 2003

Ministry/Department	Voted in Estimates	Actual Expenditure				Total	Variance (-) Savings (+) Excess
		Entertainment	Conference Expenses	Visits by Foreign Dignitaries	Other Hospitality Costs		
	Lm	Lm	Lm	Lm	Lm	Lm	Lm
Office of The President	30,000	0	0	24,274	16,875	41,149	11,149
House of Representatives	30,000	3,027	5,552	10	25,362	33,951	3,951
Office of The Prime Minister	47,000	30,490	1,458	5,055	7,381	44,384	-2,616
Armed Forces of Malta	4,000	2,036	0	0	1,964	4,000	0
Public Service Commission	0	0	0	0	177	177	177
Information	2,000	1,104	0	0	342	1,446	323
Government Printing Press		0	0	0	877	877	
		1,104	0	0	1,219	2,323	
Ministry for Social Policy	4,200	10,053	0	0	0	10,053	5,853
Care of the Elderly and Community Services	1,000	0	0	0	779	779	-221
Housing	1,000	103	0	0	214	317	-683
Industrial and Employment Relations	1,000	0	0	0	1,274	1,274	274
Ministry of Education	15,000	6,973	167	564	7,150	14,853	-147
Education	2,000	935	0	0	0	935	-1,065
Youth and Sport	1,000	1,823	0	0	4,085	5,908	4,908
Ministry of Finance	16,000	2,247	1,076	4,451	4,563	12,337	-3,663
Treasury	1,000	0	0	0	892	892	-108
Inland Revenue	4,000	2,142	0	113	0	2,255	-1,745
Customs	1,000	496	0	0	1,077	1,573	573
VAT	1,000	1,999	0	0	0	1,999	999
Contracts	1,000	0	0	0	1,305	1,305	305
Ministry for Resources and Infrastructure	10,000	0	0	1,866	14,823	16,689	6,689
Ministry for Tourism	10,000	2,299	0	0	6,737	9,037	-963
Ministry for Transport and Communications	8,000	1,145	56	0	6,586	7,787	-213
Civil Aviation	1,000	924	0	0	9	932	-68
Ministry for Economic Services	4,100	0	0	0	16,860	16,860	12,760
Economic Policy	500	377	0	86	200	662	162
Commerce	3,000	907	376	110	905	2,298	-702
Consumer and Competition	1,000	358	0	0	478	836	-164
Ministry for Home Affairs and the Environment	6,000	2,930	0	0	7,311	10,241	4,241
Police	5,000	4,105	0	0	660	4,764	-236
Correctional Services	1,000	606	0	0	0	606	-394
Civil Protection	1,000	578	0	0	0	578	-422
Government Property Division	2,000	0	0	0	791	791	-1,209
Registration	0	0	0	0	56	56	56
Ministry of Agriculture and Fisheries	10,000	12,805	0	0	9,238	22,043	12,043
Ministry for Gozo	4,000	2,499	115	147	5,140	7,901	3,901
Ministry of Health	10,000	3,751	1,179	295	1,634	6,859	-3,088
Government Pharmaceutical		53	0	0	0	53	
		3,804	1,179	295	1,634	6,912	
Ministry of Justice and Local Government	8,000	0	918	0	7,636	8,554	1,663
Attorney General		1,109	0	0	0	1,109	
		1,109	918	0	7,636	9,663	
Courts of Justice (Judicial)	1,000	2,500	0	0	1,486	3,986	2,986
Local Councils	1,000	0	0	0	170	170	-830
Ministry of Foreign Affairs	60,000	49,529	661	1,318	19,414	70,921	10,921
<b>TOTALS</b>	<b>308,800</b>	<b>149,901</b>	<b>11,557</b>	<b>38,288</b>	<b>174,449</b>	<b>374,195</b>	<b>65,395</b>



## Travel Abroad On Official Government Business

### Financial Information

Total Recurrent Expenditure on Travel Abroad on Official Government Business during 2003 amounted to Lm1,469,958,

which is Lm451,958 higher than the estimated amount for the year. A breakdown of how these funds were utilised is shown in the table hereunder:

#### Components of Expenditure on Travel – 2003

	Lm
Overseas Tickets	739,827
Overseas Subsistence/Accommodation	673,970
Overseas Hospitality	3,650
Removal and Relocation Expenses	52,511
<b>Total</b>	<b>1,469,958</b>

Estimated and Actual Expenditure by Ministry / Department is given in the following table:

#### Breakdown of Expenditure on Travel by Ministry / Department – 2003

Ministry/Department	Voted in Estimates	Overseas Tickets	Overseas Subsistence And Accomm.	Actual		Total	Variance ( - ) Savings ( + ) Excess
				Overseas Hospitality	Removal And Relocation Expenses		
	Lm	Lm	Lm	Lm	Lm	Lm	Lm
Office of The President	46,000	13,256	14,318	2,588	0	30,162	-15,838
House of Representatives	68,000	22,586	64,115	0	0	86,701	18,701
Office of The Prime Minister	117,000	126,646	37,654	787	0	165,087	48,087
Armed Forces of Malta	20,000	10,513	8,884	0	0	19,397	-603
Information	3,000	175	754	0	0	929	-1,328
Government Printing Press		203	540	0	0	743	
						1,672	
Ministry for Social Policy	10,000	7,902	4,309	0	0	12,211	2,211
Social Security	5,000	251	1,260	0	0	1,511	-3,489
Family and Social Welfare	3,000	494	2,045	0	0	2,540	-460

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Care of the Elderly and Community Services	1,000	1,408	0	0	0	1,408	408
Housing	2,000	0	0	0	0	0	-2,000
Industrial and Employment Relations	14,000	0	13,673	0	0	13,673	-327
Ministry of Education	18,000	7,611	6,456	0	0	14,067	-3,933
Education	13,000	9,796	14,492	0	0	24,288	11,288
Libraries and Archives	1,000	528	1,007	0	0	1,534	534
Youth and Sport	3,000	6,549	5,727	0	0	12,275	9,275
Ministry of Finance	33,000	67,519	17,709	0	0	85,228	52,228
Treasury	3,000	1,181	1,048	0	0	2,229	-771
Inland Revenue	10,000	6,863	5,587	0	0	12,450	2,450
Customs	5,000	13,054	4,251	0	0	17,305	12,305
VAT	4,000	1,234	392	0	0	1,625	-2,375
Contracts	1,000	23	12	0	0	35	-965
Ministry for Resources and Infrastructure	40,000	18,129	23,993	0	0	42,122	2,122
Ministry for Tourism	11,000	5,534	4,429	0	0	9,963	-1,037
Ministry for Transport and Communications	24,000	10,159	16,366	0	0	26,525	2,525
Civil Aviation	13,000	3,277	11,691	0	0	14,968	1,968
Ministry for Economic Services	27,000	22,771	16,726	200	0	39,697	12,697
Economic Policy	3,000	4,160	9,727	0	0	13,887	10,887
Commerce	11,000	1,140	10	0	0	1,150	-9,850
Consumer and Competition	7,000	4,060	4,499	0	0	8,559	1,559
Ministry for Home Affairs and the Environment	24,000	26,177	23,565	0	0	49,742	25,742
Police	13,000	11,714	9,203	0	0	20,917	7,917
Correctional Services	1,000	0	0	0	0	0	-1,000
Civil Protection	2,000	260	1,577	0	0	1,836	-164
Government Property Division	4,000	2,675	0	0	0	2,675	-1,325
Registration	1,000	707	0	0	0	707	-293
Ministry of Agriculture and Fisheries	33,000	21,914	31,832	0	0	53,746	20,746
Ministry for Gozo	6,000	9,493	13,780	0	0	23,273	17,273
Ministry of Health	67,000	28,550	54,859	0	0	83,409	16,409
Ministry of Justice and Local Government	28,000	14,251	10,869	187	0	25,307	3,843
Attorney General		2,108	4,428	0	0	6,536	
						31,843	
Courts of Justice (Judicial)	1,000	1,131	429	0	0	1,560	560
Local Councils	2,000	1,043	1,652	0	0	2,695	695
Ministry of Foreign Affairs	320,000	252,780	230,104	-112	52,511	535,284	215,284
<b>TOTALS</b>	<b>1,018,000</b>	<b>739,827</b>	<b>673,970</b>	<b>3,650</b>	<b>52,511</b>	<b>1,469,958</b>	<b>451,958</b>

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An Additional Expenditure on Travel amounting to Lm823,857 was incurred and accounted for in 2003 under the Votes as shown in the table hereunder:

### Components of Additional Expenditure on Travel - 2003

	Overseas Tickets	Overseas Subst./ Accom.	Project Totals
	Lm	Lm	Lm
Programmes & Initiatives	353,698	442,298	795,996
Contributions to Government Entities	10,661	9,499	20,160
Capital	3,605	4,096	7,701
<b>TOTALS</b>	<b>367,964</b>	<b>455,893</b>	<b>823,857</b>

A detailed breakdown of the Additional Expenditure, analysed by Project, is shown in the table hereunder:

### Breakdown of Additional Expenditure on Travel by Project Number for 2003

Project No.	Project Description	Actual Expenditure		Project Total
		Overseas Tickets	Overseas Subsistence And Accom.	
		Lm	Lm	
5007	Euro Security and Defence Policy	9,512	4,360	13,872
5017	eGovernment Programme	2,513	7,974	10,487
5043	National Bioethics Consultative Commission	949	0	949
5055	Specialised Treatment By Foreign Experts Of Patients Locally and Abroad	60,215	193,201	253,416
5082	Institute of Tourism Studies	7,808	13,714	21,522
5185	General Youth Activities And Exchanges	743	0	743
5214	Airport Security Committee	2,088	0	2,088
5232	Malta Crafts Council	632	0	632
5304	Secondment Of Public Officers With European Organisations	123	0	123
5319	Commission For Fair Trading	5,095	5,238	10,333
5355	Econometric Model	610	235	845
5369	National Minimum Curriculum	85	0	85
5380	Illegal Immigrants	160,148	0	160,148
5386	National Programme For The Adoption Of The Acquis	63,260	105,416	168,676
5387	EU-Pre-Accession Programmes	39,917	112,160	152,077
6002	State Aid Monitoring Board	2,025	2,505	4,530
6009	Malta Transport Authority	457	0	457
6021	Medical Products Regulatory Authority	397	0	397
6032	Malta Council for Culture and the Arts	603	0	603
6033	Data Protection Commission	1,056	-6,482	-5,426
6091	Co-Ordinating Commission Against Drug And Alcohol Abuse	1,365	2,004	3,369
6282	Occupational Health and Safety Authority	0	-34	-34
6325	International Maritime Law Institute	0	571	571
6455	Management Efficiency Unit	2,283	408	2,691
6459	Malta/EU Information Centre	1,466	4,119	5,585
6554	Expenses of the Malta Environment And Planning Authority	942	6,139	7,081
6675	Tax Compliance Unit	67	269	336
7004	Construction Works and Equipment	452	1,567	2,019
7134	Construction of Mater Dei Hospital	3,153	2,529	5,682
	<b>TOTALS</b>	<b>367,964</b>	<b>455,893</b>	<b>823,857</b>

## Pre-1993 Outstanding Travel Advances

Pre-1993 Travel Advances consisted of:

1. House of Representatives Below-the-Line Account; and
2. Pre-1993 Outstanding Travel Advances.

### House of Representatives Below-the-Line Account

Prior to 1 January 1993, Travel Advances were accounted for in Below-the-Line Account 'Visits Abroad of Government Delegations' held at the Treasury Department and controlled by the Ministry of Finance.

A balance of Lm55,483 was still outstanding as at 31 December 2002 in this Account. This amount related to advances issued to delegations from the House of Representatives travelling abroad between 1980 and 1992, as can be analysed hereunder:

	Lm
1980	285.40
1981	581.53
1982	192.91
1986	10,906.11
1988	8,996.29
1989	8,891.45
1990	9,014.97
1991	10,916.01
1992	<u>5,698.12</u>
<b>Total</b>	<b><u>55,482.79</u></b>

The necessary approvals to write-off this amount were obtained during 2003 (Lm1,084.49) and 2004 (Lm54,398.30).

Although the actual write-off was carried out in February and March 2004, these transactions were accounted for in Financial Year 2003 accounting system. This procedure of accounting goes against the principles of the Cash Basis, being the current Government's Accounting Procedure.

### Pre-1993 Outstanding Travel Advances

On 24 February 2003, the Policy and Planning Directorate at the Ministry of

Finance informed NAO that various attempts were made by the Ministry of Finance, the Treasury Department and the Ministries / Departments concerned to trace any relevant information that could have been helpful in finalising matters regarding Pre-1993 outstanding Travel Advances. However, these efforts resulted to be fruitless, as only seven (7) out of 221 Advances outstanding on June 2002 were settled by the end of December 2002.

In fact, as on 10 December 2002, 214 Travel Advances covering the period 1980 to 1992 amounting to Lm191,961 were still shown as outstanding on the records of the NAO for the non-submission of documents by various Ministries / Departments, or for not having satisfied in full related queries. No Advances were settled by the end of January 2003.

This Office has been reporting the Pre-1993 issue regularly in its Reports since 1990. As a result, the Ministry of Finance issued various Letter Circulars requesting Heads of Departments to settle the outstanding Advances and at the same time to adhere to the Regulations governing Travel Abroad on Official Business.

During the last three (3) years, various correspondence was exchanged between NAO and the Ministry of Finance regarding this subject. Outstanding lists, both summary and departmental, were passed on to the MF. Furthermore, although being a strenuous and time consuming exercise, whenever it was possible, NAO traced the Advances and quoted the file numbers to the Departments.

Given that some of the Advances go back to the early eighties, the Ministry decided to set up a working group to examine all the relevant aspects of the matter and to make recommendations as to how to proceed in the circumstances to settle this long outstanding issue.

### Developments

Following communications held between the Ministry of Finance and NAO, the purpose of which was to establish guidelines

of how to deal with the reported Pre-1993 outstanding Travel Advances, the Ministry of Finance concluded that in view of the circumstances and after considering the following facts, namely:

- i. the age of the outstanding Travel Advances – some dating way back to the early eighties;
- ii. many of the defaulters of these Advances are no longer in the Public Service; and
- iii. some of these Advances concerned delegations, members of which were holders of political office;

the Ministry decided to write-off the outstanding Advances, “*provided that your Office confirms in writing the acceptance on your part of such a proposal*”. The NAO, on 3 March 2003, replied that: “*the Auditor General is precluded by law to go into the merits of any policy.*”

On 21 March 2003, the Auditor General was informed that the Ministry directed Ministries / Departments to write-off the outstanding Advances in terms of Regulation 2 of the Legal Notice 83 of 1999 of the General Financial Regulations.

## Authority for the writing-off of Pre-1993 Outstanding Travel Advances

Authority for the writing-off of Pre-1993 Outstanding Travel Advances was granted by the Ministry of Finance, by Letter Circular MF 85/99 dated 3 April 2003, addressed to the Directors, Corporate Services and Directors, Finance and Administration.

The Circular quoted Regulation 2 of Legal Notice 83 of 1999 of the General Financial Regulations which stated that:

*“Authority for the writing-off of any loss of public moneys shall be given by the Secretary or by such other officers as may be delegated by the Minister of Finance:*

*Provided that:-*

- i. *where the amount in any one case does not exceed Lm 2,500, the write-off may also*

*be authorised by the Permanent Secretary responsible for the Department concerned;*

- ii. *where the amount in any one case does not exceed Lm 500 write-off may also be authorised by the Head of the Department concerned.”*

This Letter Circular also drew the attention of the Directors to the fact that several Ministries continue to have a significant amount of outstanding Advances relating to the period 1993 to date. It also pointed out that in all these cases the responsibility for the whole process relating to the raising and the accounting for the Advances rested solely with the respective Ministries. Therefore, there would be no plausible reason why delays to clear the Advances should be encountered except perhaps in very exceptional cases. For this reason, the Ministries were directed to ensure that all such balances are accounted for in strict compliance with the established regulations.

## Settlement of all Outstanding Pre-1993 Advances

By the end of December 2003, Lm168,933 in respect of of travel advances were written off. However, the following 12 Travel Advances were still outstanding at year end:

Ministry/ Department	No. of Outstanding Advances	Amounts Advanced Lm
Attorney General	8	16,730
House of Representatives	3	5,514
Inland Revenue	1	784
<b>TOTALS</b>	<b>12</b>	<b>23,028</b>

However, by mid-February 2004, all the Pre-1993 outstanding Advances were written-off after the necessary authorisations were sought and granted.

## Outstanding Travel Advances

### Outstanding Travel Advances for 2003

A total of 2,052 Advances in connection with official Travel Abroad on Government

Business, were issued during 2003. The total sum advanced amounted to Lm810,151.

As on 14 September 2004, documents for verification of expenses in respect of 275 of these Travel Advances (i.e. 13.4 per cent) had still to be submitted to NAO. The pending Advances carry a face value of Lm111,409 or 13.75 per cent of the total amount advanced.

### Outstanding Advances 1993-2002

Apart from the 2003 outstanding Advances, an additional 284 Advances covering the period 1993 to 2002 amounting to Lm150,238 are also outstanding due to non-submission of documents.

### 1993-2003 Outstanding Travel Advances

From the above, it results that the total outstanding Travel Advances for the period 1993-2003 is 559 carrying a face value of Lm261,647. A breakdown of these Advances (in descending order according to the number of Advances) is shown in the table on page 55:

### General Concerns

NAO is concerned with the following general issues. The computation of forms GA27B and/or in the Statements of Expenditure were outside the scope of NAO's review.

### Outstanding Advances

Over a span of eleven (11) years, the number of outstanding Advances is considered substantial and preoccupying. Although Ministries / Departments were directed on various occasions to ensure that all the outstanding Advances are settled immediately, new Advances were issued to those officials who failed to account for the Advances within one (1) month from their return to Malta. This is contrary to the PSMC-Section 8.9.1.1. and non-compliant with Section 8.8.1.2. of the PSMC which

states that: "*Officers proceeding abroad on official business have to declare that they have no pending statement of expenses to submit in connection with any advances which may have been received in respect of previous visits abroad dating back more than 1 month.*"

Thus, the Head of Department / Director Corporate Services' confirmation of the correctness of the officer's declaration on the form GA27 is questionable. (PSMC-Section 8.8.1.1.)

### Recommendations

A serious attempt to enforce compliance with the above-quoted provisions of the PSMC is to be made now to tackle these outstanding advances. Otherwise, it could eventually become impossible to account for them, and the same situation as that of the Pre-1993 outstanding Travel Advances could prevail.

Furthermore, officials travelling abroad are to fully co-operate with the accounting officers by forwarding the relative documents and information such as invitations / official programmes etc. Accounting officers would thus be in a position to calculate the correct subsistence allowance entitlement.

### Contingency Money

The majority of Advances were issued with contingency money, besides the subsistence allowance entitlement. Funds were generally utilised to pay for taxis, telephone calls and tips/portage charges. However, it was noticed that the contingency money advanced seemed excessive when compared to the duration of the visits.

Besides, it was observed that:

- certain Advances claimed *local mobile phone-cards* bearing different denominations;
- many officers were not making use of the cheapest means of transport. Certain officials travelled by taxi, even

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## Breakdown of 1993-2003 Outstanding Travel Advances as at 14 September 2004

Ministry/Dept	1993-2000		2001		2002		2003		TOTALS	
	Adv's	Lm	Adv's	Lm	Adv's	Lm	Adv's	Lm	Adv's	Lm
Health	2	1,983.00					136	41,842.00	138	43,825.00
Interior&Justice (Arts)/MJLG	4	4,234.00	18	6,426.09	35	12,453.03	7	2,310.00	64	25,423.12
Attorney General	13	6,889.00	17	4,895.00	22	4,029.65	10	2,860.00	62	18,673.65
Justice and Home Affairs	17	8,577.00	2	1,194.00	2	658.00	14	3,814.12	35	14,243.12
Food/Agric. & Fisheries			1	600.00	11	5,076.00	16	6,027.00	28	11,703.00
Education/Human Resources	19	24,872.10	2	1,150.00	4	3,277.00	2	304.45	27	29,603.55
Industrial and Employment							22	15,010.00	22	15,010.00
Environ./Environ. Protection	19	12,262.58							19	12,262.58
Culture	16	8,410.46	1	355.00	1	158.87			18	8,924.33
I.T. & Investment					11	7,289.00	4	2,131.00	15	9,420.00
Finance & Economic Affairs							13	12,360.00	13	12,360.00
Foreign Affairs	3	1,410.00	1	160.00	1	282.00	7	3,458.00	12	5,310.00
Contracts					5	2,910.00	5	3,335.00	10	6,245.00
Social Dev/Policy	7	3,406.00					3	1,005.00	10	4,411.00
House of Reps.	4	3,322.04			1	447.49	4	834.57	9	4,604.10
Law Courts	7	4,760.00							7	4,760.00
Museums	7	2,495.97							7	2,495.97
EU Directorate					4	1,595.00	2	600.00	6	2,195.00
Finance	2	1,490.00			1	450.00	3	3,750.00	6	5,690.00
Government Property Division					3	3,095.51	3	2,115.71	6	5,211.22
Youth and the Arts	1	564.00					5	2,854.00	6	3,418.00
Licencing and Testing	1	617.83	3	1,210.24	1	0.00			5	1,828.07
Resources and Infrastructure					1	677.20	3	1,339.23	4	2,016.43
Treasury							3	627.00	3	627.00
Civil Aviation	1	530.00					1	170.00	2	700.00
Economic Services					1	515.00	1	242.00	2	757.00
Electoral Office					2	1,000.00			2	1,000.00
Inland Revenue	1	1,630.00					1	1,000.00	2	2,630.00
Libraries	2	549.00							2	549.00
Malta Information Centre							2	580.00	2	580.00
Works Department/ Division	2	756.49							2	756.49
Commerce Division							1	640.00	1	640.00
Consumer and Competition							1	190.00	1	190.00
Civil Registration			1	536.00					1	536.00
Customs	1	116.00							1	116.00
Economic Policy Division							1	543.00	1	543.00
Family Welfare	1	275.00							1	275.00
Information							1	650.00	1	650.00
Office of the President							1	223.00	1	223.00
Police							1	189.00	1	189.00
Roads	1	247.00							1	247.00
Tourism					1	400.00			1	400.00
Welfare of the Elderly							1	180.00	1	180.00
VAT							1	225.00	1	225.00
<b>TOTALS</b>	<b>131</b>	<b>89,397.47</b>	<b>46</b>	<b>16,526.33</b>	<b>107</b>	<b>44,313.75</b>	<b>275</b>	<b>111,409.08</b>	<b>559</b>	<b>261,646.63</b>

for a very short distance, contrary to Section 8.6.7.1. of the PSMC which states that: *"Taxi fares are refunded only for journeys for which there is no other suitable means of public transport from Airport to hotel and vice-versa, where heavy luggage is to be transported to or from terminal stations or where the saving of official time is of paramount importance."*; and

- departments fail to inform NAO of additional funds to the original Travel Advances passed on to the officials travelling abroad, generally to be used for contingency. In such cases, a new Travel Debit Advice is raised without any reference to the original Advance.

### Recommendations

The Ministry of Finance should establish a range of contingency money to be advanced depending on the duration of the visit. This will enable proper control on refund of telephone and taxi bills, in addition to ensuring that:

- receipts and justifications claimed as official calls are presented (MF Circular 12/99 para. 7.5 (a)), including refunds of local mobile phone-cards;
- taxi expenses be kept to a minimum, by withholding refunds on taxi journeys if a suitable method of Public Transport is available; and
- tips, portage and other undocumented expenses should be kept to the barest minimum by refunding *"... portage charges when very heavy and bulky luggage is to be handled."* (PSMC-Section 8.6.6.1.)

Furthermore, Debit Advices requesting additional funds should be clearly referenced to the Original Advance.

### Air Travel Tickets

Section 8.7.1.5. of the PSMC states that when air tickets are not procured through Air Malta plc, at least three (3) quotations should be obtained, one of which must be from Air Malta. However, most of the

quotations were not forwarded with Advances in cases when air tickets were not booked with Air Malta.

Departments are not always making use of direct flights for their officials travelling abroad, resulting in extra costs for air fare tickets.

Air tickets are not being forwarded to NAO and the times of departure and arrival are no longer being recorded on Air Malta invoices. This hinders verification of entitlement of the additional portion of the subsistence allowance in respect of extra meals.

### Recommendations

Whenever direct flights to certain destinations are not available by Air Malta, or where the use of an Air Malta flight results in excessive delay abroad or an overnight stay, the Departments should seek alternative airlines, as stipulated by Section 8.7.1.3. of the PSMC. Furthermore, copies of the quotations should be submitted to NAO together with the other documents for audit purposes besides the air tickets or the *Itinerary Schedules* of the flights.

### Official Programmes of the Visits

In the majority of cases, the detailed official programmes of the visits, issued by the organising body, were not being forwarded with the Advances. This led to a situation where, in many cases, lunches and dinners listed in the official programmes were not deducted from the subsistence allowance entitlement.

It was also observed that many officials did not declare in Section A of the form GA27 whether they were receiving any compensation for accommodation / meals / subsistence allowance from the host organisation or entity.

### Recommendations

Before issuing the subsistence allowance, the officer-in-charge should refer to the official invitation / programme of the visit for any meals provided free by the organising bodies in order to deduct the



subsistence allowance accordingly. The official programmes should subsequently also be forwarded to the National Audit Office as required by MF 85/99 (a) (i).

In addition, officers proceeding abroad should clearly state on forms GA27, whether they are to receive any compensation in kind for accommodation / meals / transport and allowance from the organising bodies or other entities.

### Cancelled Visits

Many Departments fail to inform NAO of cancelled visits abroad. Therefore, there may be the risk of having cancelled visits featuring as outstanding in NAO's returns.

### Recommendation

Any cancellation of a visit should be immediately reported to the National Audit Office, as requested in MF 85/99 (b), in addition to the relative documents confirming that the money advanced (if any) to the officers travelling abroad had been refunded.

### Other Concerns

Although the NAO did not report the number of instances of non-compliance with the Rules and Regulations governing Travel Abroad on Official Business, this Office is still concerned:

- whether the related Ministry is taking the necessary corrective action when an official fails to submit a report within one (1) month after the visit as requested in PSMC-Section 8.9.1.1. Whenever such reports are not submitted, officials should not be issued with a new Advance before they comply; and
- what is being done with the acquired knowledge and materials brought back by the officers? Are the knowledge and benefits achieved from the visits being passed on to other officers, for instance, in the form of training or other appropriate use?

### Conclusion

Before approving the visit, Permanent Secretaries / Directors Corporate Services should ask for the official literature that relates to the visit and which may include the conditions and amenities offered by the host organisation. (MF Circular No. 2/98) This will enable the Permanent Secretaries / Directors Corporate Services to establish if strong justification exists for public officials to proceed abroad to attend conferences / seminars.

Details of the nature of the visit should be provided by the officer proceeding abroad, and are to be submitted through the Head of Department and the Director Corporate Services, who has to confirm the correctness of the officer's declaration. (PSMC-Section 8.8.1.1.)

The details should include the following:

- Full reasons as to why the visit is necessary.
- Details of the tangible benefits which are expected to be achieved.
- A detailed programme of the work which is expected to be done abroad by the delegation as a whole and the duties which each member is expected to perform during the duration of the entire visit.

### The Way Forward

NAO acknowledges the fact that the Ministry of Finance fine-tuned the Regulations governing Travel Abroad on Official Business and regularly directed Heads of Departments / Directors Corporate Services to ensure that these rules are abided by.

However, the responsibility and the accountability for the proper control and efficient use of funds allocated for travel abroad rests both on:

- the Management authorising their use; and
- the officials availing themselves of the said funds. (MF Circular No. 12/99)

Furthermore, Management should be held more accountable in exercising its responsibilities in effecting strict discipline on the part of Ministries / Departments in ensuring compliance.

Hence, stronger enforcement of current controls and new guidelines are recommended congruent to the concerns highlighted above.

## Transport

### Background

The total expenditure on transport charged to the recurrent expenditure – ‘Transport’ amounted to Lm4,059,818. This represents an increase of Lm306,100 over 2002. The components of the recurrent transport expenditure are presented in the table hereunder:

Thus, detailed information is available enabling benchmarking of various units.

### Audit Concern

In the Value-For-Money Report No. 4/ 2001 dealing with Government Transport, issued in May 2001, this Office offered

### Components of Transport Expenditure

	2002 Lm	2003 Lm	Variation Lm
Maintenance of vehicles	302,758	350,853	48,095
Hire of Transport	1,465,078	1,576,086	111,008
Hire of self-drive cars	503,983	653,047	149,064
Hire of imprest vehicles	36,343	27,487	(8,856)
Fuel	1,221,602	1,198,046	(23,556)
Payment for personal use } Transportation of goods } Malta/Gozo Expenses }	223,954	254,299	30,345
<b>Total</b>	<b>3,753,718</b>	<b>4,059,818</b>	<b>306,100</b>

Breakdown of transport expenses incurred by Ministries and Departments during 2003 is given in Table 1 on page 60.

### Developments

NAO noted that immediate action was taken to address the audit concern reported upon in the Auditor General Report 2000. In fact, Transport expenditure relating to Programmes and Initiatives, Contribution to Government Entities and Capital Votes can now be analysed separately by project number, as shown in Table 2 on page 61.

recommendations to promote efficient and effective use of Government owned/hired vehicles. The Ministry of Finance in a letter dated 15 November 2001, informed the Auditor General, that major NAO concerns and related recommendations were being considered by the Working Group, set up by this Ministry, in collaboration with the Office of the Prime Minister and the Internal Audit and Investigations Directorate.

The Ministry envisaged that by early 2002, sufficient progress would have been made to contribute to the solution of a number of endemic problems highlighted in the Value-For-Money Report.

TABLE 1: TRANSPORT EXPENDITURE BY GOVERNMENT DEPARTMENTS FOR 2003

Ministry/Department	Voted in Estimates		Maint. to veh.		Hire of transp.		Hire of self drive cars		Actual Hire of imp. veh.		Fuel	Use of pers. veh.	Transp. of gds.	Malta/Gozo exp.	Total	Variance (-) Savings (+) Excess	
	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	Lm	
Office of The President	20,000	10,851	0	2,354	0	9,828	0	1,594	0	0	0	0	0	0	24,667	4,667	2,093
House of Representatives	7,000	4,108	0	4,108	0	4,572	0	0	0	0	0	0	0	0	9,093	0	288
Office of The Prime Minister	41,000	17,409	468	1,354	0	16,354	0	4,951	0	0	0	0	0	0	41,288	0	-2,502
Armed Forces of Malta	325,000	5,829	11,421	0	0	305,248	0	0	0	0	0	0	0	0	322,498	0	406
Public Service Commission	1,000	508	0	0	0	898	0	0	0	0	0	0	0	0	1,406	0	2,530
Information	15,000	1,861	0	4,842	0	3,204	0	3,036	0	0	0	0	0	0	12,942	0	4,588
Government Printing Press		29	2,726	909	0	925	0	0	0	0	0	0	0	0	17,530	0	2,764
Electoral Office	6,000	0	6,303	0	0	1,746	0	0	0	0	0	0	0	0	8,764	0	9,370
Ministry for Social Policy	50,000	4,520	338	17,554	0	9,835	0	1,089	0	0	0	0	0	0	40,630	0	20,381
Social Security	20,000	955	5,696	842	0	7,463	0	4,751	0	0	0	0	0	0	20,381	0	-2,737
Family and Social Welfare	17,000	91	0	9,366	0	4,292	0	514	0	0	0	0	0	0	14,263	0	64,300
Care of the Elderly and Community Services	160,000	24,497	163,932	3,943	0	24,740	0	3,086	0	0	0	0	0	0	224,300	0	-1,037
Housing	8,000	1,278	0	3,605	0	1,620	0	461	0	0	0	0	0	0	6,963	0	-2,877
Industrial and Employment Relations	8,000	0	0	0	0	1,253	0	3,340	0	0	0	0	0	0	5,123	0	35,537
Ministry of Education	31,000	3,810	396	19,775	0	11,008	0	283	0	0	0	0	0	0	35,537	0	72,807
Education	1,300,000	10,921	1,251,797	44,003	0	35,288	0	3,886	0	0	0	0	0	0	1,372,807	0	1,847
Libraries and Archives	2,000	356	0	0	0	1,182	0	86	0	0	0	0	0	0	1,847	0	153
Youth and Sport	8,000	2,695	0	7,614	0	2,946	0	0	0	0	0	0	0	0	13,255	0	5,255
Ministry of Finance	21,000	3,685	0	7,698	0	9,030	0	644	0	0	0	0	0	0	20,957	0	-43
Treasury	2,000	390	0	657	0	833	0	0	0	0	0	0	0	0	1,880	0	-120
Inland Revenue	19,000	4,116	0	602	0	4,752	0	4,187	0	0	0	0	0	0	14,831	0	-4,169
Customs	28,000	17,340	0	0	0	12,353	0	3,401	0	0	0	0	0	0	34,483	0	6,483
VAT	37,000	3,444	0	3,444	0	3,890	0	8,307	0	0	0	0	0	0	36,651	0	-349
Contracts	3,000	2,148	0	35	0	1,322	0	0	0	0	0	0	0	0	3,505	0	505
Ministry for Resources and Infrastructure	430,000	2,759	0	165,494	0	251,595	0	17,887	0	0	0	0	0	0	438,860	0	8,660
Ministry for Tourism	22,000	2,584	0	9,541	0	10,507	0	0	0	0	0	0	0	0	22,633	0	633
Ministry for Transport and Communications	20,000	3,193	127	6,649	0	8,013	0	0	0	0	0	0	0	0	17,981	0	-2,019
Civil Aviation	5,000	1,956	144	216	0	2,156	0	47	0	0	0	0	0	0	4,520	0	-480
Ministry for Economic Services	47,000	4,961	0	21,066	0	10,094	0	274	0	0	0	0	0	0	36,395	0	-10,605
Economic Policy	2,000	778	129	644	0	2,073	0	184	0	0	0	0	0	0	4,131	0	2,131
Commerce	15,000	2,224	600	2,095	0	3,130	0	58	0	0	0	0	0	0	8,144	0	-6,856
Consumer and Competition	12,000	497	0	7,973	0	3,079	0	100	0	0	0	0	0	0	11,949	0	-51
Ministry for Home Affairs and the Environment	50,000	7,485	1,579	26,375	0	19,542	0	1,259	0	0	0	0	0	0	56,399	0	7,930
Notary		317	58	0	0	1,114	0	12	0	0	0	0	0	0	1,531	0	57,930
Police	220,000	56,538	0	2,054	0	163,515	0	0	0	0	0	0	0	0	225,616	0	5,616
Correctional Services	12,000	2,424	0	76	0	8,334	0	0	0	0	0	0	0	0	10,833	0	-1,167
Civil Protection	46,000	18,683	492	5,101	0	22,784	0	0	0	0	0	0	0	0	47,261	0	1,261
Government Property Division	30,000	1,682	0	8,984	0	7,663	0	1,608	0	0	0	0	0	0	21,376	0	-8,624
Registration	6,000	1,180	2,812	0	0	1,083	0	218	0	0	0	0	0	0	5,294	0	-706
Ministry of Agriculture and Fisheries	198,000	25,153	7,290	52,445	26,048	39,759	8,119	0	0	0	0	0	0	0	158,814	0	-39,186
Ministry for Gozo	180,000	2,241	801	3,856	0	4,065	0	36	0	0	0	0	0	0	15,822	0	-10,366
Gozo-Customer Services		3,569	46,942	9,073	0	13,375	0	5,855	0	0	0	0	0	0	109,182	0	44,630
Gozo-Project and Development		2,301	13,597	7,595	0	16,023	0	2,741	0	0	0	0	0	0	44,630	0	169,634
Ministry of Health	181,000	57,750	6,059	9,732	0	74,597	0	51,286	0	0	0	0	0	0	201,923	0	26,047
Boffa Hospital		0	0	0	0	0	0	142	0	0	0	0	0	0	142	0	0
Government Pharmaceutical		0	4,983	0	0	0	0	0	0	0	0	0	0	0	4,983	0	207,047
Ministry of Justice and Local Government	32,000	1,659	65	21,913	0	5,110	0	580	0	0	0	0	0	0	29,326	0	4,254
Attorney General		695	0	3,791	0	2,373	0	69	0	0	0	0	0	0	6,928	0	36,254
Courts of Justice (Judicial)	196,000	1,559	8,692	144,576	0	24,952	0	0	0	0	0	0	0	0	179,790	0	-16,220
Local Councils	20,000	189	56	15,086	0	4,380	0	1,189	0	0	0	0	0	0	21,245	0	1,245
Ministry of Foreign Affairs	105,000	27,795	38,585	3,108	0	24,146	0	718	0	0	0	0	0	0	101,464	0	-3,556
<b>TOTALS</b>	<b>3,958,000</b>	<b>350,853</b>	<b>1,576,086</b>	<b>653,047</b>	<b>27,487</b>	<b>1,198,046</b>	<b>136,217</b>	<b>48,985</b>	<b>69,097</b>	<b>40,598,818</b>	<b>101,818</b>	<b>4,254</b>	<b>26,047</b>	<b>69,097</b>	<b>40,598,818</b>	<b>101,818</b>	<b>4,254</b>

TABLE 2: BREAKDOWN OF TRANSPORT EXPENDITURE BY PROJECT NUMBER FOR 2003

Project No.	Description of Project	Maint. to veh.	Actual Expenditure					Transp. of gds.	Project Total
			Hire of transp.	Hire of self drive cars	Fuel	Use of pers. veh.	Lm		
5019	Parking Management Scheme	0	0	0	0	0	595	595	
5035	Awards To Individuals	16	0	0	0	0	0	16	
5057	Health Education And Nutrition Unit	0	0	0	5,120	0	0	5,120	
5067	Community Homes	0	8,236	2,759	45	0	0	11,040	
5082	Institute Of Tourism Studies	3,005	4,894	7,862	4,539	0	0	20,300	
5185	General Youth Activities And Exchanges	0	2,721	178	0	0	0	2,899	
5214	Airport Security Committee	0	0	0	137	0	0	137	
5219	Electoral Commission Activities	0	110,871	0	2,123	0	0	112,994	
5225	ILO Conference	0	0	480	0	0	0	480	
5231	WTO Commission For Europe Meeting	0	1,185	0	0	0	0	1,185	
5242	National Commission Mental Health Reform	0	0	21	0	0	0	21	
5246	Carnival - Gozo	0	47	0	0	0	0	47	
5251	University Of Third Age	0	703	0	0	0	0	703	
5275	Holding Of University Activities in Gozo	0	96	0	0	0	0	96	
5276	National Festivities	0	425	0	0	0	0	425	
5277	Institute Of Tourism Studies - Gozo	0	419	246	0	101	0	766	
5278	Gozo - Malta Transport And Agricultural Products	0	0	0	0	0	22,200	22,200	
5308	Life Guard Service At Sea	0	0	0	4,039	0	0	4,039	
5355	Econometric Model	0	391	0	0	0	0	391	
5362	Quality Service Charters	0	0	0	0	0	207	207	
5381	Meals On Wheels - Gozo	133	0	0	442	0	0	575	
5386	National Programme For The Adoption Of The Acquis	58	659	1,860	0	0	0	2,577	
5387	EU Pre-Accession Programmes	0	19	0	0	0	0	19	
5399	Skola Sport - Gozo	0	1,470	0	0	0	0	1,470	
6002	State Aid Monitoring Board	72	0	0	0	0	201	273	
6009	Malta Transport Authority	14	0	6,425	1,013	0	0	7,452	
6021	Medical Products Regulatory Authority	0	947	837	0	0	0	1,784	
6026	Setting Up Of Court of Revision	0	35	0	0	0	0	35	
6029	Mount Carmel Hospital	930	0	0	0	58	259	1,247	
6032	Malta Council For Culture And The Arts	0	0	1,800	510	0	0	2,310	
6089	Grant To Cultural Council	0	620	0	5	0	0	625	
6161	Running Costs Of The Electoral Commission	1,791	6,909	0	944	0	0	9,644	
6455	Management Efficiency Unit	0	0	4,276	824	0	1,248	6,348	
6459	Malta/EU Information Centre	0	2,977	0	664	0	993	4,634	
6482	National Employment Authority	0	942	0	0	0	0	942	
6551	Permanent Commission Against Corruption	42	767	0	251	0	0	1,060	
6554	Expenses Of The Malta Environment And Planning Authority	0	0	15,947	1,463	668	0	18,078	
6675	Tax Compliance Unit	2,018	0	0	841	0	31	2,890	
7004	Construction Works And Equipment	1,092	0	0	0	0	0	1,092	
7012	Major Repairs To Government Tenements	0	0	35,012	18,722	0	0	53,734	
7019	Further Agricultural Programmes For The Adoption Of The Acquis	0	0	3,398	673	0	0	4,071	
7134	Construction Of Mater Dei Hospital	0	1,522	41	231	0	0	1,794	
	<b>TOTALS</b>	<b>9,171</b>	<b>146,855</b>	<b>81,142</b>	<b>37,466</b>	<b>5,947</b>	<b>25,734</b>	<b>306,315</b>	

In October 2002, a Report by the Working Group was forwarded to the NAO. The Specific Objectives of the Study were the following:

1. Collect updated information, duly verified by Directors of Corporate Services, and reconciled with Licensing and Testing Department, relating to the type and age of vehicle, annual expenditure on fuel and maintenance, extent of use as reflected in mileage.
2. Examine, after carrying out variance analysis as necessary, the spread of this category of vehicle in the various locations and after drawing appropriate feedback from DCSs/Heads of Departments, establish the extent to which resources are allocated according to identified needs and recommend redeployment where necessary.
3. Consider the feasibility of introducing a quota system as a means of controlling fuel consumption and of ensuring that vehicles are used specifically for the purposes intended.
4. Introduce a more easily applicable disposal policy which ensures that non-roadworthy vehicles may be disposed of according to established parameters and procedures in a timely manner.
5. Formulate, possibly in conjunction with the Manufacturing and Services Department, Ministry for the Environment, a recommended preventive maintenance schedule for general use vehicles and identify the appropriate officers to be charged with the responsibility for ensuring its application service-wide.
6. Liaise with MITTS to develop a comprehensive computerised fleet management system that incorporates adequate facilities for records management in regard to fuel, maintenance and acquisition expenses; stores and vehicle inventory history; preventive and other maintenance programmes.

In this Report, the members of the Working Group reported on the findings, developments and recommendations with regards to objectives 4, 5, and 6.

With regards to the other objectives, preliminary findings were submitted concerning objective 1. It is envisaged that through analysis of the data further findings and recommendations, with regards to objectives 1, 2 and 3, would be submitted in due course. However, up to the date of writing of this Report, no further developments were reported.

Data was gathered in two parts: through a questionnaire and the submission of vehicle details on a tailored spreadsheet provided.

The Working Group also forwarded various recommendations. The following were the main recommendations:

1. Departments were urged to accelerate the writing-off process of obsolete vehicles. It also suggested that the following policy be adopted:
  - i. In the case of Departments with fleets of Government owned vehicles of five or less vehicles immediate action was to be taken for the write-off within six months from the time the first obsolete vehicle is laid off.
  - ii. In the case of Departments with larger fleets action was being recommended within six months from the time the first obsolete vehicle is laid off.
2. The purchase of a new general purpose vehicle is to be preferably justified against the write-off of another similar but obsolete vehicle.
3. The regulation in MF Circular 5/98 regarding the sale of ex-fully expensed vehicle within two months from the acquisition of a new vehicle is to be strictly adhered to.
4. A definite policy regarding the disposal of economically inefficient vehicles was

recommended. The Working Group suggested the following:

- i. The application of a yearly fixed depreciation factor on the vehicle of say twenty per cent on a declining basis.
  - ii. The replacement of the vehicle when the yearly total maintenance costs exceeds seventy-five per cent of the depreciated value of same vehicle.
5. The engine capacity of Government owned and self drive cars both deployed for general use are not to exceed the following specifications:
- i. For petrol engine driven cars 1300 c.c.
  - ii. For diesel engine driven cars 1500 c.c.
6. A percentage decrease of about:
- i. fifteen per cent in the total expenditure, in respect of both fuel and rental costs of self drive cars (except for ex-impressed cars); and
  - ii. ten per cent in the fuel expenses of Government owned general purpose car.
7. Where the allotment of a self drive car for the exclusive use of an officer is allowed due to the nature of the work involved, a monthly entitlement of a fuel quota is to be stipulated and the provision of such a service to such an officer is to be considered as a fringe benefit for tax purposes.
8. All Government owned general purpose vehicles, except those deployed for undercover purposes, are to bear the official government plates and to display the name of the Department.
9. All Government owned and self drive cars (except ex-impressed) deployed for general use are to be parked on/near the Departments premises after hours of work. At the end of the working day all the keys of such vehicles are to be handed over to the officer in charge transport.
10. The Preventive Maintenance Schedule Manual formulated by the Manufacturing and Services Department was to be communicated to all Heads of Departments and applied forthwith. All the Departments were to identify a suitable officer who would perform the duties of officer in charge transport.
11. The duties/responsibilities of the officer in charge transport were to be clearly defined.
12. The guidelines in circulars MFCP no. 15/67 and MFCPFI no. 3/79, which established fuel consumption of vehicles for Government transport, were to be updated to reflect the advancements made in fuel consumption technology.
13. All Departments/Sections were urged to conduct an exercise to establish the utilisation rate in kilometres per day of the general purpose vehicle and to establish a fuel quota system. Such an exercise was to be conducted under the supervision of an independent body such as the Internal Audit and Investigations Directorate of the Office of the Prime Minister. Once the utility rate amongst Departments was established this was to be furnished to a centralised unit which would then recommend redeployment of vehicles among the various Departments/Sections.
14. Pending the introduction of a fuel quota system the strict adherence to the Public Service Management Code sections dealing with the use of the log book (chapter 8) was recommended. The Working Group also recommended that these sections were to be applied with immediate effect to the self drive cars.
15. Feasibility studies regarding the introduction of the Data Tracking System were to be conducted in those

Departments already making use of such a system in order to assess the feasibility or otherwise of the introduction of such a system within other Departments having large fleets.

16. The comprehensive computerised fleet management system, which was being developed by MITTS, was to be incorporated in every Department. In future, all Departments' stand-alones are to be interconnected within a corporate system monitored by a single corporate entity.

### Conclusion

The Working Group hoped that the findings and recommendations of its Report

would contribute towards the revision of existing regulations and procedures that take into account present day realities and provide for a more economic, efficient and cost-effective general purpose Government transport.

Up to the writing of this report, Ministry of Finance has not reported progress following its letter dated 22 October 2002 stating that: *"..... in due course, an updated set of guidelines and regulations regarding government transport, basically based on the recommendations of this Working Group, will be formulated and distributed among the various Ministries/Departments"*.



## Arrears of Revenue 2003

### Background

The timely collection of revenue and control over the extent of arrears of revenue is the responsibility of the Accounting Officers as defined in Section 2 of the Financial Administration and Audit Act 1962. Treasury Circular 3/2004 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 76, 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; and
- b) some returns are incomplete or themselves made up of approximations.

NAO is still concerned with cases of low rate of collection and large increases in arrears without valid reasons being given even though the above-mentioned Circular required 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"*.

The Statement of Arrears of Revenue outstanding on 31 December 2003 was adjusted according to the lines prescribed by the Ministry of Finance on 24 February 2003. Balances of arrears of revenue now show a more realistic picture of potentially collectible arrears of revenue since Ministries and Departments were required to provide for estimated amounts that are considered as not collectible together with reasons why they are being considered so.

Although returns of arrears had to be submitted by 2 April 2004, some returns were not submitted in time and some were submitted incomplete. The Ministries/Departments shown hereunder did not submit returns of arrears:

- Ministry of Finance
- Consumer and Competition
- Commerce Division
- National Office of Statistics
- Department of Public Lotto
- Inland Revenue - Social Security Contributions w.e.f . 1998
- Youth and Sport
- Ministry of Foreign Affairs
- Ministry for Tourism (incl. White Rocks and Hotels and Catering Board)
- Ministry of Education
- Museums
- Office of the President
- House of Representatives
- Education
- Government Property Division - Gozo
- Treasury
- Malta Development Corporation
- Co-operatives Board
- Joint Office (vide comments)

Apart from listing defaulting departments in Part I of the Financial Report 2003, these were also reported to the Minister of Finance. The following entities submitted the Return of arrears after the Financial Report 2003 was published:

- Contracts
- Ministry of Health
- Ministry of Justice and Local Government
- Local Councils
- Economic Policy
- VAT Department
- Government Property Division – Malta

by the self-employed at the Cash Office of the Inland Revenue Department) does not stipulate that amounts credited have to be broken down in:

- payment of arrears by defaulters; and
- payments for current contributions.

As a result, some entities may be paying pre-1998 Class I contributions, together with current contributions due directly at the Inland Revenue Division, without informing the Social Security Department of these payments and their details.

Further comments on the Arrears of Revenue are provided under the Ministry for the Family and Social Solidarity on pages 102 - 103.

## Notes and Comments on Arrears of Revenue

### Social Security Department

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

• Social Assistance	Lm1,014,946
• Non-Contributory Pensions	Lm 235,075
• Sickness Asst.	Lm 419,213
• Short-term benefits (i.e. unemployment, marriage, injury)	Lm 42,896
• Bonus	Lm 1,702
• Children All./ Maternity Benefit	Lm 208,281
• Supplementary Assistance	Lm 36,047
• Pensions	Lm 801,980
• Further Contributions (Misc.)	Lm 4,227

The balance quoted in respect of pre-1998 Social Security Contributions arrears is an estimate. This being due to the fact that the procedure of forwarding payments (of SSC by employers for employed persons and

### Joint Office

A Return of Arrears for the year under review was not submitted. However, details of progress registered was forwarded during PAC Sitting No. 6 dated 8 March 2004. The Director stated that out of the 35,000 properties transferred from the church, property forms in respect of 23,698 were forwarded. Subsequently, these forms have to be verified and approved by the Control Committee, as established by Article 17 of the Church State Agreement. As at the date of the meeting, the total of correction sheets and property forms approved amounted to 9,064, whereas the Control Committee approved 3,032 during the year under review. Details in respect of 25,748 properties were inputted in the Joint Office's database on which rent or ground rent is being paid. Moreover, a reconciliation exercise of 15 out of the 99 ecclesiastical entities was carried out during the year under review.

### Armed Forces of Malta

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

(a)Patrol Craft Conveyances/ Hire of Vehicles & Mach./ Expl. Ord. Depot Charges/ Fuel and Repairs	Lm 1,676
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(b) Security Duties	Lm 571,640
(c) Services rendered by AFM/ Refund of wages/ Helicopter and Sundry Services	Lm 7,050

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

Arrears outstanding equal to or less than 1 year	Lm 569,533
Arrears outstanding over 1 year till 2 years	Lm 4,006
Arrears outstanding over 2 years till 5 years	Lm 427
Arrears outstanding over 5 years	Lm 6,400

Lm 567,442 of newly accrued arrears, in respect of Security Duties are due as a result of the MIA/AFM Security Agreement for the rendering of security services at:

a) Water Services Corporation	Lm 7,442
b) Malta International Airport	Lm 560,000

### Ministry for Competitiveness and Communications

Arrears as at 31 December 2003 consist of operating licences due from:

(a) Maltapost plc	Lm 127,609
(b) Malta International Airport	Lm 10,000

#### Operating Licence due from Maltapost plc

The amount of Lm127,609, consists of Lm171,200, being the annual operating licence due by Maltapost plc less Lm43,591 paid by Maltapost plc in 2003. The sum paid covers postal licence fees for the period January 2003 to April 2003 less the total of invoices set off.

During 2000, the Ministry of Finance issued a letter authorising offsetting of reimbursements due by Government to Maltapost plc against annual licence fees due to Government by the latter. This

authorisation was binding up to 31 December 2002. However, upon enquiry, the Ministry pointed out that: *“the established procedure continued to be applied up to April 2003”*.

Following the issue of Legal Notice 124 of 2003, with effect from 1 June 2003, Malta Communications Authority (MCA) became responsible for the collection of postal licence fees.

Hence, the amount of outstanding arrears to be collected directly by the Ministry for Competitiveness and Communications is Lm16,667 i.e. May 2003 fee. The amount of arrears for the period June 2003 till December 2003 (Lm116,669), in addition to interests as communicated by MCA in letter dated 7 September 2004, should therefore have featured as arrears due to MCA and not to the Ministry.

MCA requested Maltapost to settle the remaining arrears balance, for the period June 2003 till December 2003, but the latter is contesting the payment on the basis that the licence established in 1998 is now outdated.

It is arguing that following the establishment of the Postal Services Act, the market has been liberalised and hence the postal licence should be reviewed accordingly.

The Permanent Secretary, Ministry for Competitiveness and Communications supported this argument in a letter sent to the Chief Executive Officer of Maltapost plc, on 5 May 2004, stating that: *“As regards the question of the licence fee following liberalisation, please note that a licensing framework review exercise is underway and any discussions with the Ministry would have to take place at the stage when a more comprehensive draft framework has been established. This stage has not yet been reached.”*

#### Operating Licence due from Malta International Airport

The amount of Lm10,000 represents the annual licence fee due by Malta International Airport in respect of Gozo Heliport. This

amount was settled in 2004 by debiting Recurrent Vote 45 Item 6020 MGI/MIMCOL following Ministry of Finance's instructions.

## Information / Government Printing Press

The closing balance consists mainly of:

(a) Jobbing Orders (Revenue)	Lm 124,316
(b) Paper (Lm 4,582 are i.r.o. Unallocated Stores)	Lm 142,440
(c) Adverts – Govt. Gazette	Lm 19,661

Amounts collected during the year related solely to the Department of Information, whereas amounts written off were all in respect of dues to the Government Printing Press.

During June 2004, the Land Registry Department and Courts of Justice were informed by the Department of Information that if they fail to settle the amounts due by the following month the Department would resort to ulterior measures, including the withholding of services.

## Civil Aviation

The balance is made up of:

(a) Miscellaneous Licences	Lm 4,955
(b) Airport Tax	Lm 80,890

NAO satisfactorily noted that the Department implemented the recommendation, featuring in the Report of the Auditor General for 2002. With the exception of one airline, all submitted the monthly declarations relating to the previous year by the end of March. This enabled the Department to compile the Statement of Arrears on actual figures instead of estimates.

However, it was also noted that no Claims Ledger is maintained for Airport Tax due. The Department has no means of establishing Airport Tax due. Such amounts are only accounted for once payments together with monthly declarations are received from airlines.

Furthermore, the Department still lacks controls to ascertain whether airlines are collecting and remitting all revenue due to Government.

## Mediterranean Conference Centre

The majority of claims are in respect of the hire of the Conference Centre (MCC) for conferences, gala dinners, theatre functions and meetings. A few claims were also issued for the hire of equipment.

Outstanding 2003 claims consist mainly of 4 substantial debtors and various other relatively small debtors. On verifying these debts, NAO concluded that:

- 2 balances, aggregately amounting to Lm10,676, were fully settled during 2004;
- Lm613 out of Lm19,120 is still outstanding. The difference was paid in 2004. The outstanding amount is in respect of water and electricity usage; and
- during June 2004, MCC has agreed a repayment programme in respect of the outstanding balance of Lm 6,301. No further bookings will be accepted until the whole balance, which is to be repaid by mid-October 2004, is settled in full.

## Ministry for Gozo

The closing balance is made up of:

(a) Works Department	Lm 14,983
(b) Public Cleansing Dept.	Lm 79,357
(c) Agriculture Department	Lm 1,808

Contrary to last year's comments, the rate of collection of the Works Department worsened and dropped to 7.7 per cent. On the other hand, an improvement was noted in the collection of arrears by the Departments of Public Cleansing and Agriculture, amounting to 30.2 per cent and 93.4 per cent respectively.

## Civil Protection (Included under 'Others')

Lm 2,250 due by the Planning Authority following site inspections are being contested while Lm 3,648 out of Lm 4,406 are amounts contested by the International Training Centre Malta Ltd being in their

majority in respect of Water and Electricity Bills refund.

## Judicial – Law Courts: Gozo

The Opening Balance includes arrears in respect of fines, amounting to Lm43,080, which were not reported in previous returns.

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

	Fines	Fees
Amounts outstanding equal to or less than 1 year	Lm 17,310	Lm 10,216
Amounts outstanding - 1 year to 2 years	Lm 3,752	Lm 6,562
Amounts outstanding - 2 years to 5 years	Lm 17,729	Lm 8,053
Amounts outstanding - 5 years to 10 years	Lm 13,709	Lm 2,563
Amounts outstanding over 10 years	<u>Lm 2,950</u>	<u>Lm 4,476</u>
Closing Balance	<u>Lm 55,450</u>	<u>Lm 31,870</u>

## Licensing and Testing Directorate

The closing balance is made up as follows:

a) Motor vehicle road licenses	Lm 2,581,555
b) Motor car dealers	Lm 4,500
c) Motoring schools	Lm 1,250
d) Driving instructors/ Car Park Attendants	Lm 225

During 2003, dues amounting to Lm 2.26 million, relating to road licences pertaining to vehicles registered with the old (pre-1994) number plates, were written-off following Ministry of Finance's approval.

## Contracts Department

a) Penalties and Damages	Lm 204,238
b) Ex-CSS	Lm 102

Although the amounts of Lm 37,612 and Lm 1,454, due from a private company, should have been paid to Government by judgement of the Court decided upon in 1990, a decision was taken to write-off these dues based on the Attorney's advice and on the strength that every possible legal means have been exhausted.

## VAT Department

The closing balance of arrears is analysed as follows:

VAT (1998)	Lm45,233,522
CET (1997)	Lm 4,111,105
Refunds to Govt. on Stock (1997)	Lm 345,708
VAT (1994)	Lm11,607,686
Expenditure Levy	Lm 48,553

The balance of Refunds to Govt. on Stock (1997) includes the amount of Lm7,415 movement during the year. This movement could not be verified as the Statement of Arrears only reported the closing balance as being Lm345,708 as against an opening balance of Lm338,293.

Besides failing to submit the Statement of Arrears in compliance with Treasury Circular 3/2004, no conclusion could be reached on the state of arrears as at 31 December 2003 since, up to the writing of this report, NAO was not forwarded with the following information:

- A breakdown of Past Arrears Collected.
- An analysis of figures, between amounts written off and adjusted for, together with Ministry of Finance approvals for amounts written off.
- The action being taken to collect arrears due.

In addition, the Department failed to forward explanations as regards the difference between the amounts reported in the Arrears of Revenue Statement for the year ended 31 December 2003 and figures

reported in the VAT Department's Report in the 'Annual Report of Government Departments – 2003', Outstanding Credits and Debits Section.

### Inland Revenue Department

#### Income Tax

The amount of Lm 245,739,247 is the gross arrears due as at 31 December 2003 which represents an increase of Lm 959,155 on the previous year. A breakdown of these arrears by category is provided in the table hereunder.

Additionally, arrears denominated in foreign currencies for Years of Assessment 1999 to 2003 amounting to Lm 3,131,079 as at year end 2003 are also due from foreign owned companies and companies overseas. Lm 71,236 represent estimated tax in foreign currency in respect of taxpayers who did not submit any form of tax document.

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

i. Balance for Y/A 1949 up to Y/A 1998	Lm140,414,720
ii. Balance for Y/A 1999	Lm 31,682,041
iii. Balance for Y/A 2000	Lm 10,449,612
iv. Balance for Y/A 2001	Lm 13,382,787
v. Balance for Y/A 2002	Lm 18,200,862
vi. Balance for Y/A 2003	Lm 31,609,225

Out of the Lm 105 million arrears due for Year of Assessment 1999 and onwards, Lm 94.9 million represent estimated tax charged to taxpayers who did not submit any form of tax document. This balance will be reduced by the difference between the value of self-assessment returns submitted after end 2003 and the estimated tax charged. A number of assessments, amounting to Lm5.8 million, were issued against which the taxpayer filed an objection.

#### Income Tax Arrears Due by Category

Category	Pre Y/A 1999	Y/As 1999 - 2003	Totals
	<i>Lm</i>	<i>Lm</i>	<i>Lm</i>
Government Employees	3,914,445	3,313,706	7,228,151
Parastatal Employees	1,384,504	914,922	2,299,426
Drydocks Employees	229,889	169,049	398,938
Private Employees	16,388,466	11,354,483	27,742,949
Outside Malta Employees	290,405	128,563	418,968
Temporary Residents – Work Permit	3,503,598	5,577,034	9,080,632
Self-Employed	26,430,235	8,414,523	34,844,758
Shareholders	4,712,037	754,836	5,466,873
Not to show	1,670	3,177	4,847
Rentiers / Pensioners	8,063,957	3,253,209	11,317,166
Temporary Residents – settlers	737,075	1,335,183	2,072,258
Temporary Residents - entertainment	46,381	67,654	114,035
Non-residents	587,743	963,404	1,551,147
Companies <i>anonyme</i>	68,985,500	68,834,111	137,819,611
Partners	69,881	48,372	118,253
Partnerships collectif	270	0	270
Partnership not registered	1,125	0	1,125
Companies <i>en commandite</i>	1,606,921	1,002	1,607,923
Companies foreign owned	139,686	52,121	191,807
Companies – overseas	552,869	103,599	656,468
Estates	23,653	5,928	29,581
Clubs, Associations etc.	574,778	25,102	599,880
Church (Commercial)	2,057,022	437	2,057,459
Church (Entities)	112,605	4,112	116,717
Others	5	0	5
<b>Total for all Categories</b>	<b>140,414,720</b>	<b>105,324,527</b>	<b>245,739,247</b>

Source: Inland Revenue Department

## Capital Transfer Duty

The closing balance can be analysed as follows:

	Total	Malta	Gozo
	Lm	Lm	Lm
Intervivos	14,315,627	13,275,092	1,040,535
Causa Mortis	<u>1,648,109</u>	<u>1,437,205</u>	<u>210,904</u>
	15,963,736	14,712,297	1,251,439
Death and Donation	<u>2,500,152</u>	<u>2,335,853</u>	<u>164,299</u>
	<u>18,463,888</u>	<u>17,048,150</u>	<u>1,415,738</u>

Following NAO's review of arrears for 2003, it was noted that in twelve cases the name of the taxpayer(s) differed from that of the prior year.

The Department's reply is not satisfactory since differences were attributed to incorrect copying and mistakes in returns.

## Department of Health

The closing balance is made up of:

(a) Licences	Lm	1,600
(b) Hospital Bills	Lm	498,486
(c) Hospital Tests	Lm	31,652
(d) Refunds/Resignations	Lm	197,045
(e) Overpayments	Lm	3,702
(f) Hospital Fees-SPBH	Lm	19,826

Ageing of arrears at year end in respect of items (a) to (e) can be analysed as follows:

Amounts outstanding equal to or less than 1 year	Lm	132,385
Amounts outstanding - 1 year to 2 years	Lm	74,052
Amounts outstanding - 2 years to 5 years	Lm	265,465
Amounts outstanding over 5 years	Lm	260,583

## Industrial and Employment Relations

According to information submitted by the Department, the position as at 12 December 2003 was that out of the 89 defaulters:

- 46 persons collectively owing Lm69,533 effected some kind of payment during 2003 and hence cannot be considered as statute-barred;
- 26 defaulters with a total amount due of Lm 59,362 effected some sort of payment over the last 5 years. Many of these persons are either unemployed or living on a pension with little or no assets which one may seize in case of a successful lawsuit; and
- 17 defaulters owing Lm 37,927 have not effected any sort of payment for more than 5 years. However, legal repeated representations to the Attorney General's office, for the issue of the judicial letters in order to interrupt the prescriptive period, have proved fruitless.

## Roads Directorate

Amounts estimated as not collectible are mainly made up of the following dues relating to the period 1994-1997:

- Lm 484,658 and Lm 66,377 due from Water Services Corporation and Enemalta Corporation respectively for which no records of any purchase orders were found, in addition to being statute-barred.

- Lm 44,713 and Lm 23,312 statute-barred dues from Telemalta Corporation and the University of Malta respectively.
- Lm 266,299 due from a private company (and/or its subsidiaries) for which legal correspondence was initiated between the Attorney General and the legal representatives of the company.

(c) Residential	Lm 360,982
(d) Non-residential	Lm 214,182
(e) Commercial	Lm 2,912,502
(f) Encroachments	Lm 16,677

The Division failed to submit the Statement of Arrears in compliance with Treasury Circular 3/2004. Further comments on the Arrears of Revenue are provided under the Ministry for Justice and Home Affairs on pages 189 - 190.

## Ministry for Economic Services

These arrears are made up of:

a) Loans to Hotels	Lm 10,040
b) Loans to Companies	Lm 3,269,213

Following the enactment of Act XV of 2003, all loans and related interest, due by Malta Drydocks Corporation and Malta Shipbuilding Company Ltd., shall be due by Government. Although this Act came into force on 7 November 2003, the required Financial Report transactions were not effected during 2003. However, the necessary write-offs featured in the Return of Arrears for the year under review, as follows:

a) Loans under Act XI of 1988	Lm 15,169,000
b) Malta Drydocks Corporation Loan	Lm 4,303,194
c) Malta Shipbuilding Company Ltd. Loan	<u>Lm 48,567,433</u>
	<u>Lm 68,039,627</u>

An additional write-off of Lm510,587, approved by the Permanent Secretary Ministry of Finance, refers to the writing off of loans and related interest due from Melita Knitwear.

## Government Property Division

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

(a) Rural	Lm 56,832
(b) Perpetual	Lm 68,270

## Wireless Telegraphy Department

Arrears of revenue at the end of 2003 are made up of:

	Lm	Lm
a) Wireless and Marine Licences, penalties and other charges		260,965
b) TV Licences		
Amounts outstanding for 1 year or less	459,727	
Amounts outstanding for more than 1 year but less than 2 years	279,465	
Amounts outstanding for more than 2 years but less than 3 years	225,126	
Amounts outstanding for more than 3 years	<u>1,077,323</u>	
		2,041,641

### a) Wireless Telegraphy and Marine Licences

The balance at 31 December 2002 does not tally with the opening 2003 balance as reported in the 2003 Arrears of Revenue Return. The difference of Lm236,010 is explained as follows:

- The Gross Arrears as at 31 January 2003 exceeds the closing balance declared in the 2002 Return by Lm3,961. The Department clarified that: *"..... since the reports for 2003*



extracted in January 2004 (the new computerized system having been in operation for 13 months) did not reconcile, the software developer was asked to redesign the software pertaining to the issue of such reports. The 'difference' is therefore attributable to these changes."

- In the 2002 Report by the Auditor General, it had been reported that: "Lm239,971 due by a company for the utilisation of the Eutelsat space segment.....", had been ".....omitted from previous returns". The Department pointed out that: ".....in the real term of the word these cannot be considered as revenue. In actual fact these funds when received used to be passed on to Eutelsat to cover the rental agreement originally entered into by Government and eventually sublet to ..... It was not therefore revenue generated in return of the provision of a service, i.e. a licence". The Department recovered Lm 35,000 through court action.

A further difference was noted in the net closing balance of 2003 arrears as stated in the Return. In a note included in the Arrears of Revenue Return, it was stated that: "The difference of Lm503 ..... stems from a software problem which is in the process of being rectified".

Amounts written-off / not due consisted of:

- write-offs following authorisation from the Ministry of Finance of Lm19,486 unissued radio maritime licences due to failure by applicants to fulfil the required licence obligations and Lm144,520, unexpired ship licences; and
- Lm18,625 in fees that have been identified as not being due.

## b) TV Licences

Details regarding movements in TV licences' accounts are not available at PBS since, as already stated in the 2002 Report by the Auditor General, the company's computer system does not cater for such

information. The information provided showed outstanding licences at the end of 2003, sub-classified into aging and credit balances.

Due to lack of information, the difference between the 2003 closing arrears balance and 2002 closing balance (excluding credit balances), was classified as newly acquired arrears during 2003.

## Satellite Terminal Receiving Equipment Licence

In September 2004, L.N. 422 of 2004 was issued to amend the First Schedule to the Wireless Telegraphy Ordinance (Cap. 49), with effect from 1 May 2004. Through this Legal Notice owners of satellite terminal receiving equipment no longer need to pay licences for owning such equipment. This Legal Notice will impact the Department's revenue for 2004. Amounts already settled for the back-dated period covered by the Legal Notice will have to be refunded by the Department.

## Ministry for Resources and Infrastructure

The opening balance does not tally with the closing balance as reported upon in last year's report due to:

- Lm 47,605 due from various co-operatives not included in last year's return; and
- The opening balance in respect of the Central Districts Office was reduced by Lm 19,532 when compared to last year's balance.

The following is a breakdown of the closing balance:

(a) Works Division	Lm	33,604
(b) Central Districts Office	Lm	468,659
(c) Waste Management Strategy Implementation Dept.	Lm	500,821
(d) Manufacturing and Servicing Dept.	Lm	3,894,745

(e) Cleansing Department	Lm	22,111	a) Services to Third Parties	Lm	21,503
(f) COOPS	Lm	122,273	b) Sporting Licences	Lm	221,117

As reported upon in the Reports of the Auditor General – Public Accounts 2000, 2001 and 2002- Item (d) includes Lm3,745,439 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 was granted on 8 January 2004. Additionally, Lm 2,919 were also approved for write-off during 2004.

During 2004, a request for write-off of Lm86,450, being labour costs for works carried out, was submitted following an agreement reached during January 2003, between the Mosta Local Council and the Hon. Minister responsible for the Ministry at that time.

### Ministry Rural Affairs and the Environment

The closing balance is made up of arrears due to:

i. Pitkali Markets	Lm	79,378
ii. Sundry Revenue MMU	Lm	5,140
iii. DDP Personnel	Lm	3,474
iv. Services rendered to Local Councils	Lm	2,419
v. Sundry Services	Lm	10,968
vi. Veterinary Services	Lm	129,339
vii. Loans Commission	Lm	4,277
viii. Co-operatives Societies	Lm	30,305
ix. Fisheries	Lm	33,407
x. Salary Overpayments	Lm	714

Amounts estimated as not collectible are the full balances due in respect of Items (i) to (iii), (vii), (x) and Lm 31,028 from Item (ix).

### Police Department

The closing balance is made up of:

Further comments are reported under Ministry for Home Affairs and the Environment – Police Department: Arrears of Revenue on page 185.

### Customs Department

Lm 2,127 variance between the 2002 closing balance and the 2003 opening balance represents:

- 3 requests which were not declared as outstanding in 2002, but which have been written off in 2003; and
- Lm 100 inadvertently omitted from the 2002 Return of arrears.

The Department remarked that some outstations were not keeping pre-1999 arrears ledgers up-to-date since they were under the impression that information was being updated in the OMERA system. In actual fact, OMERA did not cater for pre-2000 cases.

The following are developments regarding irregularities reported in the Report of the Auditor General 2002:

- Some adjustments have been made to the OMERA system in order to enable retrieval of back-dated positions.
- From subsequent correspondence and meetings held, the Department was to collect all manual ledgers from outstations and carry out an exercise to bring the outstanding arrears balances up-to-date. Manual ledgers' outstanding balances should also be computerised upon finalisation of this exercise. The idea behind this initiative is expected to bring about centralised control and responsibility over arrears at the Accounts Section.

The Department informed NAO that, all outstation ledgers, except those in respect of Valuation Section and Pinto Bonded Stores, have been retrieved and are at present at the Accounts Section. Efforts to trace these ledgers are still going on.

In July 2004, the Accounts Section commenced an exercise in which individual outstation ledger details were to be analysed and reconciled to OMERA outstanding balances. The aim of the exercise is to identify whether:

- arrears listed in manual ledgers are actually still pending; and
- there are any unrecorded arrears in manual ledgers.

By end-October 2004, the Outdoor Services and Detail Office outstation ledgers for years 1990-1999 were analysed and lists indicating annual uncleared arrears balances and reconciliations were finalised. The same work started on the Airfreight Section. Gradually, all sections concerned will likewise be dealt with to obtain a comprehensive analytical report. After examining cases, Customs Debt Unit will recommend writing off, where it is established that it is impossible to recoup arrears.

The closing balance is analysed as follows:

a) Unpaid reimbursements and administration charges i.r.o. services by Customs Officials at Merchants' request	Lm 496,514
b) Post entries (Customs duty paid after release of Merchandise)	Lm 2,795,929
c) Fines and Penalties	Lm 129,458
d) Others	Lm 16,206

Arrears in respect of item (b):

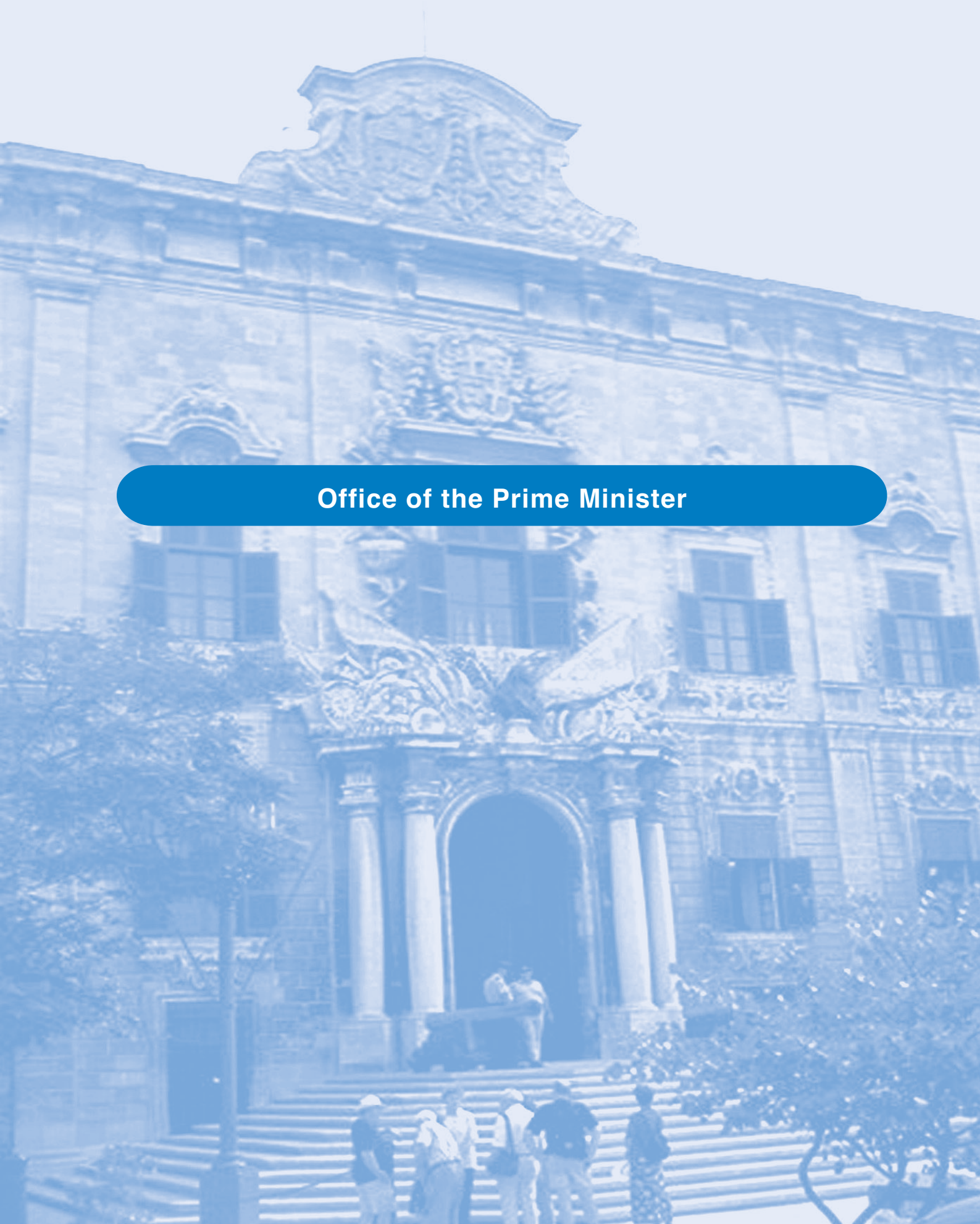
- include Lm 2,552,588 for unpaid excise duty by Enemalta Corporation; and
- Lm 65,113 representing Lm 6,445 VAT in dispute on imported Tobacco and Lm 58,668 drawbacks being gradually offset against excise duty.

Arrears of Revenue - 2003

Ministry/Department	Outstanding on 31/12/2002		Collected during 2003	Rate of Collection %	Written off or not due 2003	Arrears 2003	Outstanding on 31/12/2003	Net Variation	Change in Arrears %	Amounts Est as not Collectible <sup>e</sup>	Net collectible 31/12/2003		Due from Govt. Dept. & Para. Bodies		Individual & Private Companies	
	Lm	Lm									Lm	Lm	Lm	Lm	Lm	Lm
Min for Rural Aff. & Env. a	342,106	57,358	16.8	27,195	41,868	299,421	-42,685	-12.5	131,536	167,885	4,495	163,390				
Ministry for Gozo	79,905	23,376	29.3	NIL	39,619	96,148	16,243	20.3	NIL	96,148	36,699	59,449				
Customs <sup>d</sup>	5,438,005	4,329,971	79.6	237,521	2,567,594	3,438,107	-1,999,898	-36.8	NIL	3,438,107	2,703,474	734,633				
Education	80,356	b	b	b	b	b	b	b	b	b	b	b				
Inland Revenue:																
Income Tax	244,780,092	162,590,655	66.4	67,499,563	231,049,373	245,739,247	959,155	0.4	45,400,000	200,339,247	NIL	200,339,247				
Maltese Currency	6,288,410	c	c	c	c	3,131,079	-3,157,331	-50.2	c	c	NIL	c				
Foreign Currency	a	b	b	b	b	b	b	b	b	b	b	b				
Social Security Cont wef 98	20,849,598	1,241,689	6.0	9,933,624	6,289,451	15,963,736	-4,885,862	-23.4	10,778,614	5,185,122	NIL	5,185,122				
Duty on Docs & Transfers	2,851,363	24,950	0.9	352,464	26,203	2,500,152	-351,211	-12.3	956,484	1,543,668	NIL	1,543,668				
Death & Donation Duties																
Courts:																
Malta	a	b	b	b	b	b	b	b	b	b	b	b				
Gozo <sup>d</sup>	72,134	13,540	18.8	1,896	30,622	87,320	15,186	21.1	NIL	87,320	NIL	87,320				87,320
Social Security:																
Social Security <sup>a</sup>	2,583,153	623,968	24.2	126,226	931,409	2,764,368	181,215	7.0	NIL	2,764,368	NIL	2,764,368				2,764,368
National Insurance Cont.	a	c	c	c	c	5,155,284	N/Apply	N/Apply	c	c	c	c				
Govt. Property Division	5,642,008	1,601,582	28.4	1,870,323	1,459,342	3,629,445	-2,012,563	-35.7	c	c	c	c				
Health	915,893	37,254	4.1	258,713	132,385	752,311	-163,582	-17.9	19,826	732,485	31,652	700,833				
Police	241,691	62,275	25.8	3,440	66,644	242,620	929	0.4	NIL	242,620	14,833	227,787				
Min Resources & Infrastr. <sup>d</sup>	6,490,907	595,810	9.2	1,358,392	505,508	5,042,213	-1,448,694	-22.3	287,196	4,755,017	4,106,808	648,209				
M.D.C.	a	b	b	b	b	b	b	b	b	b	b	b				
Treasury	a	b	b	b	b	b	b	b	b	b	b	b				
Tourism	692,335	b	b	b	b	b	b	b	b	b	b	b				
Ministry of Finance	415	b	b	b	b	b	b	b	b	b	b	b				
Information/G.P. Press	902,676	2,463	0.3	699,140	85,488	286,561	-616,115	-68.3	NIL	286,561	286,423	138				
Med. Conference Centre	161,816	126,045	77.9	12,969	92,568	115,370	-46,446	-28.7	NIL	115,370	23,550	91,820				
A.F.M.	15,005	3,402	22.7	770	569,533	580,366	565,361	3767.8	8,724	571,642	3,955	567,687				
Wireless Telegraphy <sup>d</sup>	2,269,401	87,370	3.8	179,067	299,642	2,302,606	33,205	1.5	11,375	2,291,231	c	c				
Youth & Sports	63,000	b	b	b	b	b	b	b	b	b	b	b				
CET/VAT <sup>a</sup>	61,844,216	3,069,166	5.0	20,453,022	23,024,546	61,346,574	-497,642	-0.8	51,185,072	10,161,502	209,315	9,952,187				
Contracts	247,719	NIL		48,203	4,824	204,340	-43,379	-17.5	53	204,287	49	204,238				
Roads Directorate	886,160	NIL		NIL	NIL	886,160	0	0.0	886,160	NIL	NIL	NIL				
Ind. & Empl. Relations	170,518	6,837	4.0	9	1,026	164,698	-5,820	-3.4	37,927	126,771	NIL	126,771				
Licensing & Testing Dir. <sup>a</sup>	5,239,954	1,190,618	22.7	2,310,762	848,956	2,587,530	-2,652,424	-50.6	NIL	2,587,530	NIL	2,587,530				
Min. for Economic Serv.	63,167,085	NIL		68,550,213	8,662,331	3,279,253	-59,887,892	-94.8	c	c	3,269,213	10,040				
Commerce Division	529,881	b	b	b	b	b	b	b	b	b	b	b				
Civil Aviation <sup>b</sup>	67,261	67,216	99.9	NIL	85,800	85,845	18,584	27.6	NIL	85,845	9,045	76,800				
Min. Comp. & Comm. <sup>b</sup>	NIL	NIL		800	138,409	137,609	137,609		NIL	137,609	137,609	NIL				
Others	21,012	5,581	26.6	1,815	3,511	15,640	-5,372	-25.6	7,153	8,487	3,152	5,335				
<b>TOTALS</b>	<b>432,934,075</b>	<b>175,761,126</b>	<b>40.6</b>	<b>173,926,127</b>	<b>276,956,702</b>	<b>360,834,003</b>	<b>-72,100,072</b>	<b>-16.7</b>	<b>109,710,120</b>	<b>235,928,822</b>	<b>10,840,272</b>	<b>226,076,572</b>				

a) Did not send Return of Arrears 2002.  
 b) Return of Arrears 2003 not submitted.  
 c) Information not available.  
 d) Op Bal '03 does not tally with Cl Bal '02 (vide comments).  
 e) Previously reported under 'Others'.  
 f) Amounts estimated as not collectible include amounts statute-barred.

Office of the Prime Minister



## Office of the Prime Minister - Expenditure, Inventory and Log Books

### 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 2003 the overall objectives were - to provide the necessary leadership to the Public Service and to the 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.

The expenditure audit focused on the units responsible for the "*National Programme for the Adoption of the Acquis*" and the "*EU Pre-Accession Programmes*".

### Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of segregation of duties.
- Goods and Service Purchase Order (GSPO) issued after receipt of Invoice.
- Misallocation of Expenditure.
- Payments not covered by V.A.T. Fiscal Receipts .
- Insufficient control over the utilization of vehicles and fuel .

### Compliance Issues

#### Inventory Database

Inventory database of one of the Cost Centres was not submitted to the NAO Office as required by MF Circular 14/99.

Inventory records of the other Cost Centres including Heritage Assets, are still not in conformity with the requirements stipulated by the same circular.

#### Recommendation

##### Lack of segregation of duties

Goods and Service Purchase Orders and the corresponding Payment Vouchers should be signed by two different officers.

##### Goods and Service Purchase Order (GSPO) issued after receipt of Invoice

Where applicable, goods and services should be covered by a Goods and Service Purchase Order upon placing of an order.

This will ensure that proper authorisation for the purchase is not vitiated.

##### Misallocation of Expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item number.

##### VAT Fiscal Receipts

Every effort has to be made to obtain the missing VAT receipts from suppliers.

##### Log Books

The correct mileage covered by each journey is to be recorded on the log book

and signed by the officer making the journey. Log books are also to be inspected and countersigned monthly by a senior officer not below the grade stipulated by the respective rules. This will help ensure proper control over the issue of fuel to Government vehicles or hired vehicles.

### Inventory Database

The Inventory Ledger is to be kept and updated in accordance with MF Circular 14/99.

A Heritage Assets Catalogue is to be compiled for the heritage items that the

Office of the Prime Minister has been entrusted with. As a minimum this catalogue is to include the information as required by Appendix 'C' of MF Circular 14/99.

### Management Comments

Management accepted the recommendations and will be taking the necessary actions to address the weaknesses.

## Armed Forces Of Malta – 1<sup>st</sup> Regiment Stores

### Background

The various stores of the AFM 1<sup>st</sup> Regiment cater for the internal provision of clothing, equipment, accommodation and office service requirements, spares, consumables, stationery, tyres and batteries. In addition, external requests for material items from Camp Commandant, 2<sup>nd</sup> Regiment and 3<sup>rd</sup> Regiment are also supplied.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of segregation of duties in the procurement process.
- Inaccurate stock records and used bin cards claimed to have been disposed of.
- Incorrect casting in ledger folios and bin cards of stock items.
- Inaccurate details in Stock Ledger Register.

### Compliance Issues

#### Inventory Records

Inventory items not in conformity with Inventory regulations:

- The same Asset Identification Number in the inventory database was allocated to different assets in the inventory ledger.
- Incorrect item descriptions and inventory quantities.
- Incomplete room inventory lists lacking, in particular, details of room numbers and asset identification numbers.

#### Obsolete Items

Obsolete miscellaneous electrical equipment and ancillary devices have been left in the premises area of the Accommodation and Office Services Store from Wied Rini since circa 1988.

Such items are not the property of the 1<sup>st</sup> Regiment Stores and have been completely omitted from inventory records.

### Recommendations

#### Segregation of Duties

Segregation of Departmental Accounting System (DAS) processing duties which should be performed by different accounts personnel, in order to strengthen internal control and security. Similarly, the storekeeper should sign the GSPO for certification of goods received instead of the Quarter Master in order to administer compliance in store operations and control.

#### Stock Records

A stock-take is to be carried out whereby discrepancies are to be analysed, reported upon and adjusted accordingly with follow-up by perpetual stocktaking for all stock items. In addition, dead bin cards are to be numerically filed for ease of audit reference and should not be disposed of before a compliance stores audit of the period to which they relate is performed.

#### Ledger Folios and Bin Cards

Ledger folios and bin cards must be checked following each receipt or issue of



items and then compared with the physical stock and ledger transaction data. Differences in stock balances will be noted if perpetual stocktaking procedures are regularly carried out.

### Reconciliation of Stock Records

The reference number of all ledger controlled sheets bearing a signature for authenticity should be recorded in the Ledger Sheet Register regularly and reconciled with account ledger folios. Such procedure will enable standardisation, security and authority to be maintained for monitoring and control responsibility of stores recording.

### Inventory Records

A transfer sheet is formulated by AFM Headquarters and distributed to the Company Quarter Master Sergeants of the 1<sup>st</sup> Regiment.

The additions, disposals or transfer of inventory items must be consistently recorded in both the 1<sup>st</sup> Regiment room inventory lists and AFM Headquarters' inventory database and periodically reconciled.

### Obsolete Items

A hundred per cent stock-take should be taken of the obsolete electrical equipment. Management should appoint a Board of Survey to recommend write-off or otherwise of such unserviceable items in order that the occupied space area is utilised for more beneficial storage purposes.

### Management Comments

Management agreed to the recommendations and intends to comply accordingly.

## Armed Forces of Malta – Firearms and other inventory items

### Background

Past audit reviews by the National Audit Office (NAO) at the Armed Forces of Malta (AFM) covered fleets of air and sea craft, vehicles, and military equipment particularly small (portable) firearms. In the light of the new regulations which have been introduced since then, these inventory items were revisited in an audit of the AFM for financial year 2003.

### Key Issues

#### Patrol Craft not taken on charge

The value of the sea patrol craft purchased for US\$5.7 million from US funds was still not included in the inventory records up to the end of the financial year being reported upon.

This would be unacceptable when financial statements start being officially drawn up on the accruals accounting basis as it would constitute a material misstatement of the value of the AFM's fixed assets.

#### Heritage Assets

Heritage assets, though included in inventory records, have not yet been identified in default of one of the obligations under MFC 14/99.

### Control Issues

Opportunities for improvement were also identified in the following areas:

- Updates of internal distribution sheets by means of erasable entries made in pencil are rendering such records prone to abuse.

- 'STOCK TAKING' rubber stamps are being used against the quantities of all inventory codes carried forward from the previous year, irrespective of whether balances had been actually verified or not.
- Fading Asset Identification Numbers (AIN) on flimsy paper tags affixed to portable firearms, etc., that are in regular use and prone to come off easily.
- AINs on air and sea craft, motor vehicles, and other sizeable assets are not being affixed or imprinted anywhere on such assets.
- Missing identification characteristics in the new inventory records making it impossible for one to physically verify records.
- Notwithstanding the advice sought from the Ministry of Finance before AFM started its upgrading of inventory records, and the large number of man-hours involved, action being taken would not lead to attaining complete inventory records as required in terms of MF Circular 14/99.
- Reference to supporting documents in the new inventory records is lacking.
- Completeness and accuracy of the new computer-based inventory records cannot be achieved once details transferred are not retained. Moreover, no reconciliation of reproduced records with the source is being made.

### Compliance Issues

#### Inventory Standing Regulations

- Many distinctly separable assets have not been assigned a unique AIN (and

part number) as recommended by MFC 14/99, in spite of some of the items being of a relatively high value.

## Recommendations

### Patrol Craft and Sizeable Inventory Items

- These items are to be immediately taken on charge at the purchase price or known protocol value; Equipment Table Schedules of the constituent items could be drawn at no value for more efficiency.
- On replacement of a part for maintenance or repair, the cost of the replaced component should be added to the net book value of the main asset at time of replacement.
- On actual de-kitting the sum total of available market values of the removed components should appear in the books as separate assets.

### Heritage Assets

The AFM should follow standing regulations concerning heritage assets. Numerous weapons in 'care and preservation' are possibly collector's items.

### Special Stores Register

Entries in internal distribution sheets should be in ink not pencil.

### Physical Checks of Firearms and Military Equipment

- 'STOCK TAKING' stamps on inventory ledger folios are to be used only against balances actually verified.
- Regular physical checks of firearms and loose military equipment in all AFM armouries are a must.
- Portable firearms returned to armouries as unserviceable could be recoded for records to reflect the actual status of the inventory items. Any subsequent use, or transfer to 'care and preservation', etc., should be recorded.

### Identification Tags on Small Firearms

- Once pre-established, AINs should be permanently affixed.
- AINs are to be given to all air and sea craft, motor vehicles, etc., irrespective of other identification characteristics traceable to the records.

### Description of inventory items

- For ease of physical verification, the description of inventory items in the records must bear unique characteristic(s).
- As a security requisite and for internal control purposes, the AIN on rigid hull inflatable boats (RHIBs) could be made visible, say, on the floor.

### Compilation of New Inventory Records

- Apart from the complete physical verification of source records, each new record should bear reference to the supplier invoice or management valuation in support of the cost or valuation of the corresponding asset.
- Manual ledgers are to be updated until computer inventory records are complete.

### Unique Asset Reference Numbers

An overall review of the coding being applied to the new inventory records should be carried out.

### Manual and Computer-based Inventory Records

- All records in the new plant register must bear reference to the old inventory ledger folios.
- Reconciliations are to be made of the replicated (sections of the) manual inventory ledgers and the computer records.

### Periodic Verification of Records

- Regular periodic verification of records could be deemed necessary even for

relatively non-material inventory items, e.g., chairs, etc.

### Standing Internal Regulations

Standing orders are to reflect implementation of recommendations made in this report, along with an in-depth review of internal regulations to ensure that recently

introduced systems and the current status of pertinent procedures are comprised.

### Management Comments

Management has replied that all possible action is being taken to implement proposed recommendations by the NAO.

## Armed Forces of Malta – Fuel and Lubricants

### Background

The Armed Forces of Malta (AFM) had a fuel budget allocation of Lm310,000 for 2003. Actual expenditure amounted to Lm277,514. This is made up of fuel consumption by road vehicles, and a balance comprising both aviation fuel and diesel issued to sea craft. Separate allocation is made for oils and lubricants. The budget allowances in their entirety are referred to by AFM staff as the POL Account ('Petrol, Oil and Lubricants' Account).

### Control Issues

Opportunities for improvement were identified in the following areas:

- One copy of the set of Fuel Requisitions and Issue Notes (FRINs) relating to unleaded petrol from the Kirkop Fuel Station (Kirkop), currently sent to Kirkop, should be retained by the Motor Transport Officer (MTO) as the source document. This would lend itself to more reliable records maintained by the MTO.
- Control over fuel issued in containers is weakened where the procedure pertinent to packed fuel is not followed.
- Proof of verification of plant card records on an accompanying cover letter is lacking. Moreover, most plant cards are not being signed by an officer independent of the person maintaining the records.
- The fuel consumption of the ex-impresed car committed to AFM is not being monitored as in the case of all army vehicles.
- Dipstick readings are being omitted from the daily fuel report drawn up at each of the POL sub-offices. Fuel level and water finding paste is not being applied during readings.
- The loose dipstick inside the 9000-litre tank at Haywharf Creek is giving erratic readings of fuel levels.
- The important information on the Excel database at the main POL Office is not being officially supported by the Computer Section. A trivial storage memory problem by today's standards is undermining the data input and the information that is continuously being generated. It is also the onus of the Computer Section to introduce and monitor a backup system.
- An audit trail of the identity on the work tickets of officers authorizing fuel issues from Safi and Kirkop is missing.
- More than 15,000 litres of diesel has been unutilized for the past three years since the boiler of the Luqa Maintenance Section was put out of use.
- Store 'ledger sheets' at the Maritime Squadron for oils and lubricants are being maintained in pencil.
- A surplus of patrol craft engine oil estimated at 600/1,200 litres was noted at the Haywharf Creek stores.
- The internal standing orders do not reflect the operating procedures that had to be introduced in the

procurement of unleaded petrol from Kirkop and its issues.

## Compliance Issues

### Fuel Stock Adjustments

Satisfactory criteria are not in place for the verification of real surpluses and/or deficiencies. Persistent variances between dip readings and quantities on record could serve as a criterion for actual write backs and/or write offs. The need to recalibrate the pump delivery indicator and/or counter meter is a must before any stock adjustment is justified.

### Transport Regulations

Transport Regulations are not being followed with regard to the filing of a return with the National Audit Office (NAO) of all the running expenses of the government-owned army vehicles.

## Recommendations

### Unleaded Petrol

- The yellow copy, which is not required by Kirkop, ought to be retained at all times by the MTO or the officer in charge (MT office or POL sub-office) raising the fuel requisition in 4 parts. Records are to be drawn from this source document which ought to be permanently retained (at the MT office) by some internal sequence for easy reference and cross-reference with the records.
- Returned blue copy ought to be checked with the yellow copy, and noted discrepancies dealt with immediately. Visible evidence of such check is recommended so as to reassure Safi POL Office that the FRINs being directed to them are authentic copies of the original. Adoption of this control procedure would eliminate possible manipulation of fuel requisitions.

### Packed Fuel Analysis

All packed fuel must be treated in the records as such and is to be made subject to the specific procedure in use relating to issues of fuel in containers.

### Certification of Plant Cards

Quarter Master (QM) 'month-stamp' is to be signed or initialled by an officer of a responsible rank independent of the person completing the plant card, in evidence of correctness of the record. Proof of verification of records on cover letter accompanying plant cards as for work tickets is also recommended.

### Fuel issued to the Ex-impresed Vehicle

- The fuel notionally consumed by the ex-impresed car in any month ought to be determined. Recorded distance covered is to be arithmetically divided by a pre-established maximum standard consumption rate that could be periodically reviewed.
- Maximum monthly limit is to be dropped.

### Fuel Level and Water Finding Paste

The application of fuel level paste is recommended for every dip reading. Regular application of water finding paste is also recommended though not necessarily with the same intensity as fuel level paste. Any water residue is to be reported until its removal.

### Diesel Records

The installation of a runner to control the movement of the dipstick inside the 9,000-litre reservoir at Haywharf ought to be seriously considered.

### POL Main Computer Records

- The benefits could more than justify the relatively small expense of upgrading the stand-alone system in use by the Safi POL Office.

- Standard backup procedures should be in place for isolated and independent systems monitored by the Computer Section.

### Work Tickets

The officer authorizing individual trips is to disclose rank and army number to serve as a reliable means of control over the authorized use of official transport. Pump attendants should decline fuel requests and refer the driver back to the MTO when a work ticket is not to the standard of the internal and/or external Transport Regulations.

### Dormant Fuel Stock

Early disposal of the ex-boiler plant tank, minimizes the loss on sale of the container. Moreover, the substantial volume of diesel inside the tank could be recycled.

### Maritime Squadron Oil and Lubricant Records

Records are to be kept by the storekeeper in ink and certified by an officer of a higher rank.

### Patrol Craft Engine Oil

A separate stock code and a corresponding new account is recommended for the patrol craft engine oil, along with a more practical standard unit of measurement. The latter recommendation may also apply to:

- all POL accounts supporting the storekeeping at sub-Unit level;
- the stock of army forms;
- the surplus quantity noted during the audit is to be taken on charge in accordance with standing orders; and
- for issues in litres of the stock code in caption, a 'transfer voucher' such as the one in use for packed fuel (from pumps) is recommended. Issues by the litre from the existing account can proceed as at present.

### Oils and Lubricants in Store

- Separate accounts are to be kept for every type of packing and/or unit of measurement. A standard unit of measurement is to be clearly indicated, e.g. by the drum in the case of patrol craft engine oil.
- Only one container of each type of lubricant should be unsealed at a time for issues.

### POL Account Forms and others

- Loose forms in use could be recorded in packs, rather than taking the loose sheets as the unit of measurement. For accounting purposes, on being opened a pack could be written off. This could be extended to all army forms in store at the AFM. The pre-numbered (controlled) sheets are to remain being accounted for in loose sheets.
- Forms in AFM stores which have been lying idle for a long time are to be destroyed unless they could be put to some good use.

### Internal POL Standing Orders

- Internal POL standing orders are to reflect the recommendations made in this report, if and where implemented. An in-depth review is necessary to include recently introduced systems and to reflect the real status of all POL account procedures. This should serve as an opportunity for the assimilation of pertinent internal General Orders and harmonization with GFR, Public Service Management Code, Treasury and Finance Circulars.

### Fuel Stock Adjustments

- The water residue debasing the diesel inside one of the two reservoirs at Haywharf Creek is to be removed and any diesel stock deficiency written off in accordance with standing regulations.

- Until the water is totally removed from the diesel reservoir, tests for the level of the water ought to be more frequent than the proposed occasional check.
- Write-offs of fuel deficiencies, or taking on charge surpluses, are to be made on the basis of reported persistent daily gains/losses, in conjunction with the recalibration of the pump counter by Enemalta. Fluctuations in such reported discrepancies should be taken to imply that no correction in the records is required.

### Return of Fuel Cost and other Running Expenses

A return is to be drawn up annually and copied to the NAO in accordance with MF

Circular 8/90. The return is to include a detailed analysis of all vehicle running expenses besides fuel consumption.

### Management Comments

The AFM have already adopted many of the suggestions proposed by the NAO, and implementation or alternative action in respect of practically all other recommendations is under way.

The AFM, however, failed to comment on the observations made on the stock control and accounting treatment of POL account and other army forms.



## Armed Forces of Malta – Gozo Camp

### Background

A troop of the Armed Forces of Malta (AFM) is based in Qortin, Gozo as part of the 1<sup>st</sup> Regiment.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Non-identical procedures for the procurement of fuel from the government fuel station at Kirkop and from Gozo suppliers are making the process more difficult to control.
- Payments made to Gozo fuel suppliers are not authorized in terms of AFM standing regulations.
- Records of receipts and issues of clothing store items exclusive to the Gozo Sub-Unit (Gozo), are not being independently supported by an audit trail.
- Roster sheets, against which armourer hands a firearm to the duty guard, bear no evidence of authentication.
- Most of the existing records relating to procurements by Gozo Camp in 2003 and previous years are not fully supported by source documents, which have been destroyed by fire toward the end of the year under review.
- The Gozo Sub-Unit is not keeping on location record of all its transactions.
- Avoidable channel-crossing costs for purchases of goods and services available in Gozo.

### Compliance Issues

#### Internal Standing Orders

- Officers authorizing fuel issues to, and verifying the record of running hours of, plant and equipment at the Qortin camp are not certifying plant cards to this effect. This was evident from all the plant cards examined.
- Section 74 of the current standing orders has not been updated to reflect the operating procedures relating to the Gozo POL (Petrol, Oil and Lubricants) account.

#### Stocktakings

Regular physical checks of clothing stock in hand are difficult to examine in the absence of records.

#### Inventory

- Besides incomplete inventory records of the Gozo troop, the process of making such records compliant with MF Circular 14/99 has still not commenced.
- Personal belongings of AFM staff in use at the Qortin Camp, and assets pertaining to the President's Regimental Institution (PRI), are not included in inventory records.

### Recommendations

#### Fuel Requisition Books

Official stationery made available by the government Kirkop fuel station could also be used for fuel issues in Gozo, thus phasing out the use and purchase of other fuel requisitions books.

### Details on Fuel Requisitions

Fuel suppliers are to be formally advised that the AFM would not honour invoices in respect of FRINs not supported by authenticated authority and certification of delivery.

### Store Ledger

A ledger sheet for every clothing category in stock is to be drawn up. This should analyse receipts from Malta with reference to the respective supporting official Certificate Receipt Vouchers (CRVs) instead of temporary CRVs for clothing 'on loan'. The ledger sheet should also analyse issue vouchers or unserviceable returns notes permanently retained by Gozo, in respect of items issued or unserviceable returns. It would no longer be necessary for Hal-Far to maintain records of Gozo clothing stock movements, if Gozo is treated as a separate Sub-Unit. Even personal take-over record sheets are to be retained at Gozo, where they could be updated at the time the clothing is distributed to staff.

### Duty Guard Roster Sheets

It is highly recommended that duty guard roster sheets are to bear marks of authentication.

### Source Documents

Any documentation supporting existing records, which may have gone missing in the fire mentioned above, is to be replaced.

### Independent Records

Fully documented records are to be kept of all transactions entered into by the Gozo Unit.

### Clothing Repairs

The AFM should seek the help of the Treasury and Contracts Department to remedy the logistical restriction to repair clothing in future by engaging contractors based in Gozo (through an agent or sub-agents).

### Certification of Plant Cards

Quarter Master (QM) 'month-stamp' is to be countersigned by an officer of a

responsible rank independent of the person completing the plant card, in evidence of correctness of the record. Proof of verification of records on covering letter accompanying plant cards is also recommended.

### internal Standing Orders

Internal POL standing orders need to be updated.

### Stocktaking

Annual 100 per cent checks of all stores with the records are a requirement of section 106 of the General Financial Regulations.

### Inventory

- In its effort to become fully compliant with MF Circular 14/99 the AFM is also expected to complete and even upgrade the records, and recode all Gozo inventory items accordingly.
- In accordance with Government rules, the personal belongings of staff in use in the performance of their duties, as well as PRI assets in the case of AFM, are to be included as an integral part of the official inventory records. This would not prejudice the title of such assets if proper certification could be produced by the owners to this effect.

### Management Comments

Exception was taken only to the recommendations that the Gozo Troop should be regarded as a separate Sub-Unit for record purposes and for more autonomy in the procurement of (certain) services, for example, clothing repairs.

Management is proposing the introduction of bin cards. However NAO still contends that these are only secondary records, as contemplated by the most recent Treasury Circular 6/04 on stock control.

## Department of Information

### Background

The Department of Information (DOI) assists Government in the effective communication of updated policies and activities relevant to the Public Sector.

This department is responsible for the compilation and publication of the Malta Government Gazette and other printed matter dealing with Government services and matters of public interest.

by the Department for photographs and adverts includes an element of V.A.T. The tax portion is not being accounted for, as is stipulated in MF Circular 4/95, but is posted with the income from this service in the revenue account. Likewise V.A.T. on purchase of items related to these services is being included in the expenditure account.

### Key Issue

#### No Inventory Records of Photo Films

Photo films lack audit trail from the procurement stage to the stage when these are actually returned by the photographers to the department.

#### Public Contracts Regulations not adhered to

The Department did not abide by the Public Contracts Regulations, 2003 which require that "where the estimated value exceeds Lm2,500 but not Lm20,000, the equipment, stores, works or services may be procured after a departmental call for tenders".

### Control Issues

Opportunities for improvement were identified in a number of areas:

- Utilised receipt books were not being returned regularly to Accounts Section. A receipt book (containing 100 receipts) which had already been verified by the Accounts Section, was discovered missing from the Cash Office.
- Incorrect amount invoiced by the Department for Adverts appearing in the Government Gazette.
- Lack of control over use of vehicles.
- Weak control over inventories.

The cost of hiring vehicles in 2003 amounting to Lm4,810 and the printing works costing Lm7,425 were not covered by a call for tender.

#### Traffic Contravention Fines paid by the Department

Traffic contravention fines detected in the sample of Payment Vouchers selected for audit were paid by the Department.

### Compliance Issues

#### Incorrect Treatment of Value Added Tax (V.A.T.)

The Department of Information is a V.A.T registered entity, thus the invoices issued

### Recommendations

#### No Inventory Records of Photo Films

A 'Films Stock Register' is to be kept by the photo library section to record movement of photo films (both issues and returns), so that the number of films held by photographers can be determined at any given time. The register should also show the number of films in stock which will eventually highlight the re-order level.

Furthermore, it is suggested to sequentially number the sheets of the booklets used by the photographers to record the coverages where the films have been used.

### Receipt Books

Once receipt books have been fully utilized these should be returned to the Accounts Section. Date of return is to be recorded on the same register where receipt books are taken on charge, alongside the countersignature of the officer in charge of the cash office.

### Incorrect Invoice Amount charged for Adverts

Adequate verification of invoices should be made before submitting bills to clients.

### Vehicles

Proper control should be exercised over fuel and use of government-owned vehicles. Log books are to be inspected and countersigned monthly by a senior officer not below the grade of Principal. Log books are to be regularly maintained with full and accurate details.

### Inventory

The department should update all inventory records in accordance to MF Circular 14/99 as early as possible.

### Incorrect Treatment of Value Added Tax (VAT)

Input and output VAT should be accounted for separately from the revenue and expenditure amounts as per MF Circular 4/95. Furthermore, the VAT return form is to be compiled as per instructions in the mentioned circular.

### Public Contracts Regulations not adhered to

It is recommended that a call for tender is made with regards to the rental of vehicles, as required by the standing regulations.

When the department procures equipment, stores, works or services it

should adhere to the provisions of the Procurement Regulations and should issue a call for tenders, obtain quotations before buying directly from the open market as may be required.

### Traffic Contravention Fines paid by the Department

The Department should not settle any traffic fines incurred by its officials. The Ministry of Finance is addressing this problem by issuing a letter to all Permanent Secretaries to request officer concerned to pay the fine. Appropriate disciplinary action should also be considered in cases where drivers repeatedly contravene traffic regulations.

## Management Comments

A thorough check was carried out to trace the missing receipt book but the research proved unsuccessful.

Regarding control over vehicles, Management stated that lack of certification of vehicle log books by a senior officer was due to the fact that the Senior Principal Officer who previously headed the Accounts Section, was appointed as Assistant Director in another Department without being replaced by an officer in the same grade.

With reference to inventory control, Management stated that in the absence of availability to DOI, of an Executive Officer as recommended in the pertinent circular, the inventories had to be assigned to a Clerk, whose diligence unfortunately fell short of the required standards.

Management stated that the printing of *Pajjizna* had to be completed at short notice over the weekend, following the confirmation of the approved text and graphics. A number of printing firms were verbally asked whether they could perform the job within the specified deadline, however there was only one positive response.

As to the traffic fines, it was stated that the contraventions occurred in the course of duty when important official business was required to be attended to immediately, without prior notice.

Management accepted the recommendations and has already started taking the necessary actions to address the weaknesses.

## Department of information - Government

### Printing Press

#### Background

During 2003, the Government Printing Press (GPP) continued to fulfill its primary objective of supporting Ministries and Government Departments by providing an efficient printing service.

The total cost during 2003 exceeded Lm2,500, thus requiring a departmental call for tender.

#### Control Issues

Opportunities for improvement were identified in the following areas:

- A high incidence of Goods and Service Purchase Orders (GSPO) issued after receipt of invoice.
- Lack of audit trail of items (carton boxes and envelopes) from the procurement stage to the utilization.
- Insufficient control over the utilization of the van committed to the Department and its fuel consumption.
- Lack of records of old printing equipment held by the GPP.
- Stock Ledger and Bin Cards not updated.
- Incomplete Commitment Forms.

#### Inventory

Inventory records are not being kept up-to-date, complete and accurate. Room Lists were dated 09/08/2001 and physical items, both those featuring on the Room Lists and on Inventory Database, were not compatible. Furthermore, Asset I.D. Numbers used were not consistent.

#### Recommendations

##### Goods and Service Purchase Order (GSPO)

Where applicable, goods and services should be covered by a Goods and Services Purchase Order upon placing of an order. This will ensure that proper authorization for the purchase as stipulated in the regulations is not vitiated.

##### Lack of Audit Trail of Items

Carton boxes and envelopes are to be treated as any other stock item. An ad hoc stock take is to be carried out and the quantity in stock taken on charge. Any additions and issues are to be recorded in the ledger. At least once a year a hundred per cent stock take is to be carried out as required by the General Financial Regulations.

##### Motor Vehicles

To exercise proper control over fuel and use of government expensed vehicles, log books are to be regularly maintained with full and accurate details of each journey performed. They are also to be inspected

#### Compliance Issues

##### VAT Fiscal Receipts not attached to Payment Vouchers

A percentage of payment vouchers examined (9.5%) was not supported by a VAT Fiscal Receipt as per statutory requirements.

##### Public Contracts Regulations not adhered to

The GPP did not abide by the Public Contracts Regulations for the hire of van.

and countersigned monthly by a senior officer not below the grade of principal, as stipulated by the Public Service Management Code.

A return should be filed with the NAO of the fuel costs incurred and other running expenses as is required by the pertinent circular. Such records are to be kept regularly updated and readily available for inspection.

### Old Printing Equipment

An inventory exercise should be undertaken to record all the old pieces of machinery and printed documents that are being kept at the Government Printing Press. These may be of historical value.

### Stock Ledger and Bin Cards

Any surplus amounts found extra are to be taken on charge in the Stores Ledger immediately. Section 113 of the General Financial Regulations is to be followed in respect of cases of losses or shortages of store items.

Bin cards should be kept updated and matched with the Stock Ledger. The bin card is to be identified by a stock code and is to contain details of stock description, quantities of stock receipts, issues, returns to stores and balance of stock quantity. Bin cards are to be updated with perpetual stock-takes alongside the signature of the officer performing the stock-take.

### Incomplete Commitment Forms

Commitment forms are to contain all details including the signature of the officer

receiving the stock of paper and date issued, as they provide the necessary control on the issues from the paper store.

### VAT Fiscal Receipts not attached to Payment Vouchers

The Government Printing Press has to continue informing on a quarterly basis the VAT Department regarding those suppliers who fail to submit a V.A.T. receipt following payment of supplies of goods and/or services. Every effort has to be made to obtain the missing V.A.T. receipts from suppliers.

### Public Contracts Regulations not adhered to

A call for tender is to be made with regards to the rental of the van as required by the Public Contracts Regulations.

### Inventory

The Inventory Database and Room Lists are to be duly updated reflecting any movement in inventory items. Stickers bearing the Asset I.D. Nos are to be physically affixed to the assets. Asset I.D. Nos on the Room Lists are to match with those on the Inventory Database in conformity with MF Circular 14/99.

## Management Comments

Management accepted the recommendations and has already started taking the necessary action to address the weaknesses.

## Electoral Office - Revenue and Below-the-line a/c 8255 – Candidate Fees, Expenditure, Inventory and Log Books

### Background

The main functions of the Electoral Office are to provide the organization required for holding General Elections, Local Council Elections, Referenda and Elections in Parastatal Organisations; to issue and renew identity cards; to effect registration, transfer and cancellation of voters from the electoral register; to maintain and publish the electoral register every six months; and to provide administrative support to the Electoral Commission.

During 2003 the three main priorities were:

- the holding of the general elections (held on 12 April 2003);
- the holding of the National Referendum on the E.U. (held on 8 March 2003); and
- the holding of elections in 23 Local Councils in Malta and Gozo (held on 8 March 2003);

### Key Issues

#### Data on Diskettes

No records were kept of the actual number of electoral register CD copies since requests were not being filed or recorded. Consequently, due to lack of audit trail the completeness of the records could not be ascertained.

The necessity to keep a record of requests for copies of the electoral register was already recommended in the Audit Report for the financial year 2001. The system should allow for the registration of payment details. However this recommendation was not implemented by the Electoral Office and eventually this

function was taken over by the Department of Information as of November 2003.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Incorrect use of the Below-the-Line account intended for deposits of candidates' fees of the General and Local Council Elections and their eventual refund.
- Forfeiture of deposits by unsuccessful election candidates not transferred to the Consolidated Fund, as stipulated in the General Election Act and Local Councils Act.
- Cancelled Receipts not recorded in Cash book.
- Goods and Service Purchase Order (GSPO) issued after receipt of Invoice.
- Misallocation of Expenditure.
- Payments not covered by V.A.T. Fiscal Receipts.
- Petty Cash Book not maintained.
- Insufficient details on log books maintained for impressed vehicles.
- Inadequate control over fuel claims from impressed drivers.

### Compliance Issues

#### No Revenue Account allocated

The Electoral Office is not allocated an account to credit fees for services given by



the Office. Currently income from affidavits and sale of electoral register on CD are being credited to the below-the-line account intended solely for deposits and refunds from and to candidates.

### Inventory

- a) Inventory Room Lists are not supported by the proper Asset I.D. No.
- b) Several items marked as 'Struck Off', following approval by Board of Survey, and other obsolete items are still being shown on the Inventory Database.

### Recommendations

#### Incorrect use of the Below-the-Line Account

The end 2003 balance amounting to Lm24,741.30, being the accumulation of forfeited deposits by candidates in General and Local Council Elections and other monies which should have been passed to revenue, is to be transferred to the Consolidated Fund forthwith.

#### Cancelled Receipts

An audit trail of all receipts independent of whether they are issued or cancelled is to be kept.

#### Goods and Service Purchase Order (GSPO) issued after Receipt of Invoice

Where applicable, goods and services are to be covered by a Goods and Service Purchase Order when placing an order. This will ensure that proper authorization for the purchase 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

Every effort is to be made by the Electoral Office to obtain the missing V.A.T. receipts

from suppliers and to continue to report defaulters to the V.A.T. Office.

#### Petty Cash Book not maintained

A Petty Cash Book should be kept on the Imprest System where a fixed cash float is to be determined. A standard limit is to be officially authorised enabling the petty cashier to disburse expenses from petty cash at a time.

#### Log Books

As already recommended in the Audit Report 2001, the Head of Department should ascertain that a log book be kept for each vehicle and that the exact mileage covered during each journey is recorded in the log book, which is to be duly signed by the officer making each journey.

#### No Revenue Account allocated

A revenue account should be created so as to deposit funds received from affidavits and the forfeited amounts paid by Local Council/General Elections Candidates.

#### Inventory

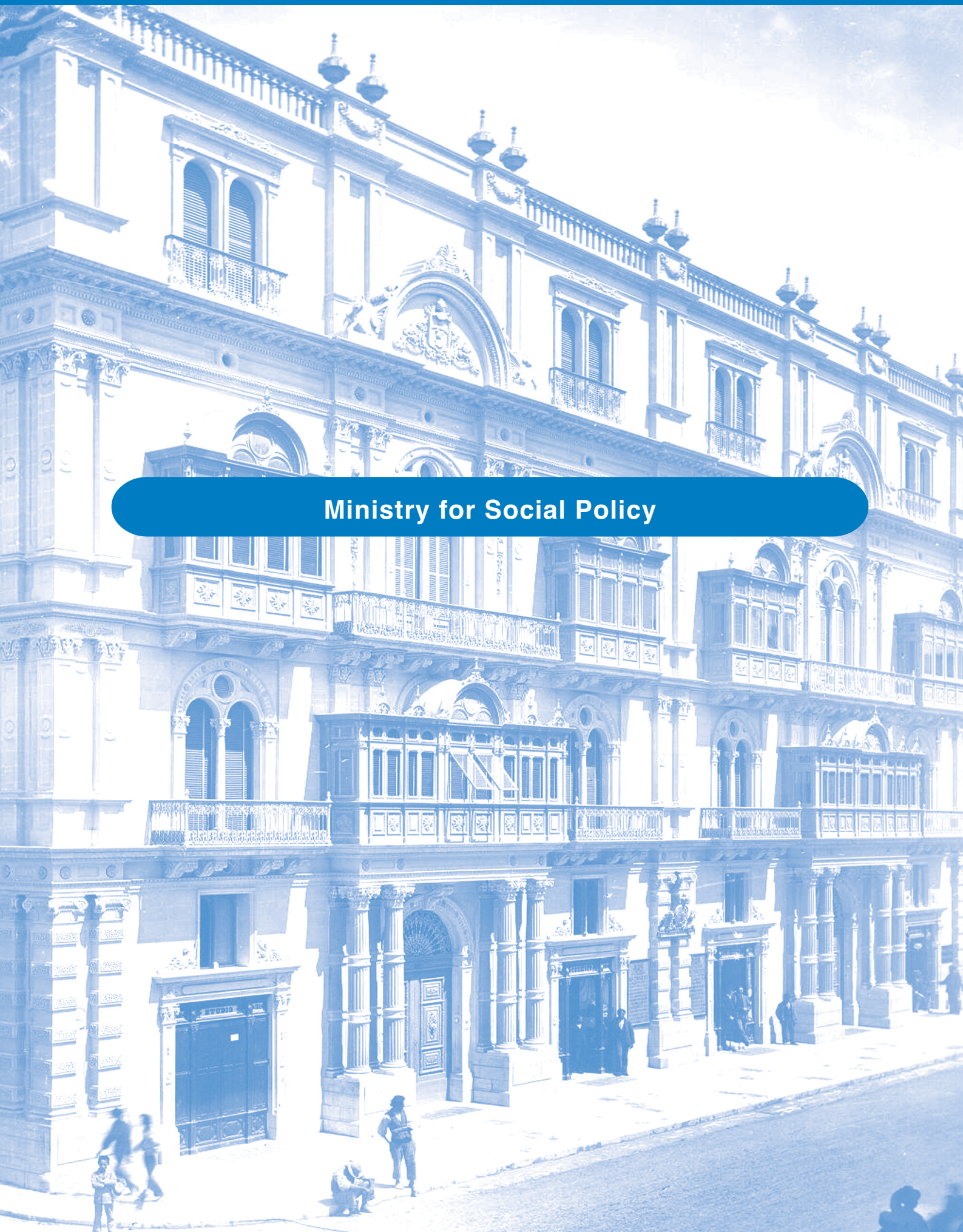
- a) Asset I.D. Nos on Room Lists should be adjusted to match with those on the Inventory Database and also as per MF Circular 14/99 for item identification.
- b) If items marked as 'Struck Off' have the relative approval following a Board of Survey, as is envisaged by MF Circular 14/99, these should be struck off from the Inventory Database. But if a Board has not been set up with respect to the items marked as 'Obsolete' then one should be appointed to recommend on the disposal of the obsolete items (Section 14 of the above mentioned circular).

### Management Comments

Management accepted the recommendations and will be taking the necessary actions to address the weaknesses.



Ministry for Social Policy



## Ministry for Social Policy - Expenditure

### Background

The Ministry aims to promote, facilitate and contribute to the ongoing development of an inclusive society. This is carried out through the provision of quality services and by assisting individuals, families and associations to participate in fighting social exclusion, ensuring equal opportunities for all, with specific emphasis on the most vulnerable members of society.

### Key Issues

#### Transport

The return in terms of MF Circular 8/90 was not made available for the year 2003. As a result, NAO was unaware of the number of hired and government owned cars available to the department. Furthermore, a number of traffic contraventions were paid out of public funds.

The following violations to section 8.2 of the Public Service Management Code have been encountered:

- Log books for ex-impresed cars contained missing information. Most of the drivers were refunded for unofficial journeys. The exact mileage covered during each journey performed was not available for any of the log books. Furthermore, one log book had various mathematical errors and another one was not legible.
- There was no control over the issue of fuel in the case of hired and government owned cars. Each driver had his own fuel requisition book and freely availed himself to an unlimited amount of fuel.
- No log book for government owned cars was made available. Only one log book

was made available for hired cars. However, this contained missing fields, such as the purpose of the journey and mileage covered for every trip.

#### Cost Overrun

Although the tender for the Supply, Installation and Commissioning of PBX/ Communications Servers was accepted for Lm69,040.48, the actual expenditure was Lm102,296 during 2003. No explanation for the additional forty eight per cent was received from the Ministry.

#### Control Issues

Opportunities for improvement were identified in the following areas:

- Goods/Services Purchase Orders (GSPOs) were drawn up after the respective purchases were effected.
- Expenditure items were not posted to the proper account.
- Store items purchased could not be traced to stores records.
- Payments were not covered by fiscal receipts and the Department failed to report such instances to the VAT Department.
- The Inland Revenue Department was not notified of payments made to members of one of the Commissions. These payments were paid gross without any FSS deductions.
- Department of Finance authority in terms of Section 52(1) of the General Financial Regulations, indicating public

servants who are entrusted to sign purchase orders and payment vouchers, was not made available.

## Compliance Issues

### Inventory

Inventory items procured for the Information Management Unit could not be traced to the inventory ledger. In addition, the cost of each asset is not available for many entries on the inventory database.

### Financial Limits

Instances were encountered where quotations were not obtained or a Departmental call for tender was not made. In another instance, two quotations were obtained. The cheapest bidder was however not chosen.

Occasionally, the expenditure was divided into a number of invoices and payment vouchers. It is not excluded that this was resorted to in order to by-pass the requirements of Section 11 of the Public Service (Procurement) Regulations 1996.

## Recommendations

### Transport

The transport regulations are to be strictly adhered to in order to minimise the risk of abuse.

### Cost Overrun

Explanation for this additional expenditure is to be sought and explained to NAO.

### Control issues

- Goods and services should invariably be covered by a GSPO upon placing of an order.
- All expenditure items must be appropriately posted to the correct account.
- All store items procured are to be taken on charge by stores personnel.
- All suppliers who fail to produce a fiscal receipt following payment for goods or services are to be reported to the VAT Department in a timely manner.
- The Department is to contact the Commissioner of Inland Revenue to ensure that the correct procedure is used whereby payments made to individuals are brought to the awareness of the Inland Revenue Department.
- The Ministry is to obtain the necessary authority as a matter of priority. Furthermore, these authorisations are to be periodically reviewed in order to keep the list updated at all times.

### Inventory

The provisions of MF Circular 14/99 are to be strictly adhered to.

### Financial Limits

All expenditure in excess of Lm500 is to be affected after a call for quotations or tender, depending upon the amount involved.

## Management Comments

Management's reply was satisfactory with the exception of comments relating to Cost Overrun.

## Social Security Department - Arrears of Revenue

### Background

The return of arrears includes Lm2,764,000 (as at December 2003) relating to overpayments that arise due to errors committed and inaccurate declarations by beneficiaries. Such overpayments are recouped over a period of time, with the majority being withheld at source from any other benefits that the beneficiaries may be entitled to.

The total arrears due to the Social Security also include National Insurance Contributions due by employers on behalf of their employees for the period preceding 1998. These stand at Lm5,155,000 as at March 2004. However, the Department is only responsible for the enforcement of such dues. The responsibility for collection rests with the Inland Revenue Department with effect from January 1998.

### Key Issues

#### Internal Controls in Assessment of Benefits.

In sixty one per cent of the sample tested the overpayment occurred due to failure in the checking mechanism and non utilisation of readily available information as a process of confirming data on beneficiaries. Furthermore, in ninety per cent of the above mentioned instances, the overpayment was detected at a late stage.

#### Collectibility of Arrears

*Social Security Benefits:* No deductions from current benefits are being effected in seventeen per cent of the sample selected.

In another forty per cent overpayment is reimbursed very belatedly, with the possibility that claimants may not settle the full amounts due to unforeseen circumstances.

*National Insurance Contributions:* The balances due from employers are calculated on the basis of the latest return submitted before 1998.

The amount due is based on the number of employees, their salary and the number of months in default. The amount is increased further to allow for any potential increase in the number of employees and their wages. This results in a possible overstatement of arrears due, which may remain uncollected.

#### Collection of National Insurance Contributions

No information is exchanged between the Inland Revenue Department and the Social Security Department on monies received from defaulting employers at the Inland Revenue Department. An employer may be paying current contributions together with pre 1998 contributions at the Inland Revenue, without the Social Security being informed of such payments.

#### Control Issues

Opportunities for improvement were identified in the following areas:

- Incorrect details on the return of arrears for overpayments of social security benefits, including write offs of revised balances.

- Lack of categorisation of individual social security benefits in the return of arrears.

### Compliance Issues

#### Incomplete Details on Return of Arrears for National Insurance Contributions

The return lacks details such as Opening Balances, Amounts Collected and Amounts Written Off during 2003. Furthermore, the return included balances as at March 2004 and not as at December 2003.

### Recommendations

#### Internal Controls in Assessment of Benefits

The internal control mechanism needs to be enhanced to eliminate errors and detect default by beneficiaries through proper counterchecking. Assessors are to make effective use of readily available information. Alternatively such information is to be integrated in SABS (*Sistema għall-Beneficċji Soċjali*).

#### Collectibility of Arrears

*Social Security Benefits:* Repayment time frames are to be agreed with beneficiaries to shorten long term arrears.

*National Insurance Contributions:* A more reliable amount may be calculated from information that is available at the Inland Revenue Department for tax purposes.

#### Collection of National Insurance Contributions

Both Departments need to discuss arrangements on better means of liaison between them and to determine whether any part payments of pre 1998 contributions were effected at the Inland Revenue.

#### Control Issues

- SABS needs to be enhanced to provide for automatic compilation of the return. Furthermore, individual balances in the return are to be scrutinised to ensure that the amount due is correct;
- The return should be subdivided to show separate amounts for each benefit.

#### Incomplete Details on Return of Arrears for National Insurance Contributions

A complete return is to be compiled as stipulated in the General Financial Regulations.

### Management Comments

Management concurred with all our findings and is already taking corrective measures to rectify the shortcomings mentioned in our report.

## Care of the Elderly and Community Services

### Department - Revenue and Expenditure

#### Background

The Department is responsible for providing services to enable elderly and disabled persons to help them remain independent whilst living in familiar surroundings within the community. It is also entrusted with the setting up and running of day centres and providing rehabilitation services. It provides institutional residence to elderly persons.

#### Control Issues

Opportunities for improvement were identified in the following areas:

- Two (2) receipts are issued against revenue collection. A manual one when payment is effected and a DAS printed one at a later date.
- Income was allocated to a recurrent expenditure account instead to revenue.
- Goods/Services Purchase Orders (GSPOs) were drawn up after the respective purchases were effected.
- Expenditure items were not posted to the proper account or cost centre.
- Store items purchased could not be traced to their respective bin card.
- A number of suppliers were overpaid.
- Payments were not covered by fiscal receipts and the Department failed to report such instances to the VAT Department.
- The Inland Revenue Department was not notified of rental payments made

to the owner of the premises housing one of the Day Centres.

- A privately owned vehicle was repaired at the Department's expense.
- A number of traffic contraventions resulting from the drivers' negligence or due to failure by the Department to make proper maintenance to vehicles, were paid out of public funds.

#### Compliance Issues

##### Bank Deposits

In forty per cent (40%) of the sample, the cash or cheques received were not deposited to bank as soon as possible after receipt of payment, in breach of MF Circular 8/2002.

##### Quotations/Tenders

Instances were encountered where quotations were not obtained or quotations were obtained instead of issuing Departmental calls for tender. In another instance, two quotations were obtained and supplies were eventually purchased from the highest bidder. No reason was made available for refusing the cheapest offer.

##### Transport

The following violations to the Public Service Management Code were encountered:

- No log books were made available for thirty two per cent (32%) of the



sample of cars chosen. Log books used were not in accordance with the Code and contained one or more missing fields.

- There is no control over the issue of fuel. This is requisitioned irrespective of the fuel consumed on official duties. Furthermore, the fuel consumed by one van, which reached a maximum of Lm 94 monthly, is deemed excessive considering that the van is used solely on St. Vincent de Paule Residence's grounds.
- The log book of one (1) car lacks continuity in the mileage between one day and the next.
- The mileage of one of the impressed cars is all recorded on the log book, implying the possibility that the owner is claiming mileage for private use.

Furthermore, the registration numbers of three hired vehicles do not indicate that they are self-drive cars. This is not in conformity with the contents of OPM Letter dated 29 December 1994, addressed to Directors Corporate Services, Directors Finance and Administration and Director Human Resources (Health).

### Recommendations

#### Control Issues

- A DAS receipt is to be issued immediately upon receipt of cash or cheques.
- Revenue collected is to be allocated to the proper revenue account.
- Goods and services should invariably be covered by a GSPO upon placing of an order.
- All expenditure items must be appropriately posted to the correct account and cost centre.
- Bin cards should be drawn up for all items held in stores and updated

to reflect physical balances at all times.

- More attention should be given to ensure that agreements entered into by the department are honoured.
- All vendors who fail to produce a fiscal receipt following payment for goods or services are to be reported to the VAT Department in a timely manner.
- The Department is to contact the Commissioner of Inland Revenue to ensure the correct procedure whereby rental payments are brought to the awareness of the Inland Revenue Department.
- The file containing evidence about the traffic accident is still required by NAO for examination.
- Drivers are to be held personally liable for any contraventions made due to their negligence. The Department is to carry out periodic inspections to vehicles to check whether any maintenance needs to be made. Furthermore, any repairs are to be initiated immediately in order to prevent unnecessary expenditure on contraventions.

#### Bank Deposits

Revenue collected is to be deposited as much as possible on the same day of receipt.

#### Quotations/Tenders

The provisions of the Public Service (Procurement) Regulations 1996 are to be strictly adhered to.

#### Transport

The transport procedures in Section 8.2 of the Public Service Management Code are to be strictly followed. Furthermore, it is to be ensured that, when it is necessary to hire self-drive cars, the registration of these vehicles is to indicate that they are so registered.

### Management Comments

The reply submitted in respect of receipts does not address NAO's concern. Furthermore, Management does not consider it practical to deposit revenue as much as possible on the same day it is received.

No satisfactory response was received in the areas of misallocation of recurrent expenditure, overpayments to suppliers, VAT fiscal receipts, traffic contraventions and quotations/tenders.

## Below-the-Line-Account - Money Belonging to Patients – St. Vincent De Paule Residence

### Background

St. Vincent De Paule Residence operates a system whereby residents may deposit their personal money in an account and withdraw therefrom at any time.

The administrator of the Below the Line Account also receives pensions and social security benefits of residents who opt for this facility. Such monies are in turn credited to the individual accounts within the Below the Line Account.

### Key Issues

#### Withdrawals

In fifty three per cent (53%) of the sample, withdrawals were effected by individuals other than the resident or his authorised agent and without the resident's formal or written consent.

In circumstances where residents needed some medicinal or other product, money was withdrawn from the residents' accounts on the strength of a letter from the ward's nursing officer together with the receipt or an invoice as back-up. There were instances where only the back-up receipt or invoice was presented upon withdrawal of such funds.

#### Reconciliation

No reconciliation of the aggregate of individual accounts against the Bank and DAS balance was ever effected. As a result it cannot be ascertained whether the total cash in hand and at bank is sufficient to cover the total of the residents' account balances. This is a necessary internal control procedure without which, errors may never

be detected. This is partly due to the fact that the administration of the Below the Line Account is maintained manually.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of planning of the daily cash requirements resulting in daily surpluses of cash in hand.
- Balances of deceased or discharged residents still retained in the Below the Line Account.
- Lack of recording of pensions or benefits received under the administrators' names and cashed on behalf of residents who withdraw their income shortly following receipt.
- Lack of segregation of duties in the recording, custody and deposits.
- Lack of proper pre-numbering of withdrawal forms.

### Recommendations

#### Withdrawals

Formal or written authority is to be vested in a responsible employee in each ward who will be authorised to withdraw money for a number of residents. No money is to be passed on to anyone without the authority of the resident.

#### Reconciliation

The department should seek to reconcile this account on a regular basis in order to

detect and correct any errors. This would be more easily done if the system adopted to administer the account is computerised. This would also facilitate the generation of reports for cash projection requirements.

### Control Issues

- Social Security cheques and any cash entrusted to the administrator are to be credited directly in the account at the Central Bank. The administrator will be required to project daily cash requirements and withdraw sufficient funds for the residents' requirements.
- The Department is to obtain legal advice on the manner in which to effect settlement of these idle balances.
- Each and every transaction is to be duly recorded and documented.

- Different functions should be assigned to different officers who are to be given clearly defined duties.
- Withdrawal forms are to be pre-numbered at the printing stage.

### Management Comments

Management concurred with our findings and is taking necessary action, with the exception of Lack of Recording of Pensions received and Lack of Segregation of Duties on the premise that current controls are sufficient.

## St. Vincent De Paule Residence - Provisions

### Stores

#### Background

St. Vincent De Paule Residence is the main state owned institution for the care of the elderly. The function of the Provisions Stores within this institution is to provide food supplies to the kitchens of St. Vincent de Paule, Mtarfa and Floriana Homes for the Elderly. Gzira, Mosta and Msida Homes for the elderly are also supplied with a smaller quantity of provisions for consumption in wards.

#### Key Issues

Weak internal control procedures at the Provisions Stores were evidenced by the number of discrepancies detected.

Three years ago the Department had to employ a Consultant on a contract basis to oversee the functions of the stores, kitchen, dining room and Cost Control Section until the post of Catering Manager was filled. To date, this post is still vacant.

#### Control Issues

Opportunities for improvement were identified in the following areas:

- All documentation from the selection of meals by patients up to the final issue and recording of store items is done manually. This also involves the laborious task of calculating the daily quantity of the ingredients required by the kitchen. As a result, no value of stock in hand is available and there is no means of identifying expired items in a timely manner.
- Re-order levels, re-order quantities, consumption rates, maximum and minimum stock levels do not exist.

Orders are based only on the personal experience of stores personnel.

- Daily, weekly and monthly rations to wards were not being vouched for by the person receiving the items.
- Requisitions do not include the date when provisions are issued from stores and are not pre-numbered.
- Stock movement records on ledgers are not initialled. Furthermore, ledgers are barely legible.
- Bin cards are not kept with the respective items at the stores. Furthermore, the bin cards of some items were not made available.
- Entries on bin cards and ledgers are recorded immediately upon receipt of the requisition, which is two or three days prior to the actual issue of stock. The date recorded on the bin cards and ledgers is the date when the food is cooked rather than the date when they are actually issued from the stores. Entries on bin cards are seldom recorded chronologically. These shortcomings resulted in discrepancies between the balances on records and the actual balances held in stores.
- There are no controls to ensure that only entitled staff avail themselves of free meals.
- Management is unable to give a cost of meals provided to residents and staff.
- Health inspections are carried out frequently. However the inspector's remarks are being persistently disregarded.

- Unutilised items are kept surplus to the day's requirements at the kitchen ignoring management's directives given in 2001.
- An excessive quantity of specific items is being held in wards as a fixed ration is supplied regardless of the consumption at the respective wards.

### Compliance Issue

#### Frequency of Stock Takes

The time limit set out in the General Financial Regulations 1966 for the submission of stocktaking reports is not being respected. The stocktaking report was not submitted to NAO by the end of January 2004. As stocktaking is carried out only once a year, timely identification of discrepancies is not possible.

### Recommendations

#### Control Issues

- The recording process needs to be computerised. Besides each transaction having an audit trail, the control of stock levels and the identification of expired items in a timely manner would be facilitated. The installation of the STORIT software being utilised across Government, which will also facilitate the valuation of stock, could help to a large extent the control problems.
- The process of calculating the quantities of items to be issued to the kitchen could be simplified if electronic spreadsheets are used.
- All rations supplied to wards are without fail to be vouched for at the receiving end.
- Requisitions should be pre-numbered and are to include the date when the items are actually issued. The date of issue is the one quoted when updating

stock records, thereby ensuring that records reflect the true physical stock balance.

- Bin cards are to be held with the respective items held in stock. Bin cards and ledger sheets are to be invariably drawn up for all food items. Records are to be updated and referenced against requisition immediately upon issue of stock.
- A system is to be introduced whereby only entitled staff avail themselves of free meals.
- Management should start compiling information such as the cost of provisions and number of meals served per year. This would help in taking informed decisions in time for the future.
- The Health Inspector's recommendations are to be acted upon without delay.
- Periodic inspections are to be carried out by management to ensure that the practice of retaining excess stock in the kitchen is eliminated. Furthermore, any excess stock is to be returned to stores and documented.
- A requisition is to be raised at ward level under the direct supervision of the Cost Control Section.

#### Frequency of Stock Takes

The General Financial Regulations stipulate that stock taking exercises are to be carried out more frequently throughout the year and any discrepancies reported to management. Copies of each and every report are to be submitted to NAO.

### Management Comments

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

## Social Housing Department - Below-the-Line Account – Rent of Private Premises

### Background

The Department's primary role is the administration of a number of requisitioned premises to provide appropriate accommodation to citizens who lack suitable housing. The Department acts as an intermediary between the tenant and the owner of these privately owned premises. The purpose of this Account is to hold the rent paid by the tenants and periodically forward it to the respective owners.

### Key Issue

No reconciliation of the Below-the-Line Account was ever carried out, resulting in the possibility that the balance is insufficient to settle all the amounts due to owners.

### Control Issues

Opportunities for improvement were identified in the following areas:

- There were instances where owners never received any rent even though the tenants had been paying rent regularly to the Department. The sample included a case where the rent collected was not reimbursed as the Department was unaware of the owner.
- Rented premises were vacated by the tenant and the keys were surrendered to the Department. However the account was not closed.

### Compliance Issues

#### Arrears of Revenue

Thirty per cent (30%) of the sample indicated that rent was in arrears. These did not feature in the return of Arrears of Revenue for 2003.

### Deposits

Sixty two per cent (62%) of the revenue received was deposited to bank much later than when collected, against the provisions of MF Circular 8/2002.

### Recommendations

#### Key Issue

Periodic reconciliations are to be carried out to ascertain that the account does not contain any errors.

#### Control Issues

- Payments to owners are to be made within a reasonable time after rent is collected.
- Accounts are to be settled as soon as the premises are vacated.

#### Arrears of Revenue

At the end of the year all active accounts are to be reviewed in order to draw up a realistic and correct list of arrears of revenue.

#### Bank Deposits

Revenue collected is to be deposited as much as possible on the same day of receipt.

### Conclusion

The Department was enjoined to computerise the whole process for a more efficient management of this account.

### Management Comments

Apart from comments on the computerising of the whole process, management's reply is not considered satisfactory

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## Social Housing Department - Expenditure

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### Control Issues

Opportunities for improvement were identified in the following areas:

- Two below the line accounts are maintained, both with a balance which has been left unchanged since 1991.
- The Inland Revenue Department is not notified of payments made by the Department to owners of buildings who do not recognise their tenants.
- Unnecessary costs are being incurred by the Department when claims for missing or damaged items arise, due to the fact that no inventory is drawn up prior to allocation of a vacant tenement.
- Payments were not posted to the proper account.
- No Goods/Service Purchase Order was raised prior to purchase of goods/services.

### Recommendations

#### Control Issues

- Action should be taken to wind up accounts and transfer the balance to revenue.

- The Department should consult the Inland Revenue Department on the proper manner in which the rent received by owners of property should be reported.
- The Department is to ensure that no tenements are allocated prior to drawing up of an inventory of the contents. Such inventory should be signed by the representative of the Department, the occupier and the owner. This will provide the Department with evidence to meet any claims made by the owners.
- All expenditure items must be appropriately posted in the correct account.
- Good management practice demands that covering authority should be sought prior to the purchase of goods/services. Goods and services should be ordered by means of a GSPO upon placing an order.

### Management Comments

Management concurred with all the findings and has initiated necessary action to rectify shortcomings.



## Industrial and Employment Relations Department

### - Revenue

#### Background

The principal functions of the Department of Industrial and Employment Relations are the:

- protection of interests of workers who are on employment contracts, particularly with respect to conditions governing their employment;
- provision of support services to the Industrial Tribunal, Wages Council, National Employment Authority, Guarantee Fund Administration Board, and Employment Relations Board;
- provision of effective mediation and conciliation in order to reduce industrial actions and trade disputes; and
- promotion of good relationship between employers' and workers' representatives.

The Department is also responsible for the collection of revenues in the form of sale of a number of publications and the collection of various licences.

#### Key Issue

##### Completeness of Licence Holders' Records

It could not be ascertained that all licences relating to engine drivers and cinema projectionists were being duly renewed. The Department does not ascertain whether the databases of licence holders are complete.

Due to this shortcoming the Department is not in a position to enforce collection of all revenue due from these sources, limiting itself to accepting payment. It is unable to determine for budget purposes the amount of income due. The department is neither in a position to draw up an effective list of arrears of revenue.

#### Control Issues

Opportunities for improvement were identified in the following areas:

- Late issue of receipt for licences paid by cheque in respect of Employment Agencies, the issue of manual receipts for sale of copies of legislation, and the retention of cash at point of sale for several weeks until a global DAS receipt is issued.
- No pre-numbering of licences issued to Cinema Projectionists.

#### Compliance Issues

##### Bank Deposits

Eighty seven per cent of monies collected by the Department were not deposited on the same day of collection.

##### Authority for Revenue Collection

The provision of the Financial Regulations whereby the Department is to submit a list of employees entrusted with the

receipt and custody of public monies to the Ministry of Finance is not being observed.

### Recommendations

#### Completeness of Licence Holders' Records

The Department is to ensure that a complete database of Engine Drivers and Cinema Projectionists is compiled and updated regularly.

#### Control Issues

- DAS is to be installed at each cash point in order that individual receipts are issued electronically immediately upon sale.
- Licences are to be pre-numbered at the printing stage.

#### Bank Deposits

MF Circular 8/2002 is to be adhered to and bank deposits are to be effected, as far as possible, on the same day when cash/cheques are received.

#### Authority for Revenue Collection

Immediate action is to be taken to obtain the necessary authority for officers to be legally entrusted with the collection of revenue.

### Management Comments

Management concurred with all the findings except the one on completeness of licence holders' records. The Department is stating that the reason for not agreeing to build up a database of all licence holders is because recent legislation has passed on this responsibility to the Occupational Health and Safety Authority.



Ministry of Education

## Ministry of Education – Expenditure

### Background

The mission of the Ministry of Education is to provide Maltese citizens with real and fair choices in the important sectors of education, culture and sports. For this purpose it ensures that public education will provide the best service to our citizens; the appreciation of cultural and artistic expressions is enhanced not only among Maltese and Gozitans living in our country but also those living in other Communities; special attention is given to the development of sports, and Maltese youths are given the necessary space, opportunities and means to attain a pre-eminent role in society.

### Control Issues

Opportunities for improvement were identified in the following areas:

- No standard petty cash float is being maintained and no limit is officially authorised as to the amount that can be disbursed from the petty cash.
- No documented authority was evident for the purchase of mobile phone cards for an officer within the Ministry who is not officially granted the use of a mobile phone at Government expense.
- Misallocation of expenditure.

### Compliance Issues

#### Undeclared Income by Taxpayers

Various services rendered by individuals are being treated as Multipayments and no tax is being deducted as per FSS regulations. These amounts either have to be included with salaries and declared under FSS regulations, otherwise the person should have a VAT registration number if carrying on an economic activity, and thus should be treated as a vendor.

### VAT Fiscal Receipts

No fiscal receipts were evidenced in nine per cent (9%) of the payment vouchers relating to taxable purchases.

#### GSPO's raised subsequent to Date of Invoice

In twenty nine per cent of the payment vouchers vetted, the commitment to purchase was issued after the invoice was received.

#### Lack of Details shown on Payment Vouchers

Payment vouchers relating to remuneration for attendance to board meetings and inspections carried out on behalf of the Students' Maintenance Grants did not give any indication as to when the meetings were held and when the inspections were carried out.

### Recommendations

#### Fixed Petty Cash Float

A fixed petty cash float is to be determined and the petty cash book is to be kept on the Imprest System. A standard limit is to be officially authorised enabling the petty cashier to timely disburse expenses from petty cash.

#### Purchase of Mobile Phone Cards

As stipulated in MF Circular No 4/2002, requests by public officers for the use of a mobile phone at Government expense should invariably be addressed to the respective Permanent Secretary, who will use his judgment to determine whether the request is justified in the light of the nature of the officer's duties.

#### Misallocation of Expenditure

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

sub-item. This was also emphasised by the Permanent Secretary, Ministry of Finance by virtue of MF Circular 3/2000 dated 25<sup>th</sup> January 2000 that stated *"it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded"*.

### Undeclared Income by Taxpayers

Multipayments should neither be effected in cases where the individual receiving the payment is on the public service payroll nor paid to a person or body of persons that are carrying on an economic activity, thus being entitled to register under the VAT Act. In other cases, FSS rules are to be adhered to.

### VAT Fiscal Receipts

VAT receipts are to be attached to payment vouchers as is envisaged in Treasury Circular 6/2000 dated 3<sup>rd</sup> February 2000. The Department is to report to the VAT Department on a monthly basis those suppliers who failed to submit a VAT receipt following payment of supplies of goods and/or services. Every effort is to be made to enforce the principle that official VAT receipts are obtained from suppliers.

### GSPO's raised subsequent to Date of Invoice

The GSPO is to precede the purchase of any goods or service. This will ensure that proper authorisation is obtained as stipulated in the regulations.

### Lack of Details shown on Payment Vouchers

As required by the General Financial Regulations (section 52), payment vouchers should contain full particulars of each service such as dates and rates, so as to enable them to be checked without reference to any other document and should be accompanied by the relative sub-voucher, and any other justifying documents.

### Management Comments

In their reply management stated that the Accounts Section is doing its utmost to ensure compliance with the regulations in raising a purchase order prior to the issue of an invoice when possible. However, circumstances sometimes arise when strict adherence to regulations is detrimental to an expenditure that merits priority. In such a case, before eventual payment is made, it is ensured that expenses are fully accounted for.

Although Management stated that purchase of mobile phone cards was undertaken with Ministry's consent, they failed to provide documented authority.

Adherence to FSS regulations will be strictly observed while expenses will now be charged to their proper allocation, as recommended. While a standard limit has been officially authorised for petty cash, the issue on VAT fiscal receipts has also been addressed by Management.

## Ministry of Education – Students’ Maintenance Grants

### Background

The Students’ Maintenance Grants (SMG) is a scheme applicable to Maltese students electing to continue their studies after reaching compulsory school age. Eligible students who are following full-time courses in the Post Secondary educational institutions falling under this scheme, will receive a grant of Lm100 at the beginning of each academic year which is to be utilised specifically for books and other educational material. They will also receive Lm40 monthly during the academic year.

Eligible University students receive Lm200 at the beginning of each academic year throughout the course they are following and Lm60 monthly from October till June. Besides this grant, first year University students also receive a once only Lm400 grant aimed at helping to acquire educational tools and material that will help them in their studies.

Both schemes are being administered by the Students’ Maintenance Grants Board.

### Control Issues

Opportunities for improvement were identified in a number of areas:

- A minimum amount of sales was not stipulated in the agreement in terms of which the Electronic Point of Sales (EPOS) machines were allocated to retailers free of charge. Contract does not even cater for the eventuality of no turnover. Ten per cent (10%) of these retailers had no turnover, while 25 per cent (25%) had very low turnover .
- No audit trail of items purchased using SMG swipe card and insufficient proof

that funds are being used for the purchase of books and materials related to the subjects taken by the students.

- Interest on students’ bank loans could not be verified or checked.
- Lack of verification before authorising invoices for payment, increasing the risk that eventual errors remain undetected.
- Inadequate control over payment for the re-issue of students swipe cards.
- The Students’ Maintenance Grants Board is relying solely on a third party for the management of the students’ swipe card system and most of the information requested was referred to and obtained from the contractor.

### Compliance Issues

#### Procurement and Variations to Letter of Acceptance

The tender for the administration of the Electronic Transfer of Funds System for the Students’ Maintenance Grants was awarded during year 2001. Variations to the letter of acceptance were not authorised by the Minister as required by the Procurement Regulations. Variations to the Letter of Acceptance up till August 2003 amounted to Lm46,750 (inclusive of VAT).

#### Proper Allocation of Expenditure

Seventy five per cent (75%) of the payment vouchers vetted pertaining to the SMG account and amounting to Lm85,662, were not posted to the proper account.

These were charged as "Stipends paid to Individuals" instead of "Contractual Services".

The sample also included payments for work performed by students during the summer phase which was not related to SMG Section. This was also charged to the Students' Maintenance Grants account and no adjustment was made to reverse this amount and allocate it to the proper account.

### Recommendations

#### Free EPOS Machines

The Board is to take effective action and request the immediate return of EPOS machines from those retailers with no sales during a full academic year. A minimum turnover threshold is to be established for retailers in order for these to be able to keep the EPOS machines. Regular monitoring of sales figures is advisable.

#### No Audit Trail of Items purchased using SMG Swipe Card

The onus for verifying that the funds are spent correctly rests with the Ministry of Education. Retailers are to keep their sales records in such manner as to enable the identification of items purchased by students using the Students' Maintenance Grant swipe cards. This would enable the Board to retrieve the required information and apply controls as necessary.

#### Interest on Students' Loans

Exercising the necessary control over accuracy and thorough verification by the Ministry before payment to the Banks is recommended.

#### Inadequate Checking before Payment

All vouchers should contain full particulars so that these could be checked without reference to any other document, as stipulated by the General Financial Regulations. On signing a voucher, the officer concerned is certifying the accuracy of every detail thereon. He is responsible that computations and castings have been verified and are arithmetically correct.

#### Re-issue of Smart Cards

Cards re-issued should be properly recorded in a register kept by the Board, clearly indicating when and to whom these were issued, and reason for re-issue. It is also advised that the student's signature is obtained upon collection of the card.

#### Insufficient Control by the Board

The Board should exercise full control on the administration of the system without having to rely on the contractor to acquire basic information.

#### Procurement and Variations to Letter of Acceptance

The procurement of such services by Government is to be made by contract after the award of tender is made. The terms and conditions agreed upon should be clearly indicated. Prior to effecting variations to the Letter of Acceptance, approval from the Minister should be sought.

#### Proper allocation of Expenditure

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

### Management Comments

#### Free EPOS Machines

Following NAO's review the Board agreed to call in its machines from retail outlets which have so far registered a low or no turnover.

#### No Audit Trail of Items purchased using SMG Swipe Card

The Board agreed with the recommendation but encountered difficulties with retail shops to implement the system proposed.

Meanwhile, the number of inspectors was increased from one to two in order to check shops at random, thereby curbing abuse of the system as much as possible.

The Board also added that the swipe card had been introduced specifically to minimise the purchase of irrelevant material through the previous cash payment system. The system had also “stretched” maintenance grants payments thus spreading Government cash outflow over a longer period.

### Interest on Students' Loans

The Ministry stated that due to confidentiality, details furnished by the banks were limited. Specialised software similar to that used by the banks would be required to render controls more meaningful.

### Inadequate Checking before Payment

The Board advised the Contractor to furnish full details on invoices forwarded for payment. It was also stated that the Contractor, when invoicing for “*back-office management fee*”, inadvertently included this charge under “*handling fee*”. This fee came to light after NAO’s report and is still

subject to verification by NAO as it was never mentioned during the audit.

### Re-issue of Smart Cards

According to the Board, the records of smart cards re-issued were available but not compiled, however the recommendation was implemented.

### Procurement and Variations to Letter of Acceptance

The Board sought written Ministerial covering approval.

### Misallocation of Expenditure

Observations were addressed, in fact during 2003 all payments have been charged to the proper account.

### Insufficient Control by the Board

The Board emphasised that all members of the Board have a full time job and the Board has been asking the competent authority within the Ministry for personnel since inception of the scheme. In view of these difficulties, the tender itself caters for the administration of the scheme by the contractor by way of a handling fee.



## Ministry and Education Division – Transport

### Background

At least 85 vehicles were committed to the Ministry of Education for 2003 including the Division. This total was composed of 45 government owned, 33 hired and 7 ex-impresed vehicles. In addition 138 employees within the Ministry of Education and Education Division regularly claim reimbursement for the use of their privately owned vehicles for official duties.

### Control Issues

Opportunities for improvement were identified in a number of areas:

- Incomplete details of mileage performed recorded in log book.
- Government owned vehicles are not being returned to base at the end of the day but used by officers whose conditions in the contract of services do not include such benefit.
- An individual employed within the Ministry was being paid car allowance whilst also provided with a fully expensed vehicle. Another officer has changed a car allowance granted under his performance contract to use a fully expensed office car.
- Unreliable information on half yearly return submitted to the NAO by the Division.
- Lack of certification of log books of privately owned vehicles used for official duties.
- Mileage claimed for the use of private cars on government duties exceeding allowance and occasionally not tallying with mileage recorded in log books.

### Compliance Issues

#### Inappropriate Level of Authority and Periodic Reviews of Concession

A sample of 6 employees using their own transport for official duties revealed that the date of request by employees and the relative authorisation go back a number of years without the request/authorisation being periodically reconfirmed. This same issue was raised by the NAO during an audit for financial year 1996.

Moreover, permission to use vehicles for official duties is not being given by the Head of Department as required by the Public Service Management Code.

### Recommendations

#### Log Book Mileage Details

Start- and end-of-journey tachometer readings are to be included in every trip recorded without exception.

#### Use of Official Vehicles

Use of office cars should exclusively relate to official duties. Vehicles should not be retained after office hours unless it is included with the benefits in the contract of service. An official car so retained constitutes 'unauthorised use' and cannot be justified.

If the Division contends that it is absolutely necessary for vehicles to be retained after office hours due to the nature of the work, authority should be sought from the Ministry of Finance stating the reasons for non-compliance with MF Circular 8/90.

### Car Allowance

Officers who are entitled to a car allowance in terms of their performance contract are not allowed to swap such allowance with a fully expensed vehicle without a proper written authorisation from the right level of authority. Moreover, the Ministry is to request refund from the officer provided with a fully expensed vehicle while also receiving a car allowance.

### Reliable Information

Information is to be submitted to the NAO in an accurate and responsible manner. Records are to be kept by each officer compiling the return so that both the Department and the National Audit Office may be in a position to check and evaluate the information without difficulty.

### Certification of Log books

To exercise proper control over reimbursement of fuel expenses, log books are to be inspected and countersigned monthly by a senior officer not below the grade of a principal.

### Claims for Reimbursements

The Head of Department and heads of section are to ascertain that effective control is exercised on these reimbursements. Ways and means are to be devised to determine the justification, correctness and accuracy of each request.

### Inappropriate Level of Authority and Periodic Reviews of Concession

A fresh application from officers authorised to use their own car while on

official duty is recommended to be raised every scholastic year and channeled through the respective Director for onward authorisation by the Director General.

### General Recommendation

It is essential to introduce and enforce strict measures for the control of public spending in order to ensure that the most efficient use is made of public funds.

## Management Comments

Management generally agreed to NAO's recommendations and is taking the necessary action.

It was pointed out that only a few months prior to the audit, the Accounts Section embarked on a comprehensive and radical exercise to update the system kept by the Department of employees' applications requesting to use their own transport for official duties. All officers concerned were issued with fresh applications and instructed to seek fresh approval through their respective Head of Department with regards to the maximum monthly allowance.

However, management failed to provide documented authorisation for changes in car allowances and/or benefits covered by the "*Ministerial Secretariat Agreement*".

Although the use of official vehicles after office hours has been approved by the appropriate level of authority, authorisation from the Ministry of Finance for such use was not provided.

## Education Division – School Councils’ Accounts

### Background

School Councils’ Accounts are generally administered by the School Head or his/her delegate. The Education Division transfers funds received from tuck shop contractors to the schools having a School Council. However, the main income for School Councils is through various fund raising activities by the schools and contributions received for the use of school premises.

School Councils submit to the Minister as at 31 December a report on the administration and financial management of the school.

A sample of five School Council’s Funds Accounts pertaining to St. Paul’s Bay Primary, Liceo Vassalli Tal-Handaq, M’Assumpta Girls’ Secondary, Sir Luigi Girls’ Secondary and Giovanni Curmi Higher Secondary was selected for review.

### Key Issue

Receipts are not sequentially numbered. This lack of audit trail increases risks of revenue losses.

### Control Issues

Opportunities for improvement were identified in a number of areas:

- Income from photocopies not accounted for but used as petty cash for expenditure, which in turn is not covered by receipts.
- No bank reconciliation of cash book balance and bank statements take place as required by the General Financial Regulations.

This may give rise to loss of control over cash.

- Procedures established for the use of school premises outside school hours by organisations are inadequate.
- Inconsistency in the donations given by suppliers of school uniforms in compensation for being allowed to sell from school premises.
- Basis of donation received by Higher Secondary School from a particular bookshop is not established. Accuracy of amount received could thus not be verified.
- No written agreement for commission receivable by the school from supplier of school track suits and books sold during Book Fair.
- High balances in the bank current account.
- Funds from School Council Accounts utilised for Materials and Supplies with the consequence of difficulty in performing reconciliation of expenditure and subsequent refunds to the “Materials and Supplies” account.

### Compliance Issues

#### Unreliable Reporting

Financial reports are not being drawn up correctly by the School Councils, thus hindering accurate information being passed to the Treasury by the Education Division. While Government contribution as reported

in Treasury Financial Report 2002 at page xxvi "School Councils' Fund" amounts to Lm34,596, the actual figure, as compiled during the audit, should have read Lm44,958, resulting in an understated figure of Lm10,362. Furthermore, the figures produced in the said Financial Report cannot be certified correct due to other qualifications stated further on.

### Bank Account Position from Schools in Gozo not submitted to Treasury

Only two of the schools in Gozo submitted their financial statements reflecting all the transactions of the School Council between 1<sup>st</sup> January and 31<sup>st</sup> December 2002 in spite of the legal obligations imposed by Legal Notice 135/93 (School Council Regulations 1993). The Education Division did not include these two returns with the statement submitted to the Accountant General on the assumption that reports in respect of School Council accounts in Gozo are being submitted directly from Gozo to the Treasury. Verification performed by the Education Division to ensure that all schools are sending in their financial position was inadequate. This is leading to incomplete and inaccurate data being compiled by the Treasury for the Financial Report.

### Overtime Payment

Payment to minor staff for overtime performed during examination period is being paid from the School Council account. The amount paid is not included with the salaries, bypassing FSS rules for income tax purposes.

### Recommendations

#### Proper Audit Trail

Every school activity generating whatever type of income and/or expenditure is to be supported by a statement showing the surplus of income over expenditure or vice-versa as an end result for each activity. A pre-numbered official receipt is to be issued for every amount of income collected in conformity with the General Financial Regulations. Both original and the copy of

all cancelled receipts are to be retained by the school.

#### Income from Photocopies

Money raised from photocopies should be recorded in a register alongside the signature of the person effecting the payment and subsequently transferred to the cash book against the counter signature of the responsible officers. Otherwise, the only control that could be exercised on money received from photocopies is the adoption of a pre-paid card system for the photocopies required.

#### Bank Reconciliation

The School Council should, at the close of each month, draw up a statement to reconcile the balance of the bank account as it appears on its books with the balance on the bank statement as required by the General Financial Regulations.

#### Use of School Premises

The School Council should fix a rate at which organisations using the school premises are to be charged. A formal agreement to use the school premises is to be entered into between both parties clearly indicating the frequency of use, rates and conditions. A log book listing all activities held on the school premises by third parties outside school hours is to be kept by the School Council. A receipt on pre-numbered bound forms is to be issued for every sum of money received by the school.

#### Commissions to School Councils

It is recommended that the Ministry of Education establishes a clear policy relating to the procedure to be adopted by the School Council to regularise this issue.

#### High Balances in the Current Account

Funds not currently needed are to be transferred to a savings account so as to maximise the interest receivable.

#### Funds utilised for Materials and Supplies

If a School has no other option but to use funds from the School Council Fund account, it is suggested that a lump sum is

transferred to the "Materials & Supplies" account and replaced in the School Council Fund account when money is transferred from the Education Division, thus enabling more control over the cash book.

### Unreliable Reporting

To exercise control over accuracy of figures, reconciliation by the Education Division of the amount of Government contribution distributed to schools and the aggregate figure received from School Councils is recommended.

### Bank Account Position from Schools in Gozo not submitted to Treasury

The Education Division should ensure that all heads of school send in a copy of the School Council's financial statements together with a photocopy of all their Bank Statements as on 31<sup>st</sup> December of each year. Any discrepancies between the Balances on Financial Statement and the Bank Account/s statements are to be justified by a "reconciliation statement". A NIL return, where applicable, is recommended to be submitted.

### Overtime Payment

Payment for overtime is to be included with the staff salary so that tax is automatically deducted according to FSS rules. If need be, the equivalent funds will then be transferred to the Education Division by the School Council.

## Management Comments

The Financial Services Branch of the Education Division was in the process of issuing a circular to all schools through the Department of Operations outlining the general recommendations of the audit report.

It also endeavoured to introduce a form facilitating the reconciliation of bank balances and cash book balances. This was however opposed by the teachers' representatives who instructed members to refrain from filling in this form.

With respect to high balances in Current Account, schools were abiding with original instructions given by the Ministry of Finance to limit schools funds accounts to the least number per school. Nonetheless, NAO's recommendation will be submitted to the Ministry of Finance for consideration and, if approved, schools shall proceed with implementing the recommendation accordingly.

The five schools in the sample were forwarded a copy of the report's observations on their individual school and their relative feedback was received where they all stated that they will do their utmost to follow NAO's recommendations.

All returns from Gozo schools have been submitted for financial year 2003.

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## Libraries and Archives - Follow-up on Audit

### Report for Financial Year 2001

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#### Scope of Audit

This audit was intended to follow-up the findings and recommendations featuring in the Audit Report for the financial year 2001 and to verify whether they were addressed.

#### Control Issues

Opportunities for improvement were identified in the following areas:

- Incorrect treatment of payments to staff members rendering a service to the department and remuneration paid to Branch Librarians.
- Insufficient control over the utilisation of vehicles and fuel.

#### Compliance Issue

##### Inventory Ledger at the Central Public Library

Although in October 2002, the Director Libraries and Archives stated that the Inventory had been compiled according to the MF Circular 14/99 and that the Room Lists had been adjusted accordingly, at the time of the follow-up audit the Inventory Ledger was still not in conformity with the pertinent circular.

#### Recommendations

##### Payments for Services Rendered

Payments to non-VAT registered persons in respect of services rendered have to be

reported as per FSS regulations. Section 90 (A) of the Income Tax Act regulates how tax from part-time work is to be deducted. Otherwise, payments for goods and services to VAT registered persons are to be appropriately covered by a fiscal receipt.

##### Log Books

In order to exercise proper control over fuel and use of government-owned vehicles, log books are to be inspected and countersigned monthly by a senior officer not below the grade of principal, as stipulated by the Public Service Management Code. Moreover, log books are to be regularly maintained with full and accurate details.

##### Inventory Ledger at the Central Public Library

The exercise outlined in MF Circular 14/99, which should have been completed within one year, should be immediately undertaken and the task finalised with the least possible delay.

#### Management Comments

Management accepted the recommendations and has taken the necessary actions to address the weaknesses.

## Revenue in Arrears due from Kooperattiva Indafa Pubblika

### Background

Users of the dumping facilities at Maghtab and the Sant Antnin recycling plant formerly administered by the Waste Management Strategy Implementation Department (WMSID), designated in 2003 as the Cleansing Services Department (CSD), were subject to fees under the Dumping of Wastes and Rubble (Fees) Regulations [DWR(F)R].

Along with the members of the management committee held jointly and severally liable at law, the inoperative *Kooperattiva Indafa Pubblika* (KIP or Cooperative) owed government over Lm950,000 in VAT and CET, including interest, additional and estimated tax, as per balances held by the VAT Department. Furthermore, unpaid Final Settlement Tax (FSS) and Social Security Contributions (SSC) withheld from employees' wages up to 2001 are understood to total Lm188,644. Besides unsettled dumping fees, and best of judgement claims by the tax authorities for the non-filing of the required statutory returns by the KIP up to the time the Cooperative ceased its operations, amounts owing to other departments are not being excluded.

Government is also owed the value of the assets the KIP took on charge upon formation, meant to be restituted to the State upon dissolution.

By an alleged Agreement with KIP overriding the DWR(F)R, the Cooperative, as distinct from member-owners of the refuse dumping trucks, had been burdened with the responsibility of unsettled dumping fees incurred prior to 2002. The Director General Works (DG) has managed to secure an executive title in the Courts on the amount

of Lm79,740 mostly substantiated by weighbridge tickets.

It is understood that section 6 and 9 of the DWR(F)R later re-entered fully in force. Subsequently the recovery of debts from individual members, totalling Lm19,706 at time of audit, had also been supported either by settlement agreements with the debtors or otherwise by an executive title in favour of the DG.

### Key Issue

The onus for the dissolution of the KIP, which could lead to the collection of unsettled dumping fees and other debts, lies with the Cooperatives Societies Board. In the circumstances, the National Audit Office (NAO) made recommendations to the Cooperatives Board to initiate the procedure to wind up the KIP. Following NAO's initial report in October 2004 the Board resolved to issue a Dissolution Order in respect of KIP as required by the Cooperatives Societies Act.

### Control Issues

Opportunities for improvement were also identified in the following areas:

- Assets appearing on the last audited balance sheet, such as premises, refuse-dumping trucks, skips and other waste collecting receptacles, were possessed without authority by certain KIP members. These are also barring access of information to the authorities.

Such factors could have a negative bearing on the eventual dissolution of KIP.

- The susceptibility of certain Local Councils to being misled to pay current

waste collecting contractors sums owing to KIP.

- The NAO was not provided with requested assurances on pending legal action on the part of the Police and/or the Attorney General, on behalf of or against individual members of KIP. Nor was the NAO provided information on any legal process in progress that could hinder the start to, or may later come to conflict with, the dissolution procedure of KIP.
- Unless the DG continues timely legal action with a view to secure an executive title also on the amounts invoiced to KIP in 2003, any future attempt to retrieve the money/fees due could be prejudiced.
- Since CSD debtors of fees incurred for waste dumping at Maghtab and Sant Antnin in the past have now established new business relations with Wasteserv Malta Limited (Wasteserv), the settlement agreements that the CSD reached with its old customers had been rendered less effective.

### Recommendations

#### Total Amount owed to Government

It is the legal obligation of the Cooperatives Board to initiate liquidation proceedings against KIP, in the interest of government departments who are owed substantially large amounts by the Cooperative.

#### Liquidation Proceedings

- The DG and/or Home Affairs and/or Finance and/or the Cooperatives Board Secretary should circulate instructions, before liquidation proceedings are initiated, to Local Councils not to pay amounts owed to the Cooperative to current waste collectors on contract.
- Coordination is solicited by the Cooperatives Board and the liquidator

with the VAT, Inland Revenue, Social Security and any concerned department when declaration of the full interest of government in KIP is made in preparation for the dissolution proceedings. Such declaration is to include best of judgement assessments by the respective departments.

#### Amount Owing in respect of 2003

Legal action on the part of the DG is recommended similar to that taken for amounts invoiced in the immediate previous years.

#### Possibility of Conflicting Action

The Cooperatives Board is to seek at first instance assurances that no legal process is in progress which could hinder the start to, or in some way come to conflict with, the dissolution procedure of KIP.

#### Amicable Settlement

With the intervention/mediation of interested stakeholders the cooperation of Wasteserv could be sought to speed up or reactivate the process of recovering amounts due to the DG for past services rendered at Maghtab and Sant' Antnin.

### Management Comments

In his reply the DG stated that all necessary legal action had been taken on the part of the Works Division and WMSID for the collection of unsettled dumping fees by the KIP and made affirmations of continued legal action even in respect of dumping fees owing for 2003.

The MRI as well as the Cooperatives Board found exception with regard to their direct action to safeguard debts by Local Councils in favour of KIP, though recognising this as one of the tasks of the liquidator. In October 2004 the Cooperatives Board declared its that it resolved a dissolution order in respect of KIP, as well as its initiative to appoint a liquidator on the recommendations of NAO.





**Ministry of Finance**

## Treasury Department: Pensions Division

### Background

The Salaries and Pensions Division within the Treasury Department is entrusted with the maintenance of Government Payroll and issue of the Treasury Pension in line with the provisions of the Pensions Ordinance.

During the year under review, Treasury performed the re-computation and payment of pension arrears and difference in gratuity in respect of employees retired from Public entities, as allowed by the change to the Pensions Ordinance Act XV of 2002.

### Control Issues

Opportunities were identified for improvement in the following areas:

- Limited monitoring of monthly pensions and no supervision of the bonus payment process by the Head of Treasury Pensions. Checking of Arrears Sheets calculations were not being evidenced by signature.
- There is no interface with the Social Security Department's Pensions Section to ensure that Treasury pensioners boarded out and subsequently granted an Invalidity Pension were not paid bonus by Treasury Pensions Division for a period overlapping that was paid by the Social Security Department.
- Lack of control over the whole bonus process in that:
  - new Treasury pensioners, who were not aware of the need to fill in a Bonus Application Form

because they were not being informed of such a necessity, were not paid any bonus;

- in certain instances, the six (6) months validity of Bonus Application Forms could not be ascertained as the Department fails to rubber-stamp such Forms on receipt. Date was missing on some forms;
- forms were kept in unlabelled boxes without being organised by way of date or number; and
- bonus calculations for broken periods were handwritten on the same Bonus Application Forms.

### Compliance Issue

#### Lack of detail on Closing Balance of Below-the-Line Account: Unpaid Drafts - Pensions

A record of the closing balance of the Account, analysed by draft date, was not kept. It could not be determined whether there were drafts which remained unclaimed for thirty (30) years and were not transferred to a Deposits Fund Account, as required by the Financial Administration and Audit Act, 1962.

The Department failed to recommend to the Minister the transfer to the Consolidated Fund revenue of any balance in excess of Lm10,000 in the Deposits Fund Account at the end of the financial year if the Minister so decides.

## Recommendations

### Supervision by Head of Section

Thorough monitoring of officers' work within the Treasury Pensions Division is to be carried out regularly and countersigned by the Head of Section.

### Lack of checking with the Social Security Department

The necessary interface should be inbuilt with the Social Security Department to reduce any inherent risk of bonus over-payments.

### Bonus Application Forms

- Bonus Application Forms should be mailed to eligible Treasury pensioners to avoid the inconvenience of late applications and payments of bonus in arrears.
- Treasury Registry Section and Pensions Division's personnel should rubber-stamp, with date of receipt, all Bonus Application Forms received.
- Bonus Application Forms are to be inserted in pensioners' individual files, for ease of reference and better record keeping.
- New Bonus Application Forms are to be sent to eligible applicants every six (6) months.
- A formal form should be created for bonus calculations for broken periods and filed in the related pensioner's file.

### Lack of detail on Closing Balance of Below-the-Line Account: Unpaid Drafts - Pensions

The Department should keep an updated record of the unclaimed balances at the end of each financial year by draft date, so as to

comply with the provisions of the Financial Administration and Audit Act, 1962.

## Management Comments

Most of the recommendations were agreed to by the Department and action will be taken accordingly. In particular, it was remarked that:

- the Division will carry out an investigation of past deposits accounted for in the Below-the-Line Account by confronting copies of instructions given to the Departmental Accounting Systems Division within the Treasury;
- a meeting between officials of the Departments of Treasury and Social Security is being sought to:
  - identify reporting, electronic and otherwise, of payments of bonus made by the Department of Social Security to beneficiaries known to Treasury;
  - to harmonise, with the assistance of MITTS the interface between the two systems;
- instead of issuing bonus application forms every six months, an advisory note will be forwarded either at the time of payment of gratuity or by means of a notice with the appropriate monthly pension payment, drawing to the notice of the beneficiary his entitlement to the payment of bonus; and
- the recent audit, on the pensions computer system, carried out by MITTS, reflected on the facility to evidence checking and their recommendation is expected to be included in their report.

## Inland Revenue Division: Income Tax Department - Expenditure

### Background

The Income Tax Department of the Inland Revenue Division is responsible for the collection and administration of Income Tax and Social Security Contributions. The report covers the operation of the Income Tax (Department).

During 2003, the Income Tax Department's computer system was enhanced to cater for additional requirements and specifications. On-line services launched in 2002 were further improved during the year through the introduction of a number of new features.

### Enforcement

During 2003, the Legal Enforcement Unit was set up within the Collection Section of the Department. This Section is responsible for enforcing the collection of revenue, through judicial action, from the three main sources of income namely: the Final Settlement System, the Self Assessment System and Arrears of Tax outstanding under the old system.

### Key Issues

#### Inventory

The Department is still not complying with MF Circular 14/99 and Ministry of Finance letter dated 17 July 2000, even after featuring in the Reports of the Auditor General for Financial Years 2001 and 2002. The following irregularities are highlighted:

- Inaccuracies, incomplete information and omissions in the monthly inventory list detailing items

purchased submitted by the Income Tax Department to NAO.

- Inconsistencies between items in the list sent to NAO and the Inventory Ledger.
- Untraceable Payment Vouchers of some inventory items listed in the Inventory Ledger.
- Locations of some inventory items could not be determined from the monthly returns, as these were not listed thereon, nor from records held at Stores, once Payment Voucher numbers are not indicated in the Stores Database.
- Asset labelling still in its preliminary phases. Only Block 2 has been completed as at date of physical inspection.
- Inaccuracies in the Asset Identification Number Classification.
- Certain Room Lists did not tally with those provided to the Audit Team. Some Lists were missing, others not signed by the Section Head, whilst others not updated with inventory items purchased or relocated. Some lists even featured incorrect inventory descriptions.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Following the cancellation of cheques, lack of proper authorisation of payments were in evidence.

- Expenses paid from the Petty Cash which should have been settled through the Payment Voucher system.
- Lack of proper record-keeping of log-books of general use vehicles.
- Lack of control over departmental vehicles utilised by the Revenue Security Corps in that the officer-in-charge of transport does not certify monthly journeys of vehicles utilised by same, to ensure that these journeys were actually performed on official business. Once vehicles are for the sole use of the RSC, responsibility lies with the AFM officer concerned.
- Lack of raising of Purchase Order prior to effecting purchases and prior to the Department being invoiced – cases amounted to five (5) Payment Vouchers (i.e. 9% ) examined.
- Non-allocation of expenses to appropriate accounts – cases amounted to nine (9) Vouchers (i.e. 9%) examined.

### Compliance Issues

#### Lack of Quotations

In four (4) instances out of fifty-four (54) payment vouchers sampled, no supplier quotations were requested, even though payments exceeded Lm500. In one of these cases, the price chosen was not the lowest option provided by the supplier, whilst no departmental file was kept as regards another supplier.

Only one (1) quotation was requested in two (2) other cases - one (1) of these cases, on the plea of urgency of the procurement in question.

#### Legal Procurators' Fees

VAT on legal procurator fees had not been charged in two (2) invoices received in respect of judicial letters issued and lawyer's fees.

#### Rates/Prices charged not included in respective Agreements/Contracts

In three (3) cases, the rates and prices charged on Invoices and Payment Vouchers were not included in the respective supplier's agreement or contract. As a result, the correctness of amounts invoiced could not be ascertained. Payments related to television and newspaper advertisements, and cash escort services rendered by the Armed Forces of Malta.

#### No Contract in force for the Period Under Review

- A store is being leased to the Department on a month to month basis as Malta Development Corporation refused the Department's request to renew the lease for a ten year period in 2000. No further correspondence on the extension of the lease exists. As a result, the Department may end up having to seek an alternative building at short notice.
- The Department continued to procure the same supplies at the same prices from a supplier whose contract had expired, without further renewal or issue of a new departmental tender.

### Recommendations

#### Inventory

- The Inventory Ledger should be updated with every purchase or relocation of inventory items.
- Appropriate Asset Identification Number Classification should be assigned to every inventory item.
- All rooms should have updated and signed Room Lists.

#### Inappropriate or Lack of Authorised Signatures

- As suggested in Audit Report 2002, prior to effecting refunds, proper authorisation is to be obtained and

evidenced by a signature on every original Petty Cash receipt.

- The Head of Department is to assign the task of signing and authorising payments made, following cancellation of cheques, to an officer having a higher grade than Assistant Principal. The amounts to be authorised by the officer should be specified.

### Petty Cash Book Irregularities

More caution should be exercised when effecting payments through the Payment Voucher system or the Petty Cash system.

### Log-Books

- Log-books are to be kept updated in terms of the Public Service Management Code.
- If a vehicle is not in service on a particular day, a record to this effect should be noted in the log-book.
- Monthly certification of all log-book records should be carried out for better control on the utilisation of general-use vehicles, including those used by the Revenue Security Corps.

### Local Purchase Order issued after Receipt of Invoice

It is important that, whenever possible, upon placing an order, goods and services are covered by a Local Purchase Order or Letter of Acceptance. This will ensure that purchases made are appropriately authorised.

### Misallocation of Expenditure

Expenditure items are to be properly accounted for in the appropriate account and sub-item number. If felt necessary, new accounts should be opened.

### Lack of Quotations

According to the Public Service (Procurement) Regulations 1996, at least three (3) quotations should be obtained

for supplies not exceeding Lm1,000, before selecting the supplier or service provider.

### Legal Procurators' Fees not charged

The Department is to inform the lawyers concerned to include a VAT charge on legal procurator fees.

### Rates/Prices charged not included in respective Agreements/Contracts

It is advisable that rates/prices invoiced are incorporated in prospective agreements/contracts if these are intended to be utilised again, so as to enable the Department to ascertain the correctness of the amounts invoiced.

### No Contract in force for the Period under Review

- Following the expiry of the leasing agreement at Ta' Qali, the Department is to enter into a new agreement showing the lease term and the rental charge.
- The Department should issue a new tender when a contract expires in order to conform to procurement regulations, or otherwise formally renew the existing contract.

## Management Comments

Whilst most of the recommendations were agreed to and corrective action taken accordingly, the Department stated that:

- in the past four (4) years, over one hundred and fifty (150) employees left the Department due to retirement and other reasons, with the result that the workload on the remaining staff has increased substantially. Replacements were few and far between. The Department is trying to cope with the increased workload and increased revenue collection, by setting up new IT systems and other projects such as a Customer Care Centre in Gozo. A Call Centre should start dealing with taxpayers' queries and be responsible to

service the Workflow Management System;

- written instructions detailing compliance to regulations were issued to the officer-in-charge Transport; and
- the Department contacted the Lands Department but were informed that

no such premises were available. Eventually, the Department decided to seek adequate stores on the open market. However, the two offers received far exceeded the Works Department's Engineer estimate.

## Inland Revenue Division – Capital Transfer Duty Department

### Background

The Capital Transfer Duty (CTD) Department within the Inland Revenue Division is responsible for the collection of duty on the issue and renewal of Insurance Policies and Bank Credit Cards.

*“There shall be charged on banking credit cards issued by any bank in Malta, a duty of seven liri for each year or part thereof during which the facility of a banking credit card is operative in respect of an account held with that bank .....*”

### Audit Scope

This audit was a follow-up of the audit carried out for Financial Year 1999 to examine whether recommendations, as discussed during the PAC Sitting No. 60, held on 21 March 2001 were implemented.

Audit examination focused on the:

- collection of duty on credit cards issued by Commercial Banks during the period January to October 2003;
- duty on premia collected by Insurance Companies for the same period; and
- Inspectorate Team set-up and operations.

Compounding<sup>1</sup> is regulated by Legal Notice 22 of 1998 ‘Banking Credit Cards (Compounding of Duty) Regulations, 1998’. Article 2 provides that:

*“..... the Commissioner may authorise that the payment of duty on the issue or renewal of banking credit cards may be made by means of compounding.*

*Payment of the duty shall be made at such intervals as the Commissioner may determine.”*

### Key Financial Information

During the period under review, duty collected on credit cards and insurance policies amounted to Lm4,683,999. This amount is made up as follows:

	Lm
Commercial Banks	535,347
Insurance Companies	4,148,652

### Duty on Credit Cards collected by Commercial Banks

### Legal Provisions

Article 52A of the Duty on Documents and Transfers Act stipulates that:

### Key Issues

#### Lack of Verification of the Completeness of Commercial Banks issuing Credit Cards

The Department received duty collected on credit cards from four (4) Commercial Banks. However, the CTD was not aware whether other Banks licensed under the Banking Act 1994 should be collecting and forwarding duty on credit cards issued.

#### Time Interval for Payment not established

Compounding was only authorised in respect of one (1) out of the four (4) Banks which collected and forwarded duty. No formal policy was established regarding payment of duty in cases where no compounding arrangements have been granted.

<sup>1</sup> Grouping of duty collected to be forwarded to the CTD at stipulated intervals.



The Department's statement to the PAC Sitting No. 60 in 2001 to the effect that Banks are forwarding the duty collected by the fifteenth day of the month from the authorised interval date could not be substantiated.

### Insufficient Details accompanying Payments

It could neither be confirmed that, as stated during the PAC Sitting in question:

- banks are not forwarding breakdown of payments;
- information regarding the aggregate number of credit cards was only forwarded by two (2) Banks; and
- banks analysed the number of credit cards issued between new and renewed.

Standard letters sent during September 2000, to the three (3) Banks collecting duty at that time, asking for a detailed breakdown to be furnished with duty payments, did not have the desired effect. One (1) Bank replied by stating that such records are reconciled monthly and subject to inspection by the Bank's auditors. Another Bank sent a reconciliation statement with the two subsequent payments. The other Bank did not reply to the Department's request. No further action was taken by the Department.

### No Testing over Duty Paid

CTD relies entirely on the integrity of Banks as no testing or verification is carried out to ensure that duty payments are correct. This may be partially due to the fact that information provided by Banks with payments continued to be limited.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of control over timely submission of duty collected. Three (3) Banks compounded duty payment, generally on a quarterly basis, without authorisation from the Department.

- Lack of control over adherence to compounding authorisation. The Bank authorised to effect payments by compounding was not respecting this agreement and even changed its payment pattern without CTD ever questioning or requesting for justifications.
- All four (4) Banks had an irregular payment pattern, resulting in late payments.

### Recommendations

#### Lack of Verification of the Completeness of Commercial Banks issuing Credit Cards

A communication channel should be established with the Malta Financial Services Authority ("MFSA") allowing the Department to be updated with information about licensed Banks. Such information should then be used to verify and exercise control over duty collection. An exercise to identify whether other Banks should be collecting and forwarding duty was initiated during the course of the audit.

#### Time Interval for Payment not established

A standard policy should be established regarding the timing of submission of duty, where no compounding authority has been agreed with the particular commercial bank. This would allow consistency among all Banks and a means of maintaining control by the Department.

#### Insufficient Details accompanying Payments

Statements made during the PAC Sitting and other correspondence with this Office should be implemented, in that:

- the Department should insist that a detailed breakdown be provided by all Banks. Such information serves as an audit trail and facilitates periodical testing of duty forwarded;
- once a payment interval is established, the Department should ensure it is adhered to;

- banks should be informed about the policy regarding the fifteenth day following the compounding interval during which duty must be forwarded. Compliance should then be followed up by the Department;
- if duty collection and payments are scrutinised by Banks' auditors, the CTD should request a declaration to this effect by the auditors;
- the Department should also consider standardising the information required on the detailed breakdowns and the covering letters; and
- penalties according to Section 4 of Legal Notice 22 of 1998 should be applied, when payments are not forwarded within the specified periods.

### No Testing over Duty Paid

Information provided by Banks should be properly scrutinised and differences questioned.

### Compounding without Authorisations

Compounding agreements should be made with Banks, so that payment intervals are regularised and consistent. This would eliminate unauthorised delayed payments.

### Authorised Compounding Periods not monitored

Payment intervals should be monitored to ensure that agreements are adhered to at all times. Changes in the payment pattern should be authorised by the Department beforehand.

## Duty collected by Insurance Companies

### Legal Provisions

Articles 25 and 27 of the Duty on Documents and Transfers Act respectively state that:

*"There shall be charged on any policy of life insurance a duty of ten cents for every*

*one hundred liri or part thereof of the sum assured."*

*"There shall be charged on every policy of insurance in respect of which article 25 does not make specific provision, a duty of ten cents for every lira or part thereof of the agreed yearly premium ..... Provided that the minimum duty chargeable under this article shall be five liri....."*

Compounding with respect to Insurance Companies is regulated by Legal Notice 31 of 1982 'Policies of Insurance (Compounding of Duty) Regulations, 1982' which provides that:

*"..... the Commissioner may authorise that the payment of duty on policies of insurance may be made by means of compounding.*

*Payment of the duty shall be made at such intervals as the Commissioner may determine."*

### Key Issues

#### Lack of Verification of the Completeness of Insurance Companies

There is a high risk that duty collected is not being passed in its entirety to Government in that any changes in the insurance business, such as newly authorised companies, transfers of companies etc, is made known to the Department by the Insurance Company itself. No correspondence takes place with any competent authority, such as the MFSA, in this regard.

A comparison was made between the MFSA list of companies carrying on the business of insurance as Principals, Agents or Brokers registered under the Insurance Business Act, 1988 to the list of Insurance Companies effectively paying duty to the Department. The following differences were noted:

- Out of twenty three (23) Insurance Brokers only five (5) forwarded duty directly to the CTD, while seven (7) Insurance Agents acted on behalf of two (2) Principals. The Department was

not aware as to how the duty collected by sixteen (16) Brokers eventually reaches the CTD.

- Three (3) companies which forwarded duty to the Department, did not feature on the list provided by the MFSA.

### Action not taken for Compounding

Circulars should have been sent to all Insurance Companies making it clear that: *"payments should be effected within fifteen days from the stated interval date authorized by the Commissioner in a fresh written authority to compound duty"* and requesting adherence to the compounding regulations. However, no mention was made of fresh compounding authorisations, or to the fifteen day grace period after the authorised compounding interval, during which payment is to be effected.

### Time Interval for Payment not established

Legal Notice 31 of 1982 does not specify the time within which Insurance Companies are to forward duty collected to the Department, when no compounding authorisation had been granted. The CTD has no policy regulating this scenario.

### Duplication of Work

The excel database maintained by the 'Accounts and Collection Section', where each duty payment received is recorded, cannot be accessed unless the IT Officer is logged on to the System. This results in the Collection Officer having to maintain the same database manually, resulting in duplication of work.

### Insurance Policies presented for Stamping

The departmental policy, regulating the procedure to be followed when stamp duty on an individual insurance policy is above the pre-established limit, could not be verified. No audit trail is maintained of these types of policies.

Officers-in-charge were not sure of the exact procedure and the threshold for policies to be presented individually, but were

under the impression that the limit was set at Lm500. No formal documentation was found in relation to this policy. However, Insurance Companies were informed of the following different limits:

1993 – Lm50

1998 – Lm1,000

1999 – Lm500 and

2000 – Lm200.

### Filing of Returns

Returns forwarded by Insurance Companies with payments, are filed in the respective Insurance Company's file. Insurance files tend to become quite bulky and difficult to handle. General correspondence letters are filed with the voluminous returns in the files.

### Insufficient Verification of Returns

A considerable backlog exists for checking of Insurance Companies returns. Checking of returns for the year 2001 was finalised during November 2003. Testing performed on returns could not be verified as no audit trail, proving that returns were actually tested, could be found.

The returns of three (3) companies showed that duty was incorrectly calculated. Such returns were supposedly checked by the Department's personnel. No documentation of work done or action taken was found. Discrepancies continued to be found in later returns.

## Control Issues

Opportunities for improvement were identified in the following areas. Out of the nine (9) Insurance Companies selected for testing:

- Lack of control over the timely submission of payments was noted in that:
  - six (6), did not have authority to compound duty payments, five (5) of which compounded duty payments quarterly or for a longer time frame;

- one (1) case was noted where, although compounding authority was granted on a quarterly basis, the company concerned was benefiting from an unauthorised ninety-day credit period instead. No action was taken by the CTD to enforce compliance;
  - another case was identified where, although the company requested permission to compound, the Department ignored the request. In another instance, authority to compound was given four and a half months after the request; and
  - one (1) company, which was authorised a compounding period, changed its payment pattern without authorisation. No action was taken by the CTD in this regard.
- Returns submitted by four (4) companies were not comprehensive and precluded testing to be carried out by the Department.
  - Three (3) cases were identified where the Department did not have correct records of payments being effected by Insurance Companies or, the excel database maintained in this respect was not accurate.
  - In one (1) instance a return forwarded by a company was manually amended and not automatically generated from the company's computerised system.
  - Lack of control over dishonoured cheques. While checking remittance to the Central Bank of Malta, it was noted that no adequate audit trail is in place to monitor and control cheque deposits.

### Compliance Issues

#### Duty Exemptions allowed without Request for Evidence

Cases were noted where, duty was not being calculated in accordance to the rates determined in the legislation. Co-insurance

and/or Parastatal/ Government Organisations are not exempt as of right by the Act, therefore these bodies are not all exempt from paying duty. The CTD did not ask for evidence to substantiate any such instances in that the Department's policy stating that, Parastatal Organisations are to present the relative policy documents together with the legislation under which they are exempt, was not adhered to.

### Recommendations

#### Lack of Verification of the Completeness of Insurance Companies

An ongoing communication channel should exist with the MFSA, so that the Department is kept updated with any changes in the list of companies authorised to transact insurance business in Malta.

The Department should seek to clarify the position of Brokers and Agents who do not forward duty to the CTD directly. Channels, through which Principals, Agents and Brokers are forwarding duty, should be clearly identified.

#### Time Interval for Payment not established

The CTD should establish a standard policy regarding the timing for forwarding stamp duty collected, where no compounding agreement has been authorised. The fifteen days time limit within which duty is to be forwarded to the Department should be clearly established and made known to all concerned. This would ensure consistency and avoid irregular payments.

#### Duplication of Work

The Accounts and Collection Section should have autonomous access to the excel database maintained for payments received by Insurance Companies, thus eliminating the need for the manual database.

#### Insurance Policies presented for Stamping

An audit trail should be maintained for insurance policies presented for stamping. The departmental policy regulating large

insurance policies should be clearly defined and made known to all Insurance Companies. Responsibility then lies with the Department to enforce and monitor such procedures.

### Filing of Returns

Returns are to be filed in separate box files in date order, while covering letters and other correspondence, filed in the respective departmental Insurance Company files. Insurance Companies should be encouraged to provide returns in electronic format.

### Insufficient Verification of Returns

Testing carried out by officers should be documented and countersigned by the officer carrying out checks. An audit trail should be kept of the work carried out and the action taken when discrepancies are noted. This would serve as evidence of the work done.

### Action to be taken by the CTD

Penalties contemplated by the provisions of Legal Notice 31 of 1982 should be applied when the need arises. This would act as a deterrent for defaulting companies.

The Department should consider establishing a standard format for the returns. All classes of insurance should be classified separately. Different types of endorsements should be reported separately since the duty chargeable varies according to the case.

### Compounding of Duty without Authorisation

The Department should ensure that, companies which do not have authority to compound, forward duty on a monthly basis. Otherwise, permission to compound duty should be granted in writing, clearly explaining the fifteen days time period within which payment is to be effected. If companies continue to default, immediate action should be taken by the Department.

### Late and Irregular Payment Pattern

Action should be taken by the CTD when payments are not received within the

authorised period. If the need arises, the penalty provisions of L.N. 31 of 1982 should be applied.

### Compounding Authority not respected

The company concerned should be advised that payments should be remitted by the fifteenth day following the expiration of the compounding period, otherwise penalties should be imposed.

### Compounding Requests not processed by the Department

The CTD should not unnecessarily delay answering compounding requests. All insurance files should be reviewed and proper compounding authorisations issued when requested.

### Change in Payment Pattern without Prior Authorisation

Monitoring of Insurance Companies should be continuous. When a company changes its payment pattern without prior consent, the CTD should intervene immediately.

### Returns not providing Necessary Information

Action should be taken by the Department on the information being submitted on returns. It should be ensured that returns provided are adequate, enabling necessary testing. Inadequate returns should be treated as not submitted and penalties applied accordingly. When no policies have been written for a particular period, a Nil return should be submitted to the CTD and their correctness ensured through inspections.

### Inaccurate Records of Payment

The Department should ensure that proper records of payments received are maintained, thus allowing accurate information to be quoted when corresponding with Insurance Companies.

### Returns amended Manually

Insurance companies should be asked to be consistent when presenting information

to the Department. Manual amendments should draw a more focused attention.

## Control over Dishonoured Cheques

Adequate audit trail should be maintained over returned cheques, to reduce the risk of amounts due not being recouped.

## Duty Exemptions allowed without Request for Evidence

When duty is not forwarded on policies relating to Co-insurance or Parastatal/Government Organisations, further evidence should be requested by the CTD. The procedures established in the case of Parastatal Organisations, which claim to be exempt from payment of Document Duty, should be followed at all times.

## Insurance Inspections

### Key Issues

#### Inadequate Selection Basis for Inspection of Insurance Companies

The current practice is that Insurance Companies situated in Valletta are selected for inspection, since these are within a walking distance away from the CTD Offices. This is not considered to be a reasonable and professional basis for selection of companies for inspections, taking into account that the Department's general-use vehicle (including driver) is available.

#### Inspections not carried out Regularly

It was noted that the Department failed to carry out one (1) inspection per month, as was initially stipulated by the Director, during November and December 2002 and from February to October 2003. No valid reason was given.

### Control Issues

Opportunities for improvement were identified in the following areas. Out of the seven (7) inspection reports selected for testing which covered six (6) Insurance Companies:

- in the majority of cases, testing done

was not documented and could not be checked or verified;

- three (3) reports failed to state that the payment pattern was irregular or not as per compounding agreement;
- a discrepancy amounting to approximately Lm90,000 between gross premia reported by one company to the Department and information obtained during an inspection was left unresolved;
- a planned inspection on a company was not held, due to the fact that the agency was taken over by another Insurance Company. Documentation in the file showed that the Department had been informed about the takeover prior to the inspection, thus indicating lack of planning and proper preparation. Moreover, no returns were submitted with duty payments effected 'on account' since no source was available from where such information could be obtained to re-issue the reports. No further action was taken by CTD;
- wrong information was communicated to an Insurance Company with respect to duty payments effected and still due, signifying inadequate record-keeping; and
- the returns forwarded by an Insurance Company were not adequate to allow testing and cross-checking during inspections.

### Compliance Issues

#### Non-Compliance to Repayment Agreements

In two (2) cases, repayment agreements made with Insurance Companies, as a means to settle long amounts outstanding, were not respected by the companies concerned. However, no action was taken by the Department.

#### Pre-Determined Tests not performed

In four (4) instances, it was noted that the pre-determined generic checks, which

should have been performed during each inspection, were not carried out. In another instance, a test performed by the Inspectorate Team was inadequate due to the company's accounting system being accrual based.

### Underpayment of Duty forwarded to the Department

Action should be taken by the Department to recoup underpaid duty. Adequate follow-up on the issue was not performed and neither was action initiated to recoup amounts underpaid.

## Recommendations

### Inadequate Selection Basis for Inspection of Insurance Companies

An adequate basis should be established for selecting Insurance Companies for inspections. A plan should be formulated establishing a time period within which all Insurance Companies would be inspected.

Officers responsible for carrying out inspections should be given necessary specialised training in this field. Before an inspection is carried out, adequate planning should take place. The file of each Insurance Company selected for inspection should be properly reviewed.

Specific tests should also be performed on endorsements, since the duty chargeable depends on the type of endorsement.

### Inspections not carried out regularly

Inspections are an effective tool and means of control. Therefore they should be resumed and carried out regularly.

### Work Done during Inspections not Accurately Documented

All testing performed during inspections should be documented to serve as evidence to substantiate statements made in the inspection report. When checking policies, inspectors should obtain sufficient information so that these policies could be cross-checked to the returns submitted to the CTD. All

conclusions reached should be supported with adequate testing and findings.

### Irregular Payment Pattern or Non-Compliance to the Compounding Agreement

During an inspection, compounding should be discussed and if a compounding agreement is reached, the necessary authorisation should be granted in writing. Thereafter, the payment pattern should be monitored following inspections.

### Discrepancy noted during Inspection left unresolved

All discrepancies noted during inspections should be investigated and resolved. Issues raised should be followed-up, thus ensuring that the desired results of the inspection are achieved.

### Targeted Inspection not held

Once a company is identified for an inspection, the inspection should be carried out. The file of the targeted company should be reviewed before the inspection.

### Records of Duty Payments forwarded by Insurance Companies not correct

It should be ensured that proper records are maintained of duty payments received by the Department, so that when corresponding with Insurance Companies accurate information is quoted.

### Non-submission of Returns and Inadequate Returns submitted

The Department should insist that returns are submitted by all Insurance Companies and ensure that all returns submitted contain the information required to enable the CTD to perform necessary checking. If companies continue to default, action should be taken by the CTD in terms of the legal provisions of the Act.

### Non-Compliance to Repayment Agreements

Repayment agreements should be monitored to ensure they are respected. If companies fail to abide by agreements, immediate action should be taken.

### Pre-determined Tests not performed

All pre-determined tests should be carried out during inspections to ensure consistency from one inspection to another. Additional testing focusing on particular risk areas identified by the Inspectorate Team should also be documented and reported upon.

### Underpayment of Duty forwarded to the Department

Action should be taken by the Department to recoup duty underpaid. Moreover, adjusted returns should be submitted to the Department.

### Management Comments

Most of the recommendations were agreed to and action taken accordingly.

However, no comments were received on the following issues:

- Follow-up action by the Department not in conformity with commitments made during PAC Sitting No. 60.
- Non-application of penalty provisions when commercial banks and insurance companies fail to forward payments within the specified period or do not comply with policies established by the Department.
- Failure or excessive delay in approving or otherwise compounding facilities requested by insurance companies.



## Customs Department: Expenditure

### Background

During 2003, the Customs Department was mainly involved in the process of change due to Malta's membership in the European Union ("EU"). To support the changing environment, two new teams were created to be responsible for specific operations and to ensure continuity and efficiency. Two new Directors were also appointed, namely Director (Enforcement) and Director (Compliance).

### Operation

The Special Intervention Action Team was re-organised to facilitate movement of goods through the exit gate. The X-Ray van, assigned to this Unit, allowed for quick release cargo to be x-rayed instead of physically examined.

The Container Monitoring Unit was also equipped with a mobile scanner and an additional two teams for its operations.

### Computerisation

The Computer Section was mainly involved with the preparation for the implementation of the Customs Electronic System ("CES") CDPS project and other computer systems related to changes within the Department in view of Malta's entry into the EU. This project required a massive increase in computerisation together with specialisation of staff members in the different areas of Community Law and Regulations in order to be able to administer the requisite applications.

The new Customs Declaration Processing System, launched in January 2002, was fully installed during July 2003.

### Training

During 2003, the volume of training to staff and external groups, namely traders, agents and 'burdnara', increased considerably. Information literature and training manuals were also prepared. The Department also participated in the Customs 2007 Programme.

### Health and Safety

The Customs Health and Safety Unit was set-up in February 2003, to identify and monitor the needs of the Department, especially regarding areas prone to work-related hazards.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Weak control over batches of vouchers received from Treasury Department, as well as the supporting documentation and attachment of VAT fiscal receipts to original Payment Vouchers.
- Lack of control over the authorisation of Vouchers, including Petty Cash refunds, by the authorised officers as per list submitted to the Accountant General.
- Lack of control over the purchase authorisation process with a high incidence of Local Purchase Orders issued after the receipt of goods or services.
- Non-allocation of expenses to appropriate accounts and Cost

Centres – cases amounted to twenty-four (24) Vouchers (i.e. 15%).

- Non-reporting to the VAT Department of suppliers who did not forward the VAT Fiscal receipt – cases amounted to thirteen (13) out of twenty-one (21).
- Failure to formalise the assignment of seized mobile phones to Officers.
- Lack of proper management over fully-expensed and general-use vehicles.
- Lack of proper inventory management.

## Compliance Issues

### No Agreement for Maintenance of Office Equipment

Maintenance services, for office equipment in all Customs' Sections, were provided by a supplier for which quotations obtained dated back to 1996. A new service agreement was entered into with the same supplier, during April 2003, without obtaining further quotations from other suppliers.

### No Contract Extension found

The supply of security tin seals and made-to-measure winter uniform trousers were purchased from suppliers after the corresponding contract expired.

### Office Furniture Models not found in Quotation

Prices charged for four (4) furniture models were not quoted in the supplier's quotation and hence checking was not possible. Expenses amounted to Lm683.

### Lack of Quotations

Five (5) cases were encountered where no supplier quotations were requested. One (1) case related to the purchase of a laptop, purchased from the supplier who quoted the

lowest price in respect of previous laptops, although with a change in specifications, without issuing a fresh call for tenders.

The other cases referred to refurbishment works, printing of Customs Journals, removal expenses of unclaimed cargo and transport services. Payments issued to these suppliers, through the Payment Voucher system during 2003, varied from Lm1,158 to Lm2,635.

## Recommendations

### Filing of Documents

- Batches returned from the Treasury Department should be controlled. The '*Batches sent to Treasury*' Register should be marked with an '*R*' when such batches are returned. The Department would thus have a record of unreturned batches and be in a better position to retrieve them.
- Originals of Payment Vouchers, Local Purchase Orders, Invoices and VAT fiscal receipts/tax invoices should be filed together for easier future reference, as directed in Treasury Circular 6/2000.

### Authority to sign Vouchers

- Vouchers are to be appropriately signed by the persons charged with this duty. Other authorised Officers are to be included in the list submitted to the Accountant General.
- Prior to effecting petty cash refunds, proper authorisation is to be obtained. The Section's stamp together with the authorising signature should feature on every original receipt.

### Local Purchase Orders issued after receipt of Invoice

Whenever possible, goods and services are to be covered by a Local Purchase Order or Letter of Acceptance upon placing of an order, thereby ensuring proper authorisation prior to the purchase.

### Misallocation of Expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item number in addition to allocating the expenses to the appropriate Cost Centre. If necessary, new accounts are to be opened. Whenever Cost Centres within the Department are short of funds, a virement should be made.

### VAT Fiscal Receipts

Every effort is to be made to enforce the principle that VAT fiscal receipts or tax invoices be obtained from suppliers. The Department is to inform the VAT Department of defaulting suppliers on a quarterly basis, as detailed in MF Circular 5/2002.

### Utilisation of seized Mobile Phones

Although an updated list of Officers given mobile phones and the phone numbers assigned is kept by the Secretary to the Director General, the formal request, written authorisation and signature of acceptance of mobile phones are to be obtained at all times before such mobiles to Customs Officers are issued.

### Fully-Expensed and General-Use Vehicles

- The Department is to monitor monthly fuel limits of fully-expensed vehicles.
- More care is to be taken when filling in details on the Fuel Requisition and Issue Notes.
- Monthly certification of all log-book records is to be carried out.
- Log-Books are to be kept updated in terms of the Public Service Management Code.

### Inventory

- The Inventory Ledger is to be updated and every purchase or relocation of inventory items accurately recorded. The Officer-in-charge of inventory should be informed immediately when an inventory item is replaced or transferred to a different room.

- Asset Identification Number classifications, as approved by the Special Projects Unit at the Ministry of Finance, should be strictly adhered to.
- Room Lists are to be attached to the wall in all respective rooms.

### No Agreement for Maintenance of Office Equipment

A call for departmental tenders would be the appropriate procedure to follow considering that Lm3,270 was paid to the chosen supplier, via the Payment Voucher system, during the year.

### No Contract Extension found

Whenever a contract expires, either a formal extension is to be agreed upon, or a fresh tender issued by the Customs or Contracts Department, as appropriate.

### Office Furniture Models not found in Quotation

A detailed price list of all required office furniture should be obtained before placing an order, enabling checking with quotations or price lists before effecting payment.

### Lack of Quotations

The provisions of the Public Service (Procurement) Regulations, 1996 should be complied with.

## Management Comments

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

- an Internal Memo highlighting the need for strict compliance with Inventory Regulations was issued to Heads of Sections, requiring them to account for the updating of their respective inventory and corresponding Room List;
- instructions have been issued not to purchase from vendors who do not submit VAT fiscal receipts. The list of defaulting suppliers also started being submitted to the Procurement Section;

- an Internal Memo outlining major points raised was issued with respect to general use of government vehicles. A Transport Officer is to be appointed internally to exert control and be responsible for the Department's vehicles' use and expenditure; and
- fresh departmental tender procedures, in respect of cleaning of office equipment, have been initiated.

## Customs Department: Below-the-Line Accounts

### Key Issue

#### Below-the-Line Accounts' Warrants not presented

Warrants relating to the sampled Below-the-Line Accounts were not presented for examination. As a result, it could not be ascertained whether the purpose for opening of the Accounts was still valid and whether the Below-the-Line Accounts were used as authorised in the respective warrants.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Deposits were remitted to the Central Bank of Malta at a considerable delay. The Department is not complying with General Financial Regulations provisions and MF Circular 8/2002. Amounts received on a particular day accounted for in one (1) of the Below-the-Line Accounts sampled could not be audited as an analysis of daily amounts received was not available.
- Sufficient audit evidence could not be obtained with respect to two (2) transactions in two (2) Below-the-Line Accounts amounting to Lm500,000 and Lm18,156 respectively.

### Compliance Issues

#### Lack of details on Closing Balances of Below-the-Line Accounts

An analysis of closing balances by deposit/draft date is not maintained.

Consequently, it could not be determined whether outstanding amounts, which have remained unclaimed for thirty years, were transferred to the Deposits Fund Account, as required by Section 18 of the Financial Administration and Audit Act, 1962.

The Department may not be in compliance with Subsection 2 of this Section whereby, at the end of each financial year, any balance in excess of Lm10,000 of the Deposits Fund Account should be transferred to the Consolidated Fund, if the Minister so decides.

#### Cancelled Receipts not maintained

The Department disposes of cancelled receipts against the provisions of the General Financial Regulations.

#### Delay in transferring Duty to Revenue

Three (3) cases were identified in Below-the-Line Account 8307 – “*Deposits to Cover Duty*”, where funds remained idle for more than one year from date of receipt. Funds amounted to Lm4,026, Lm15,455 and Lm120,194.

#### Delay in transferring Amounts due to the VAT Department

In two (2) instances accounted for in Below-the-Line Account 8307 – “*Deposits to Cover Duty*”, the Department forwarded amounts due to the VAT Department with considerable delay.

Upon enquiry, it transpired that it is common practice for the Department to delay payment of VAT dues.

## Recommendations

### Below-the-Line Accounts' Warrants not presented

The Department should obtain copies of the Warrants relating to the respective Below-the-Line Accounts in order to be able to exercise proper control over their use.

### Delay in Bank Deposits Remittance

The Department should comply with Section 36 of the General Financial Regulations, 1966 and MF Circular 8/2002 'Government Accrual Accounting: Procedures for the Management of Cash'.

### Lack of Supporting Documentation

The Accounts Section should maintain all documentation in support of Vouchers to ensure an adequate audit trail and facilitate future reference.

### Lack of details on Closing Balances of Below-the-Line Accounts

The Customs Department should keep an updated record of the unclaimed balances as at the end of each financial year by deposit/draft date, so as to comply with the relevant provisions of the Financial Administration and Audit Act, 1962.

### Cancelled Receipts not maintained

Cancelled receipts should be attached to their duplicate and should be filed in appropriate folders for easy future retrieval.

### Delay in transferring Duty to Revenue

The Department should ensure compliance with Office Order 70/81 which stipulates that: "...deposits paid pending receipt of Eur1 Certificates ... will be passed to revenue only following the termination of

*a period of one year from the date of issue.*" Transfer of duty should then be made without delay.

### Delay in transferring Amounts due to the VAT Department

The Department should effect VAT transfers promptly.

## Management Comments

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

- it was unlikely that idle funds were left in Below-the-Line Accounts for a long number of years as outstanding amounts were regularly passed to revenue, at the most after two years;
- when collected funds were not banked on the same day of receipt, they were maintained in a safe kept at the Accounts Section;
- supporting documentation was not available due to the fact that the "Asycuda" System does not provide such details. Data, giving an indication on which amount to allocate, is provided by the Computer Section;
- the delay in duty transfers to revenue was due to shortage of staff; and
- deposits were maintained in a Below-the-Line Account and not immediately transferred to the VAT Department so that funds remained available to effect refunds. Transfers to revenue are made whenever instructed by the Ministry of Finance.

## Department of Contracts: Expenditure

### Background

#### New Regulations

The Public Contracts Regulations 2003, replacing the Public Service (Procurement) Regulations 1996, were published in the Government Gazette on 10 October 2003 and came into effect on 1 January 2004. These regulations are expected to consolidate and amplify the previous regulations and strengthen the right of appeal. On 27 January 2003, the Public Contracts Appeals Board was appointed by the Prime Minister in terms of the revised regulations.

#### Website

The Department's website was launched during mid-2003, with the aim of facilitating the work of prospective bidders by providing timely information about the Department's work.

#### European Union "EU" Matters

All tenders which were fully or partially financed by EU funds were vetted in detail by the EU Unit of the Department.

#### Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of segregation of duties in the purchase order processing - Local Purchase Orders and Payment Vouchers were signed by the same Officer.
- Lack of proper inventory management including:

- non-compliance with MF Circular 14/99 and Ministry of Finance letter dated 17 July 2000;
- returns detailing new inventory items acquired by the Contracts Department during 2003 not submitted to this Office;
- the Inventory Ledger not updated correctly; and
- certain items physically found in rooms not listed on the respective Room Lists.
- Non-allocation of expenses to appropriate accounts – cases amounted to five (5) Vouchers (10%).
- Failure to inform the VAT Department of two (2) out of three (3) suppliers who did not forward the VAT fiscal receipt.
- Lack of control over Petty Cash expenses since no Petty Cash Book is maintained.
- Lack of control over the payment cycle, particularly the authorisation of Vouchers, including Petty Cash refunds, by authorised Officers.
- Lack of control over general-use vehicles:
  - Log-Books were not continuously updated with journeys performed.
  - Authorising signatures and monthly certifications missing.
  - Layout of the Log-Books was not updated to conform to the Public Service Management Code (July 2002) provisions.

## Compliance Issues

### Payments made in respect of Technical Advice

No documentation establishing the unit rate to be charged for technical advice reports was available. This restricted proper verification of amounts invoiced by the technical advisor.

Furthermore, the Department could not ascertain whether two payments related to technical reports or sittings.

### Air Travel on Official Business

Two (2) cases were encountered where quotations were not obtained prior to purchasing tickets from airlines other than Air Malta plc.

In one (1) of these cases, a quotation from Air Malta plc was requested, but it was not processed since the Department did not quote a reference number. Such practice is not compatible with the requirements of the Public Service Management Code.

### Lack of Quotations

Two (2) cases were encountered where no supplier quotations were requested. One (1), for which the Payment Voucher covering fifty per cent (50%) of the amount due, amounted to Lm1,055.

The other case referred to the supply of file covers, with an aggregate cost of Lm863.

## Recommendations

### Control Issues

#### Lack of Segregation of Duties

Management should introduce procedures to ensure that Local Purchase Orders are authorised by different officers according to the cost of the procurement.

#### Inventory

- The Auditor General is to be kept posted with inventory movements in accordance with MF Circular 14/99.

- The Inventory Ledger should be accurately updated to facilitate control and enable identification of inventory items.
- Room Lists should be updated regularly, signed and displayed in each room within the Department.

#### Misallocation of Expenditure

Items of expense are to be properly accounted for in the appropriate account and sub-item number. If necessary, new accounts are to be opened.

#### VAT Fiscal Receipts

Every effort is to be made to enforce the principle that VAT fiscal receipts or tax invoices are obtained from suppliers. The Department is to continuously inform, on a quarterly basis, the VAT Department regarding those suppliers who failed to submit a VAT receipt as detailed in MF Circular 5/2002.

#### Petty Cash Book Irregularities

- A Petty Cash Book on the imprest system and a continuous audit trail of sequentially filed petty cash receipts are to be maintained.
- Prior to effecting refunds, proper authorisation is to be obtained.

#### Inappropriate/Lack of Authorised Payments

- The Department is to ensure that invoices received are certified correct in all material respects before effecting payments.
- Information relating to items of expenditure should be available so that verifications could be carried out.

#### Log-Books

Log-Books are to be updated in terms of the Public Service Management Code and monthly certification of records should be regular.

## Compliance Issues

### Payments made in respect of Technical Advice

Such services should be obtained following a call for tenders. This gives the



Department the benefit of choice and a better position to evaluate the most attractive offer, thus ensuring better use of public funds.

### Air Travel on Official Business

The provisions of the Public Service Management Code should be observed. Arrangements for travel on official business should be made through Air Malta. When it is not possible or economically feasible for Air Malta to make the necessary air travel/hotel accommodation arrangements, three quotations are to be obtained, one of which must always be from Air Malta.

### Lack of Quotations

The provisions of the Public Service (Procurement) Regulations, 1996 should have been complied with.

## Management Comments

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

- no quotations were obtained since the supply was made by direct order by the Director General Contracts, in view of the urgency of the matter. With regard to the file covers, two (2) quotations were obtained during 2002. However, due to limited funds, the purchase was effected during 2003 with a slight change in the price per unit quoted due to a reduction in quantity;
- the quotation request from Air Malta for air travel - the reference number was forwarded verbally; and
- updating of Room Lists, Inventory Ledger and other Inventory matters was lacking due to the fact that the Department was undergoing changes in relation to staff movement and logistics.

## Economic Policy Division: Expenditure

### Background

The role of the Economic Policy Division is to aid and provide expert advice to Government in the formulation of economic policy and the management of economic activity.

The Division works closely with the EU Negotiations Secretariat and the Ministry of Foreign Affairs. It also participated in the preparation and submission of the Pre-Accession Economic Programme ("PEP").

During the year, the Economic Policy Division started to represent Malta and to participate as an observer in the Article 133 Committee (Titulaires) – a trade policy co-ordination committee which advises the European Communities on trade policies.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Weak control and proper management over inventory items:
  - Differences between items listed on the Room Inventory Lists and Inventory Ledger against items located in the rooms. The Officer-in-Charge explained that Room Lists were still in the process of being updated. In fact, none of the Lists were attached as required by MF Circular 14/99.
  - No inventory returns were submitted to the NAO regarding inventory items acquired by the Division during the year.

However, proper Asset Identification Numbers were allocated to a sample of items

verified featuring in the Inventory Ledger. In addition, all items of inventory selected for physical verification were located at the Division.

- Lack of control over the payment system. Out of forty-four (44) Payment Vouchers sampled:
  - four (4) (9%) with the related Local Purchase Orders issued after the receipt of the invoice;
  - fourteen (14) (32%) purchase orders issued through the Emergency Local Purchase Order System. These could have been settled through the normal procurement procedures; and
  - three (3) (7%) vouchers with invoices issued during 2002 but with no arrear charge approval by the Ministry of Finance.
- Lack of control over the allocation of expenditure – four (4) (8%) out of fifty (50) Payment/Multi-payment Vouchers not charged to their respective account or sub-item number.
- Lack of control over the imprest system. The Division does not maintain a Petty Cash Book and Petty expenses are paid by the Officer-in-Charge and reimbursed by means of Multi-payment Vouchers.
- Lack of control over fully-expensed vehicles - the annual fuel payment records prepared by the Division not always updated and a particular vehicle exceeded the monthly fuel limits during the months of May and July 2003.

- Lack of proper record-keeping of Log-Books for general-use vehicles.

### Compliance Issues

#### Mobile Charges Annual Limit exceeded without Authorisation

The total annual amount of mobile charges incurred by an officer entitled to this benefit, exceeded the amount stipulated in MF Circular 4/2002. Request for authorisation of the excess, which was approved by the Permanent Secretary within the Ministry of Finance, was forwarded for approval only following NAO enquiry.

### Recommendations

#### Inventory

- All inventory movements should be reported to the NAO in accordance with MF Circular 14/99.
- To exercise the necessary inventory controls, as well as in preparation for accrual based accounting, the Inventory Ledger should be updated accurately and consistently at all times.
- Updated and signed Room Lists should be located in each room within the Division.

#### Local Purchase Orders issued after receipt of Invoice

Purchases of goods and services are to be covered by a Local Purchase Order or Letter of Acceptance upon placing of an order.

#### Arrear Charge Approval

In terms of the Financial Regulations, claims which remain unpaid at the end of a financial year may only be defrayed after arrear charge authority is obtained from Finance.

#### Misallocation of Expenditure

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

sub-item number. If the need arises, new accounts are to be opened.

#### Petty Cash Book

A Petty Cash Book on the imprest system is to be maintained recording all petty cash items of expenditure and subsequently accounted for in the relevant account and sub-item number, as stipulated by the General Financial Regulations.

#### Fully-Expensed Vehicles

- The maximum non-cumulative fuel consumption of fully-expensed vehicles is not to be exceeded and the cost of excess fuel consumed should be recouped.
- Documents prepared recording monthly fuel consumption should be promptly and accurately updated enabling effective control.

#### Log-Books

- Monthly certification of Log-Book records should be regularly performed.
- Log-Books are to be kept updated in terms of the Public Service Management Code.

#### Mobile Charges Annual Limit exceeded without Authorisation

The Division is to seek the Permanent Secretary's approval immediately, whenever the limit of Lm350 is exceeded. Any excess should be brought to the attention of the officer concerned.

### Management Comments

The Division agreed with the recommendations made and action to address the weaknesses is being taken.





Ministry for Resources and Infrastructure

## Government and Privately Owned Vehicles Fuelled at Kirkop

### Background

The Kirkop Fuel Station (Kirkop), for which the Kordin Workshops (Kordin) of the Manufacturing and Servicing Department (MSD) are responsible, supplies fuel to all Works Division vehicles. This report focuses only on the government and privately owned vehicles as fuel supplied to hired self-drive and impressed vehicles are the subject of separate reports.

### Key Issue

Despite the cost of equipping vehicles with Automatic Vehicle Location (AVL), estimated at Lm20,000 in 2003, effective control on the use of vehicles is not being evidenced by having trip logs from the computer-based control system certified by the proper authority. Fluctuating fuel consumption by the AVL-controlled vehicles may well reflect weak control over fuel issues. Government-owned vehicles without the AVL apparatus at the Marsa Workshops (Marsa) were not subject to any control. Manual log books were only introduced with the start of the audit in November 2003.

### Control Issues

Opportunities for improvement were identified in the following instances:

- In support of the records, sequential filing of fuel requisitions by a unique internal reference is lacking at Kirkop.
- Blind certification by Marsa of the availability of funds for fuel issued to MSD government-owned vehicles

and fuel issued in 'tins' to run the Department's machinery.

- Half the requisitions for fuel in tins lacked the authorisation of the respective engineer in charge at Marsa and Kordin.
- Inadequate record of fuel requisition books issued from Kirkop, to the various sections of the Works Division and other government entities.
- No proper audit trail of the identity of authorising officers and persons to whom fuel is issued.
- Personalised rubber stamps of the respective station officers at Kirkop are being made available to unauthorised persons.
- Fuel deliveries against requisitions signed by authorising persons unknown to Kirkop.
- Dipstick readings are being omitted from the Fuel Station Daily Report (FSDR): fuel level and water finding paste is not being applied during such readings.
- Lead replacement petrol (LRP) dipstick is not giving correct readings at all levels inside the reservoir.
- The fuel consumption information on a PC at the Kirkop outpost, does not offer the best framework for a computer-based transport management system.
- When the main power supply system fails, reprogramming of the indicators

of the two digital pumps has to be made.

- Performance figures are being distorted in that fuel cost is not being disclosed separately with the expenditure of the respective departments of the Works Division.

### Compliance Issues

#### Transport Regulations

The Transport Regulations were not being adhered to with regard to the filing of a return with the National Audit Office (NAO) of all the running expenses of the government-owned vehicles committed to MSD. Returns of such expenses, other than fuel consumption, are non-existent.

#### Fuel Stock Write-offs

LRP and diesel stock deficiencies outstanding for a long time in the reservoirs at Kirkop have not yet been written off. The water residue from the diesel reservoir should be removed.

### Recommendations

#### Log Books and Plant Cards

The cost of the AVL control can only be justified by the efficient maintenance of log books. However, log books have to be endorsed on a more frequent basis if they are to control use of government vehicles. To render the task more practicable summarised daily reports, rather than detailed reports, are to be endorsed every day and in some exceptional cases at least every other day.

For machinery and equipment fuelled from tins, 'plant cards' with relevant details could be more practical to keep than log books.

#### Audit Trail

The copy of the fuel requisition filed at Kirkop is to be given a unique reference number. Records are to take the form of listings of fuel requisitions in such consecutive order that could be analysed by

vehicle, facilitating the preparation of statutory returns.

#### Authorised Signatories

As in the past, Kirkop is to obtain specimen signatures of officers authorized to issue fuel to the various sections of the Works Division. Kirkop should not honour fuel requisitions unless authorised.

#### Availability of Funds

Officers requisitioning fuel are to liaise with the officer in charge of the fuel computer records at Kirkop to ensure the availability of funds for the fuel being requested prior to raising the requisition. A responsibility centre for the fleets will also facilitate control in this regard. Signed name-stamps have also been recommended for authorising officers/account keepers.

#### Authorisation of Fuel in Tins

Kirkop should refuse any request for fuel in tins without the required authorisation.

#### Fuel Requisition Books

A register listing Kirkop fuel requisition books should be kept to record the movements of books issued. In addition, in support of book issues, cross reference is to be made in the recommended register to filed sequentially numbered requests for books.

#### Details on Fuel Requisition

Unless the identity of the recipient is clear on the fuel requisition, and particulars agree with those of the vehicle to be fuelled, the pump attendant is to decline fuel requests. Moreover, authorising officers are to include details to facilitate the identification of recipients that would be called upon to be presented at Kirkop.

#### Delivery Date-Stamps

Signed personalised rubber stamps are to be used bearing the name of the officer authorising the fuel issue to the pump attendant, as well as the name of the Fuel Station. A station officer's personalised stamp is to be kept in a secured place at all times when not in use.

### Daily Fuel Reports

Dipstick readings ought to be reintroduced on the FSDR, for which use of fuel level and water finding paste is recommended, reporting any water residue that may result on the FSDR.

### LRP Dipstick

The LRP dipstick is to be replaced or recalibrated for correct readings at all fuel levels inside the corresponding reservoir.

### Computer Records

Data could be handled more efficiently and securely by multi-users, not restricted to Kirkop, if the custom designed computer-based transport management system under way is eventually delivered. The uninterrupted power supply backing the present main computer records ought to be kept in good working condition at all times.

### Power supply at Kirkop

An adequate alternative power supply is recommended to substitute the main system when it fails, without causing interruptions to the delivery indicators of the two digital pumps.

### Intra-Division Liability in respect of Fuel

All the departments of the Works Division ought to have separate budgets for the fuel supply from Kirkop.

### Transport Regulations

A return is to be sent each year to the NAO in accordance with MF Circular 8/90,

and is to include a detailed analysis of all running expenses of all the government-owned vehicles committed to the Works Division.

### Fuel Stock Write-offs

Enemalta are to be called in to remove all the water presently debasing the diesel inside the Kirkop reservoir. The resulting diesel stock deficiency is to be officially written off in accordance with standing regulations. Until the water is removed, tests for the level of the water ought to be more frequent than the occasional check.

## Management Comments

The pertinent Works subdivisions have practically accepted all recommendations and already adopted many of them.

As to the verification of the availability of funds prior to issuing fuel, MSD can only ensure that set quotas are not exceeded. MSD will consider adopting the recommendation for a new generator for Kirkop when the fuel station is re-located.

The MSD did not put forward their case for better accountability of fuel expenditure, by making every cost centre of the Works Division responsible for its own fuel budget.

The Works Division did not comment on the failure of its various subdivisions (except for the MSD) in submitting the return of the running expenses of their official vehicles to the NAO, as laid down in MF Circular 8/90.



## Ministry and Works Division -Hired Vehicles

### Background

Fifty six per cent (56%) of the vehicles hired by the Works Division in mid-2003 were up to time of audit returned to the contracted garages. In view of this, the audit focused on the justification of the remaining forty four (44) self-drive hired vehicles retained. Vehicles assigned with the Ministry fell also within the scope of the audit.

### Key Issues

#### Government-expensed Vehicles and Professional Grades

Though not an officially recognised perquisite, a 24 x 7 car with fuel is a fringe benefit to any employee joining Works as an engineer, architect or lawyer. However, only four self-drive cars were hired for this purpose at time of audit. This implies that the payment of the daily allowance for use of private transport, an alternative option separately reported upon in this publication, is in fact a more serious issue. Both matters, therefore, need to be addressed concurrently. It cannot be said that discretion on the part of the department heads or Director General Works (DG) is being exercised in the interpretation of the clause in the agreement with the Union Periti tal-Gvern u Parastatali (Union) on the option of an official hired car or use-of-private-car allowance. This is because such benefit is being extended to all Works personnel engaged in the foregoing professional grades.

#### Government-expensed Hired Vehicles and Subordinate Staff

Fringe benefit tax payment can never justify the retention of a government-expensed vehicle after office hours,

particularly when the perquisite is not included in the contract of service. Fringe benefit tax is also being borne by personnel in middle management and by minor staff retaining self-drive hired vehicles plus fuel after working hours with the concession of the respective department heads. This notwithstanding official instructions to the contrary from the Permanent Secretary at the Ministry of Resources and Infrastructure (MRI). As such this cannot be regarded to constitute unauthorised retention of a government fuelled vehicle on the part of the user. There had been even reported instances of users being unaware that they were paying the tax on this benefit. Nonetheless, the Works Division is bound to rectify the anomalous circumstances it has created. Besides the implied fuel savings, returning such vehicles to the contracted garage would bring about a cut estimated at over Lm42,000 in the budget for hired vehicles in 2005. However, the cost of substitute transport resources would have to be deducted in order to arrive at the net savings.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Without prejudice to the observation of NAO that maximum fuel supplies are no alternative to the controls over fuel consumption laid down in standing regulations, no authorisation could be evidenced for fuel issued to Works hired vehicles to exceed set limits by at least 2,245 litres in 2003.
- Apart from fuel limits, which in all circumstances have to be controlled as laid down in the few pertinent performance

contracts and contracts of service, the monitoring of fuel consumption quotas imposed on the rest of the Works fleet is taking up most of the administrative resources at the Kirkop Fuel Station for no real cause.

- No mechanism is in place to check availability of funds prior to raising requisitions for fuel issues to officially hired, or other government-expensed, vehicles.
- No distinction is being made between deskbound professionals and those regularly engaged in field work. This makes it close to impossible for even those responsible at the Works Division to justify the extension of their authority for the retention of a fully-expensed government hired car 24 x 7.
- Official authority by the DG could only be made available for two of the four hired government-expensed vehicles in use by Works professional grades. Moreover, this authority wrongly refers to the use of a private car. It is in the form of an affirmation stating that: 'the nature of the duties would be performed more efficiently and expeditiously if the officer were to have the full-time use of a car'. However, the reason for this, or why cheaper transport would fail in this respect, was not specified. There is also no evidence that the clause relating to the non-retention by the user of the hired vehicle during leave of absence from work has ever been enforced.
- A hired car has been retained by an ineligible member of staff, who had for a long time unauthorised exclusivity of use of a government-expensed vehicle after office hours. This was also in defiance of the official call for a number of hired vehicles, including the one in question here, to be returned to the contracted garages.
- The keys of one officially hired vehicle were not being passed on to the responsible department head like the keys of another similar vehicle

committed with the same department for general use.

- The mechanism to ensure that credit notes from suppliers are duly utilised is not in place at the Manufacturing and Services Department (MSD).
- Payments to garages contracted to provide self-drive hired vehicles were persistently in arrears year after year because of heavy overspending on self-drive vehicles hired by Works. This despite the budget line monitoring that was being exercised.
- Works subdivisions are not being held directly accountable for their own individual commitments in respect of rentals of self-drive vehicles. The corresponding budget line is being administered with great difficulties by the MSD because of unclear terms of reference and authority.

### Compliance Issues

#### Transport Regulations

- There is an overall high incidence of non-existent log books of individual trips and fuel consumption by officially hired vehicles at the Works Division. Where log books were available, including Automated Vehicle Location reports, these were marked by a lack of reference to fuel requisitions and other shortcomings. This is in violation of the part of the Public Service Management Code (PSMC) regulating government-expensed transport: trips were not being individually recorded and no monthly certification of such records was being evidenced.
- For fuel consumption control, management is relying on a maximum monthly supply not emanating from a performance contract and extraneous to standing Transport Regulations.

#### MPO Guidelines

Works department heads are taking it upon themselves to allow the retention of a

number of government-expensed self-drive hired vehicles with fuel after office hours, without sharing the responsibility with the Director of Corporate Services, as stipulated by MPO guidelines.

### Recommendations

#### Fringe Benefit Tax on Fuel

Once fuel is being issued exclusively to cover official trips in accordance with the regulations, users should not be taxed as such fuel would not be a fringe benefit.

#### Interim Control

Fuel limits are to be phased out by the Works Division. Without prejudice to this recommendation, official authorisation for their application should be evidenced.

#### Administration by Kirkop

Once relieved of the monitoring of maximum fuel consumption limits, Kirkop could focus their resources on the management of the funds available. Alternatively, this can be done with more efficiency by each responsible subdivision if the fuel budget allowance was to be decentralised.

#### Agreement with the Union

- An attendance reporting system is to be introduced which could fairly justify retention 24x7 of a government-expensed vehicle by an architect/engineer or personnel of the 'legal class'.
- Official approval signed by the DG should be drawn up for every hired government-expensed car extended 24x7 to an employee in terms of the agreement with the Union, specifying the vehicle or category of vehicle (and the contracted garage). Approval would include an explanation why the user could not perform duties efficiently and expeditiously if non-exclusive transport means or payment of approved rates for use of private car had to be resorted to.

#### General Retention of Official Hired Vehicles 24 x 7

- Internal memo by the Permanent Secretary to all department heads dated 29 August 2003 titled 'Transport Policy for the MRI', along with external standing transport regulations, are to be strictly enforced.
- Management is to assess what net savings would result by replacing the 23 hired vehicles in the hands of ineligible staff with pooled transport or use of private car against payment of approved rates.
- The keys of all officially hired vehicles reserved for general use at the Finance and Administration Department are to be passed to the respective head of department.

#### Absence of User retaining Hired Vehicle

At the end of a work day preceding a day or period of planned absence from work or during unplanned absence from work the vehicle should be taken to a transport pool.

#### Fuel and Authorised Use Control

The practice of fuel consumption limits not recommended by standing regulations should stop and log books should be kept. Where Automated Vehicle Location (AVL) reports are replacing manual log books, manual endorsement of individual trips and monthly certification by responsible officers are still necessary in compliance with PSMC. Manual reference to corresponding fuel requisitions in respect of fuel intake should also be made.

#### Adjudicating Board

- The MSD adjudicating board or some other established authorised panel could assume on an ongoing basis a more extensive role to oversee compliance with both internal and external transport regulations. Official terms of reference describing the procedures and functions of such board are recommended, in order to ensure

continuity and real value to the Works Division.

- Requests for the return of a hired vehicle to the contracted garage should be in writing. Non-approval to these requests by department heads on the basis of the inadequacy of alternative transport means should also be made in writing.

## Pooling of Transport Resources

The pooling of all government-expensed vehicles at the various subdivisions currently reserved for 'general use', as well as any other vehicle for which exclusivity of use cannot be justified, is commended. This could be complemented by payment of approved rates for use of private cars, where deemed more economical.

## Utilisation of Credit Notes

Credit notes should be offset against amounts payable in respect of corresponding invoices or else a refund is to be claimed.

## Availability of Funds

Stock is to be taken of rented vehicles that cannot be met from available funds in the current year, making special request for additional funds, if necessary. Unauthorised use of funds for subsequent budget years should not be allowed.

## Transport Regulations

For more accountability all Works subdivisions should ideally have their own budget allocation of the expenses they could afford on fuel and rentals of self-drive vehicles in particular.

## MPO Guidelines

At the beginning of each calendar year the respective department heads are to notify the Director of Corporate Services and Programme Implementation (DCSPI) of the user who in effect is in receipt of an allowance in the form of a government-expensed vehicle and/or fuel. The DCSPi is also to be notified whether the same conditions are still applicable in accordance with MPO guidelines.

## Management Comments

Management is taking action with regard to:

- documented log books and the vetting of AVL reports with a view to minimise vehicle idle time, besides unauthorised use and fuel consumption;
- the monitoring of the availability of funds with regard to hired vehicles, in that payment to contracted garages is being made within two (2) months at most, and the relevant expenditure variances are being regularly included on the agenda of monthly management meetings;
- the justification of the exclusivity of use of a government expensed vehicle, which will be determined by a high profile internal Working Group to be set up for the purpose. Any implied fringe benefit tax will be discussed with the Inland Revenue;
- exceeded fuel limits - the MSD and the Finance and Administration Department had been specifically instructed to control the issue; and
- vehicles still in use which were supposed to have been returned to the contracted garages.

Management, however, found exception to the relevance of observations made even in regards to certain aspects of key issues highlighted in this report. In particular, the discretion the DG is meant to exercise exclusively determining the extension of a 24x7 government-expensed car to architects and engineers is being contested on the unverified allegation of a Ministerial memo marked 25 April 1997 approving such a concession. It has also been denied (though not substantiated) that a fully expensed official car is not being extended to all architects, engineers and lawyers in the employ of the MRI. Exception was also made to the regular information required by the DCSPi stipulated by MPO guidelines.

Despite the supported findings or the lack of contrary evidence management is also challenging the observation made by the

NAO that control over a vehicle assigned to a particular department is not being exercised by the department head. It has been sustained that delegation of authority of the main control (which could not be verified) has been passed on to the chief security officer for practical reasons.

Other areas of disagreement concern recommendations on:

- how the transport budget of the MRI could be better administered if decentralised; and
- the collection of hired and government-owned vehicles during users' absence

from work (notwithstanding that this is also a condition officially binding on users enjoying full exclusivity).

Finally no mention was made of the position management intended to take with regard to:

- the general pooling and central administration of all possible transport resources; and
- the utilisation of credit notes issued by suppliers of fuel, etc., in favour of the MRI.

## Manufacturing and Services Department - Marsa Ex-Imprinted Vehicles

### Background

There were thirteen ex-imprinted vehicles committed with the Marsa Workshops (Marsa) of the Manufacturing and Servicing Department (MSD) in 2003.

### Key Issue

The fixed weekly fuel entitlement to ex-imprinted cars is extraneous to Transport Regulations and is being granted even during the driver's absence from work. Moreover, the set quotas cannot be justified by the distance covered on official duties as this was not recorded.

### Control Issues

Opportunities for improvement were identified in the following instances:

- Blind certification of the availability of funds by the Kirkop Fuel Station (Kirkop), which is the direct responsibility of MSD Kordin Workshops.
- Fuel delivery made to ineligible persons.
- Weekly fuel entitlement issued beforehand could be utilized during weeks of planned absence leave.
- Lack of independent reconciliation between daily hire rates withheld and absence leave availed of by the ex-imprinted drivers.

### Compliance Issue

#### Transport Regulations

The standing Transport Regulations were not being adhered to with regard to the

maintenance of log books, and the filing of a return with the National Audit Office (NAO) of all the running expenses of the ex-imprinted fleet at MSD Marsa.

### Recommendations

#### Fixed Fuel Entitlement

The current fixed weekly fuel entitlement could be maintained if it is backed by:

- official approval from the right level of authority;
- satisfactory records of individual trips by ex-imprinted vehicles;
- periodic regular verifications to ensure that such entitlement is not excessive; and
- a daily report to Kirkop of the ex-imprinted drivers' absence from work from the officer in charge of the muster roll at Marsa, for *pro rata* deductions from the full week entitlement.

Unless a robust control mechanism is in place to justify the retention of the foregoing fixed allowance, fuel to ex-imprinted vehicles is to be issued strictly on the basis of distance covered during official business.

#### Availability of Funds

Officers initiating fuel requisitions to ex-imprinted vehicles are to liaise with the officer in charge of the fuel computer records at Kirkop in order to ensure the availability of funds for the fuel being requested prior to raising the requisition. A responsibility centre for the ex-imprinted fleet will also facilitate control.

### Details on Fuel Requisitions

Before it is presented to the pump attendant, Kirkop fuel station officers could evidence (by their initials on the requisition) that the identity of the person presenting himself at Kirkop is known to be that of an eligible fuel recipient. Furthermore, unless noted particulars agree with those of the vehicle and the eligible ex-impressed driver, the duty pump attendant ought to decline requests for fuel.

### Issues and Delivery

As a control already exercised by some government departments over superfluous fuel issues, Kirkop could be instructed not to honour fuel requisitions other than on the day of issue. In this way fuel requisitions would not serve as fuel coupons which could be used other than on government business.

### Payment of Daily Hire Rates

Independent reconciliation is to be carried out on the part of the salaries section of the Ministry for Resources and Infrastructure (MRI) of absence leave, for instance, with the leave records at Kirkop on which deductions from fuel allowance could be made, once these are maintained as recommended.

### Transport Regulations

Log book keeping to the standards of the Transport Regulations is a must to all ex-impressed vehicles.

A return should be compiled, and a copy submitted to NAO on a yearly basis, in accordance with MF Circular 8/90.

### Management Comments

Management has accepted and even fully adopted most of the recommendations except for the following:

- On information of leave absence of the ex-impressed drivers, Kirkop will be kept posted every fortnight rather than daily.
- The verification of the availability of funds prior to issuing fuel – management states that it can only ensure that set quotas are not exceeded.
- The aforementioned obligations under MF Circular 8/90; the Department claims that ex-impressed vehicles are exonerated from the requirements of this circular.

Management failed to comment on

- the proposed fuel delivery on date of issue; and
- how MSD Marsa could justify the retention of fixed weekly fuel entitlements being allowed to its ex-impressed drivers.

## Manufacturing and Services Department - Mobile Fuel Delivery Service and 'Biodiesel' Distribution

### Background

In 2003 the Manufacturing and Servicing Department (MSD or Department) had fifty (50) vans regularly running on 'biodiesel', together with another twenty eight (28) vehicles identified to have used the same fuel at one time or another. Biodiesel is a mixture of methanix fuel additive (recycled cooking oil) and ordinary diesel. This mixture yields a biodegradable type of fuel referred to as biodiesel. Biodiesel started being used by the MSD in 2001 and is distributed to the Works Division vehicles from the ex-Refuse Disposal Centre (RDC) Pump.

### Key Issue

Fuel consumption by ninety six per cent (96%) of the vehicles running on biodiesel was not based on a monthly quota. Except for one (1) vehicle which had been allowed 250 litres a month, 150 litres was set as the monthly quota for the "controlled" vehicles. Excess to this consumption limit was allowed to the uncontrolled vehicles to the extent of 5,181 litres during the period.

### Control Issues

Opportunities for improvement were identified in the following areas:

- No official records for the receipts and issues of methanix fuel additive in bulk by Kirkop.
  - Quantities are not being specified on the bowser fuel requisitions.
  - Lack of security resulting from pulling down the fence-netting in front of the Kirkop Fuel Station, to provide access to third party property which is no longer required.
  - One of the gates cannot be secured.
  - There is no evidence of a security guard at Kirkop outside office hours.
  - Fuel cap keys held at Kirkop, including first copies of government-expensed vehicles other than the spare keys carried by the bowser attendants, are not being locked up.
  - The biodiesel inside the reservoir at the Cleansing and Servicing Department (CSD) compound is secured by a padlock to the outer trap door and there is no evidence that the delivery gun was being locked when not in use outside office hours.
  - The biodegradable diesel used is not being tested for its quality. Moreover, the use of the fuel on some vehicles had to be temporarily withdrawn after experiencing engine problems in 2003 because of the quality of diesel used. Analyses made by the examiners reveal that running costs of biodiesel vehicles are relatively high and demand could not always be met.
- The records of receipts and issues of biodiesel by the ex-RDC Pump kept at the Kirkop Fuel Station (Kirkop) were not reconciled with the Pump's records.
  - The MSD Marsa Workshops (Marsa) and Kirkop order bowser diesel for MSD plant and biodiesel respectively without checking whether funds are available.



## Compliance Issues

### Transport Regulations

Transport Regulations were not being respected with regard to the maintenance of log books or 'plant cards'. A return of all running expenses of vehicles on biodiesel, and those of heavy vehicles and plant fuelled by the MSD Kordin Workshops (Kordin) bowser, has not been submitted to the National Audit Office (NAO). Records of expenses, other than fuel, could not be traced.

### Surplus Biodiesel Stock

Surplus stock in the biodiesel reservoir at the ex-RDC Pump has not yet been taken on charge in accordance with the General Financial Regulations (GFR).

## Recommendations

### Cut-off Dates

Common-cut off dates ought to be applied by both Kirkop and the ex-RDC Pump, and record entries should correspond to the dates of fuel requisition and issue notes, thereby facilitating the reconciliation of the two sets of biodiesel records on a regular basis.

### Biodiesel Deliveries

All the responsible station officers at Kirkop are to be instructed that attendance to the physical verification of methanix fuel additive purchases from third-party suppliers, as well as Kordin bowser diesel delivered to the ex-RDC Pump, and the signing of the related papers, are not to remain the exclusive duties of the senior station officer. MSD can fairly demand such duties on other checkers at Kirkop.

The Pricing, Planning and Control Section at Kordin should not process the purchase invoice and/or Goods and Services Purchase Order for payment unless certified by an officer responsible of the receipt of methanix fuel additive.

### Fixed Biodiesel Supply

Users regulated by a fixed maximum monthly supply are to seek approval from Kirkop on the three parts of the fuel requisition form prior to calling at the ex-RDC Pump. Alternatively, instead of authority being sought by the users, one of the two (2) CSD officers responsible for the fuel attendants of the ex-RDC Pump ought to consult Kirkop.

### Biodiesel Daily Fuel Report

Once the fuel is an immediate substitute to fossil diesel, a Fuel Station Daily Report (FSDR) for the ex-RDC Pump similar to that drawn up by Kirkop is recommended. Calibration by Enemalta of the ex-RDC Pump counter and delivery indicator is recommended prior to the introduction of a FSDR for biodiesel.

### Bowser Dipstick Readings

Dipstick readings of bowser closing stock ought to be reintroduced on the FSDR drawn up by Kirkop.

### Authorised Signatories

Kirkop should refrain from initiating bowser diesel requisitions on behalf of Kordin or Marsa, unless by means of a fax authorisation in cases of an emergency. The Kordin bowser and the ex-RDC Pump should not honour fuel requisitions unless drawn by an authorised known signatory.

### Availability of Funds

Authorising officers ought to liaise with the officer in charge of the fuel computer records at Kirkop in order to ensure the availability of funds for the fuel being requested prior to raising the requisition.

### Methanix Fuel Additive

Ex-RDC Pump is to make formal requests on a fuel requisition of methanix fuel additive receipts unless some other official document is signed to this effect.

### Requests for Bowser Diesel

Requisitions duly raised by the respective authorising officers in the various sections of the Works Division should quantify the number of litres for whatever reason. Bowser attendants should not exceed that figure. They are to be entrusted with just the keys of the fuel caps they need to unlock according to the work schedule of the day.

### Security at Kirkop

Security is to be strengthened by fencing the perimeter, putting signage to ward off unwanted parking. Besides better controlled night watches, the fuel cap keys on the wall panel of the Kirkop offices need to be made more secure.

### Security at the ex-RDC Pump

The same controls the MSD is exercising at Kirkop are recommended also at the ex-RDC Pump. Therefore, separate padlocks are to be used for the dipstick and reservoir caps, as well as for the delivery gun.

### Biodiesel Cost-Benefit

Continued biodiesel consumption ought to be decided upon by management establishing whether the social (environmental) benefits really justify the costs of the venture.

### Transport Regulations

Manual log books are to be kept in accordance with Transport Regulations. For heavier vehicles and plant, detailed 'plant cards' could be more practical to keep than log books.

A return is to be sent each year to the NAO in accordance with MF Circular 8/90, and should include a detailed analysis of all the running expenses of vehicles using biodiesel.

### Surplus Biodiesel Stock

The stock surplus is to be officially taken on charge in accordance with the General Financial Regulations.

## Management Comments

MSD has practically accepted all recommendations and already adopted many of them, but expressed some reservation.

In order to enable the possible verification of the availability of funds prior to issuing fuel, discussions are under way to have the fuel vote subdivided into departments. In the interim MSD Kordin can only ensure that set quotas are not exceeded. These have been extended to all the biodiesel fleet from 1 May 2004.

With regard to bowser diesel requisitions initiated and authorised by Kordin and Marsa instead of Kirkop, the MSD sustains that in emergencies Kordin must be allowed to order fuel on the phone, raising the supporting documents afterwards.

The Ministry stated that biodiesel will no longer be procured and consumed upon the depletion of existing stocks, in view of the expenses that result from its use. Consequently, the ex-RDC pump will be closed down.

## Manufacturing and Services Department – Metal, Timber and Carpentry Stores

### Background

The Metal, Timber and Carpentry Stores of the Manufacturing and Servicing Department (MSD) Marsa mainly cater for steel fabricated works, woodwork products and repairs at MSD Marsa, MSD Kordin, government departments and various third party clients including Local Councils. Its daily operations in respect of receipt and issue of materials are coherently liaised with the purchasing function of the Contracts and Procurements Section (CPS) of the Works Division Beltissebh.

### Key Issue

#### No Production Standards for Metal and Timber Conversion

No standard costing system is in place indicating that use of metal and timber is not being controlled and monitored. Material off-cuts are not all being returned to stores to be utilised in a subsequent job or confirmed as normal wastage.

### Control Issues

Opportunities were identified for improvement in the following areas:

- Lack of managerial control over inventory items falling under the department's responsibility. Obsolete items omitted from the Metal Stores inventory database.
- The Closed Circuit TV system of the Metal Stores, Fabrication Workshop and Carpentry area is not functioning, increasing the risk of abuse or misappropriation of assets.

### Compliance Issue

#### Performance of Annual Stocktaking

An annual hundred per cent (100%) stocktaking of Metal, Timber and Carpentry Stores is not being carried out in compliance with the requirements of General Financial Regulations.

### Recommendations

#### No Production Standards for Metal and Timber Conversion

Each job is to be costed before commencement. Normal wastage is to be considered when estimating jobs' material requirements. Any alterations and usage differences during the production process should be reported.

The materials used for a job should more or less agree with cutting list and amount actually issued and charged for the relative job. Off-cuts in the Steel Fabrication and Carpentry Workshops utilised for subsequent jobs should be made in the costing of the STORIT Job Breakdown Report. The Project Planning Control Section should detect variances between budgeted allocations for timber and actual consumption thus facilitating the formulation of pre-determined standards for production.

#### Accountability for Residual Metal/Timber Materials and Wastage

Upon completion of a works job, a one hundred per cent (100%) valuation of unused materials and wastage is to be ascertained and accounted for accordingly. Leftovers of significant measurements should be returned to store and taken on charge.

Management should determine acceptable standards for normal wastage in order to detect any abnormal losses or inefficiencies in production.

### Inventory Records

No transfer of material within the Metal, Timber or Carpentry Sections should be permitted without the authorisation of the officer-in-charge of the inventory database, who is duty bound to make the necessary changes in the inventory records in conformity with Circular MF 14/99.

The obsolete items in the Metal Trade Section (MTS) which are recorded in the Room Inventory List but have been omitted from the Inventory Database, require confirmation of unserviceability or otherwise on the recommendation of the Board of Survey. These items have been occupying valuable space in the MTS main floor workshop for a number of years.

### CCTV System

It is important that the CCTV system and relative equipment be functional in order to

safeguard the assets of the department and prevent abuse or misappropriation.

### Performance of Annual Stocktaking

A hundred per cent (100%) stocktake is to be carried out at the Metal, Timber and Carpentry Stores in the first month of the financial year (and a report of such stocktaking to be copied to the Auditor General) as stipulated in the General Financial Regulations. This exercise enables not only the verification of all stock records but also the identification of any unserviceable, dormant or obsolete stock items besides being sound preparation for the introduction of accrual accounting.

### Management Comments

The recommendations regarding the operations of the Metal, Timber and Carpentry Stores and material conversion including also inventory control, were agreed to by management. The proposals for the other areas are to be duly implemented, or are in the process of being adopted.

An aerial photograph of a complex highway interchange with multiple overpasses and ramps. The image is overlaid with a semi-transparent blue filter. In the center, a dark blue rounded rectangle contains the text 'Ministry for Transport and Communications' in white.

**Ministry for Transport and Communications**

## Ministry for Transport and Communications

### - Expenditure

#### Background

The Ministry is the national entity responsible for transport and communications. It is primarily charged with the formulation and implementation of policy in these areas with the aim of ensuring that the country maintains and improves upon its performance in these fields.

The portfolio of the Ministry includes Air Transport, Maritime Affairs, Land Transport, Postal Services Regulation and Telecommunications Regulation.

#### Control Issues

Opportunities for improvement were identified in the following areas:

- Proper authorisation of invoices prior to effecting payment not always ensured.
- Three (3) Payment Vouchers were raised upon invoices not having an invoice number, bypassing controls incorporated in DAS by processing these payments using the invoice date instead of an invoice number.
- All Local Purchase Orders and Payment Vouchers in the sample tested were signed by the same officer, thus limiting control over the procurement and payment processes.
- Seven (7) out of the ten (10) vouchers selected had the Local Purchase Order issued after the suppliers' invoices were received by the Ministry.
- Forty (40) per cent of the Payment Vouchers tested had no VAT fiscal

receipts attached. However, the Ministry complied fully to MF Circular 5/2002 in reporting defaulters to the VAT Department.

- Seven (7) Payment Vouchers (i.e. 70 per cent) were not charged to their respective account or sub-item number.

#### Compliance Issues

##### Payment Vouchers of Advisor

During testing on payments issued to an advisor, it was observed that:

- the agreement was made with the advisor personally, while invoices were raised in the name of a company but quoting the VAT number of the advisor;
- the agreement does not state whether the payments are VAT inclusive or exclusive; and
- the Extension of Contract letter states that the service is on a part-time basis, while the original agreement does not state anything to this effect.

##### Procurement of Photography Services

The Ministry has procured photography services costing Lm1,600 from a supplier, following the authorisation of an officer is not vested with the delegation of financial authority covering Section 11 (a) (iii) of the Procurement Regulations.

## Recommendations

### Control Issues

- It is to be ensured that invoices 'Certified Correct' tally with the conditions and specifications of the Local Purchase Orders and that goods and services have been delivered.
- Invoices from suppliers are to bear unique invoice numbers, failing which, no further processing should be undertaken.
- Management should properly segregate duties and ensure that authorisation is obtained prior to procurement.
- Only in exceptional cases where the amount of the expense cannot be known beforehand, Local Purchase Orders should be prepared before the placing of an order for goods or services required.
- The Ministry should discontinue procuring goods and services from defaulters until the matter has been rectified.
- Items of expenditure are to be appropriately accounted for as stipulated

in MF Circular 3/2000 and as described in the "Explanatory Notes on Standard Objects of Expenditure" of the Report on the Financial Estimates.

### Payment Vouchers of Advisor

- The advisor should be asked to raise invoices in his personal name.
- The agreement should state whether payments are inclusive or exclusive of VAT.
- Extension of agreements should be consistent with the original agreement.

### Procurement of Photography Services

Ministry should abide by the relevant provision of L.N. 70 of 1996, thereby ensuring adequate use of public funds.

## Management Comments

Management agreed with the findings and issued instructions to all concerned to put into effect the recommendations.





Ministry for Home Affairs and the Environment

FINANZI  
NOMICI

MINISTRY  
ECONOMY

## Ministry - Expenditure

### Background

The Expenditure of the Ministry for the year 2003, covers six Cost Centres being:

- Ministry
- Parliamentary Secretary's Office
- Permanent Secretary's Office
- Citizenship and Expatriate Affairs
- Notary to Government
- Environment

The Accounts Section is responsible for all payments relating to the expenditure of the Ministry whether it is for the procurement of inventory items, day to day running of offices, motor vehicles fuel, maintenance and any other services in connection with the Ministry's operation.

### Key Issues

#### Funeral Sprays and Flower Arrangements

An amount of more than Lm870 was spent from two Cost Centres, for various funeral sprays and flower arrangements from two different suppliers. As documentation justifying dispatches was found lacking, it could not be ascertained whether the expense was justifiable.

#### Inventory Records

Inventory records are not being regularly updated. This situation further deteriorated with the recent relocation of the Ministry. No examination could be carried out as no records were submitted.

### Control Issues

Opportunities were identified for improvements in the following areas:

- Requisitions raised for fuel supplies and entries in logbook were not appropriately completed.
- Only logbooks in respect of four (4) of the vehicles on hire were submitted for examination. The logbooks of the other vehicles used at the Ministry were not submitted.

### Compliance Issues

#### GSPOs

In twenty one per cent (21%) of the sample tested the GSPO was drawn up after receipt of the invoice, whilst in nineteen per cent (19%) there was no certification by a competent official upon receipt of goods or services.

#### Fully Expensed Car

In twenty nine per cent (29%) of the months examined fuel supplied to a fully expensed car exceeded the maximum limit of 150 litres per month in breach of MF Circular 5/98.

### Recommendations

#### Funeral Sprays and Flower Arrangements

Clear guidelines on the sending of funeral sprays and flower arrangements should be established.

#### Inventory Records

The Ministry is enjoined to update records by indicating the new location of each asset as

soon as possible in order that asset management is in conformity with MF Circular 14/99.

### Control Issues

- Requisitions and logbooks are to be completed by filling in every field.

### GSPOs

GSPO's are to be raised immediately as proof of proper authorisation. Furthermore, certification upon receipt of goods should be undertaken by an authorised officer.

### Fully Expensed Car

Established fuel consumption limits set for fully expensed cars should be adhered to and any amounts in breach of these regulations should be recovered.

### Management Comments

Management addressed almost all findings and initiated action to rectify the matters brought to its attention.

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## Police Department - Expenditure

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### Background

The Accounts Section is responsible for all payments relating to the expenditure of the Department whether it is for the procurement of inventory items, salaries, day to day running of offices, motor vehicles fuel and maintenance, purchases of ammunition and any materials in connection with Police investigations.

### Control Issues

Opportunities were identified for improvements in the following areas -

- Misallocation of expenditure resulted in eight per cent (8%) of the sample examined.
- Documentation forwarded to and returned back from Treasury was not properly filed.
- Amounts to be reimbursed to Inspectors in respect of telephone bills are calculated and recorded manually without being counterchecked. This may result in the possibility of mistakes that would be avoided had these been electronically calculated and recorded.

### Compliance Issues

#### GSPO dated after Invoice

In five per cent (5%) of the sample chosen the GSPO was drawn up after receipt of the invoice from the supplier.

### Recommendations

#### Control Issues

- Expenses are to be properly accounted for in the appropriate account and subhead.
- Payment vouchers returned from the Treasury should be appropriately filed.
- Calls should be recorded electronically in spreadsheet format to avoid errors. The calculation should be endorsed by the responsible official and appropriately filed, together with a copy of the relevant telephone bill.

#### GSPO dated after Invoice

Goods and services should be requested by means of a GSPO.

### Management Comments

Management failed to reply to our report.

## Police Department - Revenue

### Background

The Police Department collects Revenue from its outstations. This is generated from sporting licences, miscellaneous licences and fines, permits and certificates, fees on visas, services to third parties, road accidents reports, traffic offence tickets handed by the Police in the localities that are not serviced by wardens and miscellaneous reimbursements and receipts.

### Key Issues

#### Weapons Licences

The database used for the collection of licence fees for weapons still contains unreliable data. In forty per cent (40%) of the cases examined the original application could not be traced. Past manual records showed that some identification numbers are not unique to one applicant.

#### Amusement Machines

Records of amusement machines kept at Police Stations were not updated and licence fees due at end of year not checked and followed up for settlement. Records of premises licensed to retain such machines were found to be incomplete.

#### Police Incident Reports

The computer system in use does not support audit trail for revenues generated through the issues of Police Incident Reports and as a result completeness cannot be ascertained.

#### Counterfoil Receipt Books not presented for examination

Counterfoil receipt books, totalling 425, were not presented for examination in five Police Stations and at the Criminal Records Office. According to the Accounts Section's records these were forwarded to the sections concerned.

### Control Issues

Opportunities were identified for improvement in the following areas:

#### Criminal Records Office (CRO)

No proper back ups for manual and electronic records are kept.

#### Police Citations Office (PCO)

Contravention notes surrendered by the public upon payment are disposed of and are not kept attached to their relative receipt and reconciliation sheet issued at the end of the day. Collection of cash on a daily basis is not the responsibility of a single officer, thereby rendering it difficult to establish audit trail of cash collected.

#### Weapons Office

No documentation is kept of any follow up actions taken to recoup amounts due in eighty five per cent (85%) of cases that were reviewed.

#### Central Immigration Office

- File location was not accurate in more than eighty per cent (80%) of the cases that were examined.

- Where a payment was effected for the extension of visa, no appropriate audit trail of the receipt could be traced, as no reference of the payment made is filed.
- The system does not support a database of all visa issues and an up to date status of applications.

## Compliance Issues

### Police Licensing Office (PLO)

- On nine (9) occasions, money collected was not sent to the Accounts Section at the end of the day. Details of amounts due were not brought to the attention of the Accounts Section to be included in the Arrears of Revenue return.
- On three (3) occasions in the case of a first application by private guards, a letter of reference other than an ETC attendance course certificate was presented.

### Criminal Records Office (CRO)

- Computer generated cancelled receipts are not appropriately filed.
- Balances carried and brought forward are not included in the manual cash book.

### Weapons Office

Two particular counterfoil books were not found listed in the section's stock register. The requisition for these books was also not found.

### Accounts & Procurement Sections

Receipts issued by the Accounts Section were not recorded onto a subsidiary cash book. Money received is directly deposited to bank. Furthermore, money collected at the procurement section, was forwarded to the cashier several days, even weeks, after they were actually collected.

### ID Cards Section

- In one case where the ID Card was reported lost, the affidavit attached to the receipt was issued before the Police Station report. Furthermore, in other three instances no police report was attached to the affidavit.
- Money collected is kept overnight and not deposited at the end of the day.

### Police Stations

The samples examined within Police Stations revealed that in some stations:

- counterfoil receipt books were used for more than two years in breach of the General Financial Regulations 1966;
- receipts were not recorded in the cash book at the end of the day in accordance with regulations and in other instances some receipts were not dated at all;
- cash book pages were not numbered;
- receipts were not recorded individually;
- counterfoil receipt books were not used consecutively and in other cases were not registered in the Stock Register;
- counterfoil receipt books written off in previous audits were still at the station;
- the transfer of counterfoil receipt books from one station to another was not recorded on the register of either stations and in the main stock register kept at Headquarters; and
- the amount of counterfoil books used in various stations and sections of the Police Department was considered too high, especially with the current widespread use of electronic systems in the public service. Furthermore, in some sections and stations these records were kept in an unhygienic environment.

## Recommendations

### Weapons Licences

Manual records are to be checked for correctness and the computer system updated accordingly. The relevant manual data is to be appropriately archived to permit an audit trail of all the details of the weapon and the owner. Furthermore, where necessary the computer system is to be enhanced with new fields to cater for any additional data to be inserted for each record.

### Amusement Machines

Records relating to amusement machines are to be monitored and updated regularly in order to ensure that the correct fees are collected.

### Police Incident Reports

The computer system is to be enhanced in order to include a valid audit trail.

### Counterfoil Receipt Books not presented for examination

As the number of receipt books represents a substantial number it is suggested that an effort is made to trace and account for the missing books. Furthermore, all counterfoil books are to be accounted for.

### Criminal Records Office (CRO)

All records are to be computerised and an electronic back up of records is to be kept off-site

### Police Citations Office (PCO)

When filed, copies of computerised receipts, together with the relative contraventions, should invariably be attached to the relative reconciliation sheet. Only one (1) officer should be held responsible on any day for the cash received.

### Weapons Office

Manual data relating to weapons records should be appropriately archived to permit an audit trail of all the details of the weapon and the owner.

### Central Immigration Office

- The computer system should be updated with every file movement and/or process stage, in order to provide timely and accurate information.
- The receipt number is to be recorded in file whenever a payment occurs.
- The system should be enhanced to cater for the compilation of ad-hoc reports as quickly as possible.

### Police Licensing Office (PLO)

- Money collected should be deposited as stipulated in MF Circular 8/2002 unless an exemption is obtained by the Ministry of Finance.
- It is to be ensured that the appropriate documents are made available prior to issuing the licence.

### Criminal Records Office (CRO)

- Cancelled receipts issued by the current computer system should be filed appropriately.
- The manual system should be replaced by a fully computerised system so that all documents are issued electronically.

### Weapons Office

Counterfoil receipt books are to be recorded in the stock register as soon as they are forwarded to the section and requisitions are to be filed in date order.

### Accounts & Procurement Sections

The Accounts section should keep a subsidiary cash book recording individually the receipt of amounts collected each day together with an adequate breakdown of the deposited amounts. Furthermore, all cash collected is to be deposited on the same day and the use of the night safe facility at the Central Bank should be considered.

### ID Cards Section

- It should be ensured that the necessary documentation is always presented before any ID Card is issued.

- All cash collected is to be deposited on the same day and the use of the night safe facility at the Central Bank should be considered.

### Police Stations

General Financial Regulations should be strictly adhered to and all records are to be updated daily. An internal board is to be set up to effect the change over from issuing receipts manually to electronically.

The expense involved and timeframes within which this is to be carried out should be established and reviewed periodically. The system should incorporate the provisions of the General Financial Regulations and support an adequate audit trail.

### Management Comments

Management accepted NAO's recommendations and will be taking the necessary action.



## Police Department - Arrears of Revenue

### Background

The Arrears of Revenue are made up of fees due for the issue of Weapons Licences and Services to Private Parties. In the case of Weapons Licences individuals pay an annual licence fee for keeping and/or carrying a firearm while in the case of Services to Private Parties, individuals and entities can request a police presence against a payment of a pre-established fee to which an administrative charge is added.

### Control Issues

Opportunities were identified for improvements in the following areas:

- No documentation of reminders sent to a weapons licence holder is kept by Police Stations.
- Details of action taken to recoup amounts due can neither be traced from the Weapons software nor from the manual records.
- The return of arrears still contains records identified by means of a fictitious identity number<sup>1</sup>.

### Compliance Issues

#### Services to Private Parties

The examination revealed that there were instances where the calculation of the

administrative fee was incorrectly carried out.

### Recommendations

#### Control Issues

- Adequate procedures should be clearly set up in order to ensure that a standard procedure for reminders is followed by all Stations.
- The software should be enhanced in order to keep record of action taken on outstanding arrears, keeping note of other relevant details.
- Adequate and timely action to trace the owners of the weapon is to be taken. It is also important to rationalise the return of arrears by writing off amounts, particularly if these are time barred.

#### Services to Private Parties

Calculations of administrative fees should be checked thoroughly for correctness, preferably by an officer other than the one performing the original calculation. Ideally the whole billing system is to be computerised.

### Management Comments

Management failed to reply to the NAO's report.

<sup>1</sup> A meaningless number given to the licence holder record where the actual I.D number is not available. This was resorted to when converting the manual system to an electronic one in order to pass the validation routine.

## Police Department - Quartermaster Stores (QMS)

### Background

Police officials at the Quartermaster Stores are responsible for the ordering, storing, issuing and receipting of uniforms, stationery, ammunition, maintenance expendables and permanent items.

### Key Issue

#### Discrepancies between Physical Quantities and Book Balances

In forty seven per cent (47%) of the sample examined it was found that the physical quantities did not agree with totals shown on the manual stores ledger.

### Control Issues

Opportunities were identified for improvement in the following areas:

- The QMS Stores still use manual systems for the recording of issues and receipts of items. Additional financial spreadsheets are also used resulting in the doubling up of the process of updating stores ledgers. Consumption rates, minimum and maximum stock levels, minimum and maximum re-order levels and re-order quantities are non-existent. This could lead to items being under or over stocked.
- A number of crash barriers is periodically being written off. During the year 2003, 34 crash barriers were

written off as these were not returned back to the stores.

### Recommendations

#### Discrepancies between Physical Quantities and Book Balances

The stock records should invariably be kept up to date at all times, by recording issues and receipts as soon as they occur.

#### Control Issues

- The installation of STORIT, widely used by government, is to be introduced with the least possible delay. Consumption rates, minimum and maximum stock levels, minimum and maximum re-order levels and re-order quantities should be set. The introduction of these measures, at least on items of a high value and on items that are used in large quantities, will reduce the risk of items from being under or over stocked.
- An adequate procedure is to be established on the safe keeping of these barriers indicating who should be responsible for their collection and returning.

### Management Comments

Management failed to reply to NAO's report.

## Government Property Division - Below-the-Line Account - Retention of Monies

### Background

A below-the-Line account was opened to deposit the five per cent (5%) retention money on every payment made to contractors. To date this account has been used in connection with the Rehabilitation and Restoration of the Auberge De Baviere contract.

### Key Issue

#### Retention in contracts

In fifteen per cent (15%) of the cases examined no reference was found in the contract document to the Department's right to withhold five per cent of every payment but the certificate issued by the Works Division declares that payment was made net of retention.

### Control Issues

Opportunities were identified for improvements in the following area:

- In twenty-three per cent (23%) of the contracts that stipulated that a retention of five per cent (5%) of the payment for works had to be made, no retention was actually withheld.

### Compliance Issues

#### Payments withheld

Payments to a particular supplier revealed that:

- in two (2) instances the retention money was still in the account even though work was satisfactorily completed over

a year ago. These were retained due to other unsatisfactory work in respect of a different job on which no agreement was reached;

- a cancelled payment voucher was used to record a retention from a payment; and
- Two (2) different payment vouchers for the year 2001 were covered by the same certified invoice issued by the Works Division.

#### Information not submitted

Further information on particular contracts was requested from the Division, as this could not be retrieved from the files. By the time the fieldwork of the audit was completed the requested information was not received although that this was requested on several occasions.

### Recommendations

#### Retention in contracts

Payment details, including retention clauses, are to be clearly stated in each contract signed between the Division and the supplier.

#### Control Issues

- Standard retention clauses that are part of the contractual conditions are to be implemented.

#### Payments withheld

- The Division should strive to regularise the position concerning retention money withheld with the contractor in question.

- Payment vouchers are to be thoroughly checked before being issued.

### Information not submitted

Adequate coordination between the Division and the Works Department should be established to ensure that all the related information on contracts is available at each end.

### Management Comments

Management accepted NAO's findings and will strive to ensure settlement of liabilities in accordance with current financial regulations.

## Government Property Division - Revenue/ Arrears of Revenue

### Background

The main objective of the Government Property Division is to make the most effective and profitable use of Government's property to the benefit of Maltese citizens. The Government Property Division is composed of three Departments:

- Land
- Estate Management
- Joint Office

The Land Department is the legal branch of the Government Property Division entrusted with the management of government property. Its role includes the actual disposal of the property through lease agreements/contracts following adjudication.

### Key Issues

#### Poor Monitoring of Leased Premises

The results from a physical examination of a sample of fourteen (14) commercial properties showed that in thirty six per cent (36%) of the cases the data held on file differed from the actual observations obtained following physical checks. In some of the cases the property could not be identified or was found to be abandoned.

#### Poor Monitoring over Arrears of Revenue

Arrears of Revenue arising from outstanding tenement dues are not being followed up resulting in loss of revenue.

### Compliance Issues

#### Global Receipts

In twenty four per cent (24%) of the cases examined there were instances where the DAS global receipt was issued on a date different from the cashbook entry.

### Recommendations

#### Poor Monitoring of Leased Premises

The Department should initiate an exercise to ensure that the premises are still in the possession of the individual shown in the Department's records.

#### Poor Monitoring over Arrears of Revenue

Action should be taken against defaulters in such a manner that arrears of revenue are collected without any further delay. Immediate action needs to commence in those cases where the amounts may soon become statute barred.

#### Global Receipts

Global Receipts should invariably be issued on the same day that amounts are collected so that the reconciliation exercise is carried out in a timely manner.

### Management Comments

Management's reply points to a lack of sufficient human resources to carry out an efficient and effective monitoring of leased premises and in the collection of arrears.





**Ministry of Agriculture and Fisheries**

## Fisheries and Directorate of Corporate Services - Head Office - Revenue

### Background

The revenue generated by the Fisheries Department consists mainly of the sale of fish through its market facilities, which is credited to the Below-the-Line Account relating to the Fish Marketing Scheme. Another source of revenue consists of licence fees for the registration of new licences for sea craft and the renewal of existent ones.

### Key Issue

#### Audit Trail of Source Documents

Fish Sales Vouchers for financial year 2003 requested for audit purposes were not made available.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of segregation of duties in the revenue collection process
- Incorrect additions in Cash Book and Hawkers' Account Sheets
- Inaccurate narrative details in the Departmental Accounting System (DAS)
- Inadequate security controls at Fish Market Cash Office

### Compliance Issues

#### Deposit of Cash and Cheques

The cash and cheques received by the Fisheries Department are not being deposited on a daily basis as required by

the General Financial Regulations. Instances were encountered of cash and cheques which were recorded in grouped period dates and not deposited on a strictly daily basis.

#### Reconciliation of Below-the-Line Account

A proper reconciliation of the Below-the-Line Account (Fish Marketing Scheme) for the financial year 2003 has not been performed by the Fisheries Department.

#### Supporting Documentation

Supporting documentation, such as copies of source documents to substantiate revenue from the various Sections of the Ministry of Agriculture and Fisheries, is not being filed at the Directorate of Corporate Services.

### Recommendations

#### Audit Trail of Source Documents

A co-ordinated effort should be made by the Fisheries management and administrative personnel to locate the Fish Sales Vouchers for 2003. Such documentation is necessary for the Fisheries Department to be in conformity with the General Financial Regulations and for audit verification.

#### Segregation of Duties

In order to strengthen internal control and security, the administration process of revenue should be performed by different personnel.



### Accuracy of Computations and Hawkers' Account Sheets

Computations and castings should be checked for accuracy. Debtors' account balances are to be reconciled regularly as a means to enhance internal control, accuracy and reliability of hawker account records.

### Correct DAS Input

The reliability and accuracy of all receipt numbers input in DAS as a narrative description is a requisite for internal control, both by the Fisheries Department and the Directorate of Corporate Services Administration.

### Cash Office Security Measures

An overhead closed circuit TV should be installed to overview the Cash Office premises area. Security measures at the Cash Office should be stepped up.

### Deposit of Cash and Cheques

The cheques and cash received are to be deposited on the same day of receipt in accordance with the General Financial Regulations and Ministry of Finance Circular 8/2002.

### Reconciliation of the Below-the-Line Account

It is strongly recommended that a thorough reconciliation of the Below-the-Line Account (Fish Marketing Scheme) is performed and analysed. This is necessary for management control of the Fisheries Department's financial commitment of payments to fishermen for catch landings sold at the Fish Market and the settlement of sales commission due to middlemen (*pitkala*).

### Supporting Documentation

Supporting documentation for all sources of revenue reported by Departmental Sections should be readily available for checking and analysis of the periodical transactions effected as a measure to enhance internal control and for audit verification purposes.

### Management Comments

Management will be introducing measures to comply with NAO's recommendations in line with this Ministry's commitment to follow standing Financial Regulations.

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## Food and Veterinary Regulation Division – Civil Abattoir Revenue

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### Background

The revenue of the Civil Abattoir is largely derived from services rendered, consisting mainly of fees for weighing and registration/ slaughtering of livestock. Other revenue is generated by the Civil Abattoir through the provision of ancillary facilities consisting of animal quarantine, cold stores, laboratory testing, issuing of licences and certificates and the sale of livestock from the Government Farm.

### Key Issue

#### Receipts not Covered by a Source Document

Lack of audit trail of source documents at the Laboratory and Small Quarantine Sections impinged the scope of audit by the NAO as no verification could be performed to ensure accuracy and completeness of records.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Disputed amounts for weights of carcasses, resulting from technical faults, have not been established by the management of the Civil Abattoir and are still outstanding by a particular co-operative.
- Verification of claims by creditors cannot be reconciled due to lack of control on such records by the Civil Abattoir.
- Inadequate credit control giving rise to disputes over collectible amounts that are leading to doubtful debts.

### Compliance Issues

#### Arrears of Outstanding Revenue

The Register for Fees Unpaid in respect of weighing and slaughtering fees reveals that Lm3,987 as at end 2002 (Lm5,124 as at 30/09/03) were omitted from the Return of Arrears for the financial year 2002.

#### Deposit of Cash and Cheques

The cash and cheques received by the Civil Abattoir are not being deposited on a daily basis as required by the General Financial Regulations. Cheques were being accumulated and deposited only once a week.

Cash and cheques held for prolonged periods expose this centre to various risks besides the adverse effect on Government cash liquidity.

#### VAT Registration Number on Receipts

Receipts of weighing fees (both for meat and hides) issued by the Civil Abattoir are not in conformity with VAT legislation requirements as these neither indicate the Department's nor the recipients' VAT registration number.

### Recommendations

#### Source Documents

Source documents are to be sequentially numbered and filed for audit consultation and verification.

#### Outstanding Amounts due to Technical Faults

A reconciliation exercise of technical faults should be made in terms of kilograms,

swine meat grading, and value in Maltese Liri. Resulting amounts should be mutually agreed upon by the Civil Abattoir and the other party.

A case in point is the long disputed amount exceeding Lm2,000 already indicated in the report. In view of this, it is important that the Division should always substantiate collectible amounts with external proof evidencing the debts. Alteration sheets approved by both the Co-operative in question and Civil Abattoir should be maintained.

### Arrears of Outstanding Revenue

Stricter credit control should be exercised to avoid doubtful debts. Nonetheless, it is strongly recommended that all revenue for Civil Abattoir services (i.e. weighing and slaughtering fees) is collected promptly.

### Deposit of Cash and Cheques

The cash and cheques received are to be deposited daily as stipulated in the

General Financial Regulations and other pertinent regulations.

### V.A.T. Registration Number on Receipts

It is necessary that VAT receipts are brought in conformity with the requirements of the VAT Act. The VAT registration number of the Civil Abattoir should be printed or rubber stamped on general receipts issued for all services provided.

## Management Comments

In their reply, though Management confirmed that outstanding amounts are still in dispute with the Co-operative, they failed to state what action is being taken to address the weaknesses shown under "Control Issues" and the arrears of outstanding revenue.

It was however stated that measures have been taken to comply with NAO's recommendations in respect of the remaining observations.

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## Food and Veterinary Regulation Division – Transport and Expenditure

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### Background

In 2003 eighteen vehicles – 4 government-owned, 7 ex-impresed vehicles and 7 hired cars – were regularly committed to the Food and Veterinary Regulation Division (FVRD or the Division).

### Key Issue

Irregularities were detected in all the categories of vehicles in the fleet committed to the FVRD with the most serious being:

- the unauthorised weekly fixed fuel supply to ex-impresed cars appears to be excessive as evidenced by a number of fuel requisitions raised well in advance of the actual fuel issue;
- the retention outside working hours of other government-expensed vehicles by staff not covered by performance contracts or Finance approval.

### Control Issues

Opportunities for improvement have been identified in the following instances:

- Incomplete details on fuel requisitions in respect of hired replacement vehicles and fuel records in general.
- Fuel entitlement under performance contract which is being exceeded.
- Exclusivity of use of a number of vehicles is not officially approved by proper authority.
- Wrongly coded expenditure in the form of unauthorised virements.

### Compliance Issues

#### Transport Regulations

Other than fuel consumption, a record of vehicle running expenses is incomplete for the purposes of the return to be filed with the National Audit Office (NAO) in accordance with Transport Regulations. A number of log books were not made available. Those examined were not kept and certified in accordance with standing regulations.

#### Occupational Health and Safety Act

Owing to the lack of information on the compliance of the FVRD with the provisions of the Occupational Health and Safety Act, the National Audit Office could not make its observations and recommendations, particularly on the possible financial implications.

#### Purchase Orders

More than 50 per cent of the purchases examined were found to have been made before the placing of an order to buy.

#### Fiscal Receipts – VAT

Fiscal receipts failed to support 11 per cent of the payment vouchers examined relating to taxable purchases.

#### Consultancy re Upgrading of Food Establishments

Adherence to the conditions of the direct order for consultancy services could not be verified as information on conditions of contract were not made available.

## Recommendations

### Hired Replacement Vehicles

Fuel issued to replacements of hired vehicles must be noted in fuel records in the name of the vehicle receiving the fuel, irrespective of the duration of the replacement. A note could accompany the records making reference to the vehicle being replaced.

### Fuel Records in general

Fuel requisitions are to be controlled by a sequential reference number and records kept in consecutive order, analysed by vehicle.

### Weekly Fuel Issues to Ex-impressed Cars

Deviations from standard procedures should not continue as higher transport costs are being incurred in defiance of the principle entrenched in paragraph 8.2.1 of the Public Service Management Code (PSMC): 'Public officers should use the cheapest means of conveyance.' In view of this:

- Fuel ought to be issued to ex-impressed cars strictly on the basis of milometer readings logged during official business.
- It is to be ascertained whether there has been any invalid fuel requisitions, other than those brought to management attention. Fuel issued against invalid requisitions should have been rejected in the first place, and the relative suppliers and/or employees called upon for redress. Above all, such abuse of fuel requisitions is to stop if it is still occurring.

### Fuel Entitlement as per Performance Contract

A check is to be introduced to ensure that fuel allowance is not exceeded even unintentionally. The non-cumulative fuel allowance utilised in a particular month could be independently contained by the officer raising the fuel requisitions. Beneficiaries are to remedy their position in respect of past encroachments.

### Authorised Retention of Official Vehicles 24 x 7

Exclusivity of use is not to be extended beyond office hours and it is recommended that the Division should:

- review the control mechanism exercised over the fleet of the FVRD;
- ensure a strict enforcement of having all official vehicles returning to base at the end of a day's work.

### Exclusivity of Use of Official Vehicles

Exclusivity of use of a government-expensed vehicle must be approved by the pertinent authority and evidenced in writing.

### Allocation of Expenditure in the Accounts

More adherence to the standard chart of accounts as indicated. Generic codes are to be avoided. The importance of consistency in coding expenditure need not be underlined.

### Transport Regulations

- The annual return should be compiled on a regular basis, and copies thereof submitted to the NAO and to the Ministry of Finance, in compliance with Government directives. The return is to include a detailed analysis of vehicle running expenses including fuel consumption.
- Log books of vehicles are to be kept by the driver(s) and/or officer(s) of the FVRD authorised to use the respective vehicles. Log books are to be controlled by independent officers, preferably by employees at a higher level of authority. Control is to include log book certification in accordance with PSMC.
- Individual trips are to be endorsed by the driver or officer authorised to make the journey.

### Occupational Health and Safety

- The most recent Health and Safety Inspectorate (HSI) reports delivered to the FVRD are to be made available to the NAO.

- Implementation by the Division of any pending HSI recommendations.

### Procurement Regulations

A Goods and Services Purchase Order is to precede the purchase of any good or service for assurance of authorised purchasing and better control over the procurement of goods and services in general.

### Fiscal Receipts - VAT

Defaulters of fiscal receipt regulations are to be made fully aware of government rules. The Division is also expected to discontinue business with persistent defaulters. Compliance with MF Circular 5/02 is urged.

### Consultancy re Upgrading of Food Establishments

The requested papers are to be made available to the NAO.

### Management Comments

On transport issues, Management stated that fuel requisitions are being issued in the

name of the vehicle actually receiving the fuel, this being taken to refer to hired replacement vehicles; no manipulation of fuel requisitions is now taking place while running expenses are controlled and recorded by the Accounts Official.

Though Management reiterated that log books are being maintained, no mention was made that now all log books and other fuel records adhere to Transport Regulations as this was the issue challenged in the NAO's report.

On expenditure in general, Management stated that purchase orders are always issued when purchasing supplies. This reply was not satisfactory as NAO's comments related to the issue of GSPO's **following** procurement of supplies.

Management failed to comment on the unauthorised retention of official vehicles outside working hours, which was one of the Key Issues of this report. Several other observations by the NAO remained unaddressed, including NAO's comments on the last HIS report and queries on consultancy expenses.

## Food and Veterinary Regulation Division – Stores, Inventory and Information Systems

### Background

The slaughtering of livestock and disease surveillance on farms are the main functions of the Animal Health and Welfare Unit of the Food and Veterinary Regulation Division (FVRD or the Division), more commonly known as the Civil Abattoir.

There is also an Aquaculture and Fisheries Section regularly performing audits of aquaculture packing activity and inspections at fish-packing establishments.

### Key Issues

- The FVRD does not yet have comprehensive inventory records, nor are the systems in place as stipulated by standing regulations. Considering the hefty investment at the Civil Abattoir in the past ten years, particularly in the pig slaughterhouse and laboratory, it is estimated that the value of the inventory is substantial.
- Computerised records of expendables are not being maintained to generally accepted standards. Both main store records and bin cards are incomplete and not properly kept in violation of the General Financial Regulations (GFR). Not every store issue is covered by the Request for Store Issue Form (RSIF) in the case of FVRD.
- The stipulated charges – Fees for Abattoir and Veterinary Services Regulations (FAVSR) – for the storage of cut meat in cardboard boxes at the cold store of the FVRD by middlemen are not being collected in accordance with the regulations.

- Security at the cold store is very weak. Confiscated bird skins and mammal carcasses have been stolen. There is the risk of recirculation of the confiscated contaminated meat of which only informal incomplete records are kept.

### Control Issues

Opportunities for improvement were identified in the following instances:

- An audit trail of store issues cannot be established as only one copy of the RSIF is being raised.
- An audit trail of RSIFs is lacking, partly because unique references are not being assigned to issues.
- Verification of stores by staff along with improper filing of used bin cards.
- Items bearing distinct stock codes are not always safely stored in bins/racks.
- General Stores are at times bypassed in respect of certain issues, at the risk of unauthorised distribution of stores.
- STORIT - Stores computerised system - is not being adequately exploited.
- Stock of meat in cold store was found to be short. According to the weekly summaries, packed meat held in the cold store belonged exclusively to the middlemen. However, it could not be verified that all Beef Intervention Scheme stocks pertaining to the Director of Agriculture were actually issued out of the cold store.

- Strict credit control is not being exercised in the collection of arrears of revenue and/or to avoid doubtful debts.
- Lack of security of the computer-based information systems in use in terms of data backup and user access to past data, especially with regard to STORIT.
- Little control could be exercised on the returnable tools and equipment taken on charge by employees as Personal Sheets were not properly maintained and updated.

### Compliance Issues

#### Stock Control

General Stores stocks are not being verified and no annual declarations of the physical inspection of all stores are being made.

#### Issues to the Gozo Civil Abattoir

No transfer adjustment vouchers are being raised for requests for store items by the Gozo Civil Abattoir. Requests are not even being properly recorded by the FVRD or verified against official correspondence.

#### Write-offs and Write-backs

No initiative is being taken to write off unserviceable stores, loose inventory and fixed assets (or parts thereof). Unserviceable items still need to be identified and a list thereof drawn up.

### Recommendations

#### Inventory

##### Manual and Computer Records

The National Audit Office (NAO) gave its recommendations on how computer inventory records were to be updated, along with the manual ledgers of permanent items which could serve as a backup. Once management is convinced that the same benefits are being derived from parallel manual and computerised information systems, the former could then be phased out.

##### Compliance with Standing Regulations

Even before a complete plant register is drawn up, the control procedures laid down in MF Circular 14/99 need to be adhered to with immediate effect. While the FVRD is pressing for a full-time inventory officer, the process of compliance with pertinent inventory regulations could still be commenced with the staff presently available, given the necessary training and other support.

##### Unserviceable Items

When dispensing with unserviceable inventory the disposal procedure in terms of the GFR is to be followed if proper control is to be exercised. The vacated space may then be put to more beneficial use, for example a place would be provided where government-owned vehicles could be garaged.

#### Store Records

##### Completeness of STORIT Records

The FVRD ought to update STORIT records supporting all receipts and issues in and out of General Stores by the corresponding Goods and Services Purchase Orders and RSIFs respectively. The opening balances of STORIT records must be the closing balances on the date the previous official store ledger accounts were replaced by the system currently in use. A hundred per cent physical stocktaking of general store items is recommended to verify the updated STORIT records.

##### Bin Cards

Manual calculations are to be double-checked and consistency is to be exercised in applying quantities to units of measurement. Management ought to investigate the discrepancies on the bin cards and keep separate records of unserviceable items.

##### Cold Store Fees

As failure to apply fees and charges stipulated in the FAVSR results in under-collection of revenue, full compliance with the regulations is recommended. The FVRD should avoid waiving off charges



specified in the regulations. It should also refrain from inconsistently applying discretionary rates.

### Abattoir Cold Store

#### Security

The FVRD ought to consider obtaining serious expert advice from approved sources on how to step up security.

#### Stock in Custody

Stock is to be taken of seized bird skins and meat earmarked for destruction kept inside the cold store by the FVRD on behalf of other authorities. Records thereof, comprising an estimated value of the goods, are to be regularly updated.

### Request for Store Issue Forms

#### Multiple Parts

Four copies of every RSIF are to be raised so that each party concerned would retain a copy in support of its actions.

#### Audit Trail

Internal rotational reference is to be noted on part/s (copy/copies) of the RSIF at the point(s) where records are centralised.

#### Bin Cards

Entries of issues in bin cards are to bear a cross-reference to the RSIF for easier and quicker searches. 'Dead' bin cards are to be sequentially filed for easy reference and should not be archived before having served their purpose.

#### Distinct Store Items of the Same Category

Distinct stock codes are to be physically stored in separate bins/racks.

#### Computer-based Stock Management System

Higher efficiency could be attained in the running of General Stores from a better use of STORIT, in lieu of manual procedures. The system should be upgraded as deemed necessary.

### Weekly Summary of Packed Meat inside Cold Store

- Management is to establish the ownership of all the meat held in the cold store at the end of 2003.
- Cold store records must reflect actual stocks held. Meat stock pending vet certification could be entered as such and, once certified, it would be reclassified with the stock earmarked for destruction.
- Records of stock movements are to be reconciled regularly with the physical quantities of meat in cold storage and supporting documents.

### Credit Customers

#### Credit Control

When easing payment terms the FVRD may evaluate the justification of requests for credit and take the control steps that are usually exercised before extending credit (bank references and/or guarantees). Credit customers are to be sent regular statements and effective action is to be taken in respect of overdue claims.

#### Debtor in Liquidation

The Division should take timely action to collect amounts due. In particular, immediate legal action should be taken to collect an amount exceeding Lm80,000 owed by a company in liquidation.

### Information Systems and Security

Prior to the migration of all systems to the main server, the FVRD is to ensure that a mechanism is in place protecting the data generated on stand-alones and independent servers against irretrievable losses. Information System security could be enhanced in more ways than one:

- The key of the server room should be retained solely by the person or at the office of authorised administrators. A spare key is to be retained in a sealed envelope in a secure location.

- The STORIT system's administration is to be coordinated between MITTS and a competent member of in-house staff, not being the user.
- Officers working on independent network servers/PCs are to be provided with a UPS and instructions on the proper backup procedure.

### Loose Inventory Items

Manual or computerised personal sheets and inventory ledgers are to be adjusted to agree with the physical quantities in hand. New coding as per MF Circular 14/99 is recommended. Whenever loose inventory changes hands, take-over sheets countersigned by the section head ought to be copied to the officers in charge of loose inventory, reporting any differences.

### Physical Inspection of all Stores

As a priority, management should comply with regulations failing which it would be prejudicing its position further.

### Store Issues to Gozo

- Management is to quantify the value of all items transferred to Gozo Civil Abattoir in 2003 and raise the necessary transfer adjustment vouchers.
- Requests for store issues from the FVRD should only be processed on receipt of an authorised requisition/order form from the Gozo Civil Abattoir.

### Write-offs Deficiencies and Surpluses

The FVRD is to initiate the formal writing-off procedure of identified unserviceable or obsolete stock during complete annual stocktakings. STORIT records are to be adjusted immediately surpluses/deficiencies are discovered.

### Management Comments

Management stated that:

- A full time officer has been entrusted with inventory, and records are being compiled and updated.
- STORIT records have been updated and store movements are being recorded on the day.
- Bin cards are occasionally being checked.
- Cold storage facilities to third parties have been discontinued, assimilating the vacated space into the new deboning and cutting plant under construction.
- Security cameras have been installed around the FVRD compound.
- RSIFs are being issued in duplicate.
- The case of the debtor in liquidation has been referred to the Attorney General.
- MITTS have been consulted in connection with more IS security as recommended in the NAO report.
- Action will be taken during the annual stocktaking procedure in January/February 2005 in respect of unserviceable items.

Issues on which Management refrained from commenting include the possible understatement of the Beef Intervention Scheme meat stock in favour of the middlemen now administering the distribution of all slaughtered beef. Neither was mention made whether these middlemen were charged as per the terms of FAVSR for cold store use up to the time this was closed down in 2004. Subject to verification, it is also NAO's understanding that alternative cold storage services are being sought elsewhere for slaughtered beef surpluses.

Management also failed to comment on how authorisation of store supplies to the Gozo Civil Abattoir is being evidenced.

## Malta Centre for Fisheries Sciences and Government Farm - Maintenance Section - Stores, Inventory and Log Books

### Background

The various stores at the Malta Centre for Fisheries Sciences (MCFS) mainly cater for fish food, laboratory chemicals and equipment, consumables, stationery and the electrical, carpentry and general maintenance workshop supplies and tools. The MCFS Stores function with an operational set-up to cater for the service of both the fishing and fish farming community requirements, including research activities.

Similarly, the Government Farm Maintenance Section (GFMS) stores provide the general supplies and consumables of the Farm ancillary sections. The Maintenance Tools and Supplies Store furnishes the cement and hydrated lime provisions of the Government Farm on a regular basis. The workshop sections for electrical, plumbing, carpentry and metal works also obtain their operational supplies, tools and equipment from the stores.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of segregation of duties in the procurement process.
- Inaccurate stock records and no bin cards.
- Inadequate storage organisation system.
- No control over slow-moving, dormant and obsolete store and inventory items.
- No issue of MCFS Gate Pass Notes for temporary store and inventory items transfers.

- Non-functional MCFS security systems.
- Lack of verification and certification of log books.

### Compliance Issues

#### Asbestos Store Items and EU Regulations

A dormant stock of drainage piping accessories in the General Maintenance Store was noted. Asbestos stock items should have been completely discarded in conformity with the pertinent EU regulations.

#### Annual Stocktaking

An annual hundred per cent stocktaking of MCFS and GFMS stores is not being carried out in compliance with the requirements of the General Financial Regulations.

#### Inventory Records

Inventory items are still not in conformity with Inventory regulations:

- Room inventory lists are not all finalised and incorporated in inventory database.
- Incorrect or omitted asset identification numbers from room inventory lists and inventory database.
- Labels with the asset identification numbers not affixed to all the physical inventory items.

- Total Cost or Value of assets included in Inventory Database not updated.

### Obsolete Items omitted from Inventory Database

Obsolete items in the MCFS court yard, mainly consisting of water tanks and fridges, in addition to the obsolete electrical water pumps in the Maintenance Workshop, are not included in the inventory records. A variety of obsolete furniture, technical/office equipment and computer hardware have accumulated in the Huts, Steel Store and Operations Manager Office at the Government Farm and are not registered in the inventory lists or database.

### Issue of Loose Tools to Individual Employees

No records of daily issues and returns or long-term lending of loose tools to MCFS employees are being kept by the officers-in-charge of the respective Electrical, Carpentry and General Maintenance Workshops.

### Use of Official Vehicles

Employees are retaining cars, available for official business, for personal use after office hours without authorisation from the Ministry of Finance.

## Recommendations

### Segregation of Duties

The procurement administration and receipt certification duties should be performed by different personnel for internal control purposes. Thus, the storekeeper for each individual store should certify the GSPO for the proper receipt of goods as the official primarily in charge of the store, and in order to strengthen control through segregation of duties.

### Store Records

Proper ledger and bin cards should be maintained in order that a stock balance is readily available for physical verification whilst an audit trail is established in

compliance with Treasury Circular 6/2004. Furthermore, store receipt documents (GSPOs), requisition forms and issue forms (SIFs) should be assigned an internal unique reference number for cross-referencing purposes. Continuous or perpetual stocktaking procedures should also be implemented to confirm ledger balances and physical quantities whilst detecting any resulting discrepancies.

### Systematic Store Organisation

All stock items are to be stored in such a way as to be properly identifiable with alphanumeric stock code labels, particularly for stock control purposes and physical stock takes.

### Control of Slow-moving and Obsolete Items

An official stock take should be taken of balances in respect of the remaining miscellaneous fittings and accessories at the MCFS Ex-Projects Store and GFMS General Maintenance Store. Store-keeping procedures are to be introduced to regulate any issues withdrawn from the store for repairs and maintenance purposes whilst write-off procedures should be initiated for obsolete items.

### Issue of Gate Pass Notes

An official Gate Pass Note should be duly completed with a unique numerical sequence reference, signed by the Officer-in-charge of Inventory and an MCFS official of an appropriate authority level assuming responsibility for the return of the store and inventory items to the MCFS premises.

### Operational Security Systems

Closed Circuit TV system and relative security equipment is to be made functional at the earliest possible in order to safeguard the assets of the MCFS and prevent abuse or misappropriation, and to monitor the movements of unauthorised members of the public.

### Log Books

Log books should be duly verified and certified in order to monitor and control the

use of all government expensed vehicles by departmental staff. This also applies to the monthly vehicle reports on fuel cost and other running expenses submitted by MCFS to the NAO. Furthermore, records of the exact mileage covered and details of the purpose for each journey performed are to be recorded in the log book and signed by the officer making the journey, in conformity with the Public Service Management Code.

### Asbestos Store Items and EU Regulations

Management is to withdraw the asbestos stock items from the store and dispose of it in accordance with EU regulations without further delay.

### Annual Stocktaking

A hundred per cent (100%) stock take at the stores is recommended in the first month of the financial year in terms of the General Financial Regulations, which also requires a report of such stocktaking to be copied to the Auditor General. Such exercise enables not only the verification of all stock records but also the identification of any unserviceable, dormant or obsolete stock items as highlighted above.

### Inventory Records

Administrative action should be taken to finalise all remaining room inventory lists and allocate the respective asset identification numbers accordingly to conform with MF Circular 14/99. It is also necessary that the inventory database be updated with the relevant asset details and correct cost or valuation. Furthermore, labels with the asset identification number should be affixed to all inventory items.

### Obsolete Items omitted from Inventory Database

Management action should be taken to reallocate or otherwise dispose of the

accumulated obsolete items following presentation of the report by the Board of Survey in order to utilise the occupied space for more beneficial storage purposes.

### Issue of Loose Tools to Individual Employees

A Register of Daily Issues and Returns should be maintained by the officer-in-charge at MCFS whereby the employee must sign for every issue and return of tool item effected. Personal Tool Cards should be introduced so that when such tools or equipment is given on a permanent basis, returned or replaced, these are recorded on such cards accordingly with details and signatures.

### Use of Official Vehicles

Use of office cars should exclusively relate to official duties. Vehicles, unless specifically forming part of the terms of the contract of service, should not be retained after office hours. If the Department retains that it is absolutely necessary that vehicles be retained after office hours due to the nature of the work, authority should be sought from the Ministry of Finance, stating the reasons for non-compliance with the provisions of MF Circular 8/90.

## Management Comments

The MCFS management replied that remedial action in line with NAO's recommendations has already been taken.

The Government Farm Maintenance Section agreed to the recommendations and action is being taken to comply accordingly.



Ministry for Gozo

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## Ministry for Gozo - Expenditure, Inventory and Transport

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### Background

The mission of the Ministry for Gozo is to improve the quality of life in Gozo while protecting and improving the unique, cultural, social and environmental characteristics of the island.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Goods and Service Purchase Order (GSPO) issued after receipt of Invoice.
- Payment Vouchers for reimbursement of expenses not supported by receipts.
- Insufficient control over the utilization of vehicles and fuel.

### Compliance Issues

#### Period Contract not honoured

Purchase of photocopy paper was not always effected from the supplier to whom the period contract was awarded.

### Inventory

- a) Details in respect of date of acquisition and value of the assets were sometimes lacking.
- b) Some items purchased during the financial year under review could not be traced in the Inventory Database.

### Recommendations

#### Goods and Service Purchase Order issued after Receipt of Invoice

Goods and services are covered by a Goods and Service Purchase Order upon

placing of an order. This will ensure that proper authorisation for the purchase is not bypassed.

#### Payment Vouchers not supported by Receipts

Claims for reimbursement of expenses incurred by public officers are to be supported by actual receipts as stipulated by Section 65 of the General Financial Regulations.

#### Vehicle Log Books

Log books are to be regularly maintained with full and accurate details of every trip and duly filled in fuel requisition.

To exercise proper control over fuel and use of government-owned vehicles, log books are to be inspected and countersigned monthly by a senior officer not below the grade of principal, as stipulated by the Public Service Management Code.

#### Period Contract not honoured

Heads of Department are bound to obtain the item/service concerned from the contracts in connection with the conditions and procedures notified by the Director of Contracts. A Head of Department cannot obtain the service from the open market or through quotations/departmental contracts.

#### Inventory Database

Inventory ledger is to be duly filled. Asset ledger must be updated with all relevant details at procurement stage.



### Management Comments

Management accepted the recommendations and will be taking the necessary action to address the weaknesses. However, reservations on the observance of the period contract were expressed.

## Projects and Development Department – Works and Agriculture Branches

### Background

The Works Branch of the Projects and Development Department (PDD) within the Ministry for Gozo comprises subdivisions such as the Manufacturing and Servicing Section (MSS) and the Victoria Stores including the Xewkija Spalls Dump (XSD). The Agriculture Branch embraces the Experimental Farm, the ornamental nurseries of Dawwara and Tal-Hlewwa, the Pitkalija, the Cold Stores and the Civil Abattoir. The Construction and Maintenance Unit (CMU) is an independent division of the Ministry.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Though the PDD Director was ultimately accountable, and officers in subordinate grades were detailed to fill in for the officer last in charge of the Experimental Farm who at time of audit was on pre-retirement leave, responsibilities such as the certification of log books were not being shouldered.
- When repurchasing parts removed off formerly owned vehicles, the MSS is paying amounts higher than the sale proceeds from the whole vehicles that are being scrapped.
- Lack of security measures and working facilities at the XSD Stores, as well as the lack of delegation of authority to the officers responsible for the Stores.
- With very few exceptions, such as expressed vehicles at the Civil Abattoir, proper certification of log books relating to the official vehicles committed to the PDD is lacking.
- Records of 'permanent items' at the Experimental Farm still have to be updated.
- Unutilized receipts of the rediscovered receipt book for poultry licences, reported missing last year, had not been cancelled. The cash book replacing the missing one was started with torn off pages.
- Entries in the cash book relating to monies received from hawkers for banking by 'Pitkalija' are not being supported by a copy of the receipt issued to the hawkers. Neither are bank reconciliation statements of this new bank account being drawn up.
- Though a marked improvement over the previous year, the stock book which was started at the ornamental nurseries is not of a standard layout and does not comprise all carried stocks. Neither are all the entries, including cash book entries, being supported by a source document.
- At the Cold Stores no improvement was evident on what was reported by the National Audit Office (NAO) last year. However, preparations were being made to restore facilities later in 2004, though not necessarily at the level prior to 2002.
- Clear procedural instructions from central administration to subordinate staff at the Victoria Stores of the Works Branch expected to take over the store of the Experimental Farm are

inadequate. The same applies to sections or departments, such as the CMU, envisaging the introduction of a computer-based stock control system to replace manual records.

- Inadequate control over the audit trail of documents supporting the store ledgers of the Victoria Stores (Works Branch), MSS stores and XSD Stores, as well as the payment vouchers of the Department in general.
- Suppliers' invoices and cash sale notes preceded the purchase order in 42 per cent of the payment vouchers examined relating to purchases requiring a Goods or Services Purchase Order (GSPO).
- Nineteen per cent (19%) of the payments examined were not charged to the appropriate account.

### Compliance Issues

#### Vehicle Running Expenses

Information relating to the running expenses of official vehicles in terms of MF Circular 8/90 for the complete year under review has repeatedly failed to reach the NAO in time for the audit.

#### Cold Stores Revenue

The source of authority of the rates being charged for the usage of the fruit and vegetables cold storage facilities is unknown. Such rates had been applied for a long number of years and, therefore, could be outdated. Not all output VAT is being collected.

#### VAT Regulations

No VAT receipt was noted in ten per cent (10%) of the payments examined, meant to be supported by the fiscal document.

#### Petty Expenses

No distinction is being made between payments of large sums and those of negligible amounts, the latter being even

impractical to effect other than in cash. This is somewhat impinging on the efficiency of the administration of the Department's expenditure.

### Information relevant to NAO Audits

Only an unofficial extract from the internal annual report of the Agricultural Branch for 2003, relating to the Experimental Farm, could be presented to the examiners at time of audit. Such information is deemed to be of relevance even to the accounts being maintained by the PDD, particularly in the light that the presentation of financial statements in accordance with standard accounting practice is still not being enforced. The complete report was made available some time after the audit.

### Stores of Asbestos Goods

Asbestos goods still stored at the Victoria Stores are an issue which has been brought forward from the previous year.

### Stocktakings

Physical checks of the stocks in hand were evidenced after the audit. No discrepancies were reported by the Department notwithstanding noted differences by examiners of certain quantities in the audit sample attributed to the period of stocktaking by PDD staff.

### Inventory and Store Records

- As regards compliance with MF Circular 14/99, regulating the maintenance of inventory records, it is observed that certain units of the PDD are lagging behind others.
- Lack of certification of third party stock in custody at the XSD.

### Recommendations

#### Experimental Farm

A replacement of the outgoing Head of the Experimental Farm is recommended.

### Manufacturing and Services Section

Boards responsible for the writing-off of MSS vehicles need to be more selective as to what could be justifiably retained for cannibalization purposes to support the current fleet.

#### Xewkija Spalls Dump

Perimeter fencing enclosing XSD stores in the open need to be repaired and a securable entrance installed. All dumped waste is to be cleared making room for stocks lying in the foreyard of the MSS compound. Requests for material issues should be refused unless officers calling at the XSD to withdraw goods are prepared to abide by the procedure laid down by storekeeping personnel, enabling the latter to be in control of the situation when carrying out their duties. For employee safety and efficiency purposes the XSD must be adequately furnished with basic equipment.

#### Log Book Certification

Monthly certification of log books on the basis of reasonable fuel consumption of duly authorised trips is recommended.

#### Poultry Licences

The rediscovered receipt book should be retained in support of the old replaced cash book, which was also found, making reference to the new cash book where records have been duplicated; unutilised receipts should be cancelled. Folios of the new cash book, being maintained for poultry licences at the Civil Abattoir, are to be pre-numbered.

#### Bankings by Pitkalija on behalf of Hawkers

A copy of the receipt issued is to be retained by the Pitkalija in support of the entries in the cash book of the monies accepted and banked on behalf of hawkers. Bank reconciliation statements of the corresponding bank account are required by the General Financial Regulations (GFR).

### Records at the Ornamental Nurseries

- A columnar stock book for the ornamental nurseries has been recommended. This is to include all items carried in stock, whether seasonal or not. All entries are to be documented.
- A copy of the cash receipt is to be retained in support of cash sales recorded in the cash book and the stock book.

#### Cold Stores

The recommendations made last year for a reassessment of the resources deployed at the Cold Stores are still valid.

#### Store Records

- Due diligence needs to be exercised when introducing a computer-based stock control system to replace the manual system in use.
- Entries in the store ledgers of the Victoria Stores (Works Branch) of stock taken over from the Experimental Farm stores, are to be supported by mutually signed handing-over sheets.

#### Source Documents

Sequentially numbered store issue forms and copies of the GSPO, as well as payment vouchers are to support entries in store ledgers and the Departmental Accounting System (DAS) expenditure records respectively. Source documents are to be permanently filed for future reference in the order of these internal rotations.

#### Purchase Orders

Suppliers' invoices and cash sale notes should not precede the purchase order.

#### Coding of Expenditure

Strict adherence to the standing chart of accounts is recommended when coding expenditure.

#### Vehicle Running Expenses

Statutory return of vehicle running expenses has to be timely and comprehensive.

### Cold Stores Revenue

VAT should be collected on all taxable Cold Stores services charged out to customers. A revision of the service charge currently applied is recommended.

### VAT Regulations

Payments made out to suppliers, who should all be registered with the VAT Department, are to be supported by a proper fiscal receipt or tax invoice.

### Petty Expenses

The GFR applicable to petty expenses are to be put into practice.

### Information Relevant to NAO Audits

The Agriculture Branch report is to be made available to the NAO on request.

### Stores of Asbestos Goods

It is necessary to coordinate control in terms of standing EU regulations over hazardous material such as asbestos goods stored at the Victoria Stores of the Works Branch, the XSD, and perhaps other sites not visited by the examiners.

### Stocktakings

Discrepancies are to feature in the annual report covering hundred per cent (100%) checks of all stores as is required by the GFR. Omitted discrepancies tend to discredit even valid clean declarations of complete verification of stock records.

### Inventory and Store Records

- For compliance with MF Circular 14/99 the records of permanent items at the Experimental Farm must be updated, as well as those of most of the subdivisions of the Works and Agriculture Branches visited, where inventory records are still incomplete or non-existent.
- In accordance with Government rules, third party store items are to be included as an integral part of the official stock records.

### Management Comments

Management had already adopted most of the recommendations of the NAO and the implementation of others will follow.

The only difficulties encountered by the PDD relate to:

- the on site retention of a copy of the cash sale notes in support of the records of cash receipts by the Dawwara Nursery, as it is a priority of the Department that the duplicate copy is retained at the Head Office; and
- the permanent filing by internal rotation of source documents, such as payment vouchers, supporting DAS expenditure records. Present filing by batch is deemed adequate for internal purposes.

## Gozo Courts - Revenue, Expenditure and Inventory

### Background

The Court of Magistrates for Gozo in civil matters, has a two-fold jurisdiction – an inferior jurisdiction comparable to that exercised by its counterpart in Malta and a superior jurisdiction, both civil and commercial, in respect of cases which in Malta are cognisable by the First Hall of the Civil Court. Within the limits of its territorial jurisdiction, this Court has also the powers of a Court of voluntary jurisdiction.

Shortcomings, such as lack of details relating to the date of acquisition and value of the assets, were noticed. Furthermore, some of the assets were allocated incorrect Asset I.D. numbers.

A Catalogue of Heritage Assets, as required by the pertinent circular, is also not being maintained.

### Key Issues

#### Unpaid Fines

A number of unpaid fines have been pending since 1986. The aggregate amount up to end 2003 stood at Lm55,450. This issue of long pending penalties was raised in the Reports of the Auditor General 2001 and 2002.

However, the amount of fines pending is still substantial and no improvement is evident in fully enforcing the law.

#### VAT Fiscal Receipts not attached to Payment Vouchers

The majority of the payment vouchers verified (83%) were not supported by a VAT fiscal receipt as stipulated by MF Circular 5/2002.

### Recommendations

#### Unpaid Fines

As already stated in previous Reports of the Auditor General it is once again recommended that an efficient system should be adopted to ensure that:

- fines imposed by the Law Courts are fully honoured within the prescribed time;
- defaulters are summoned immediately upon non payment within the prescribed time;
- conviction tickets are to be issued on a regular basis against all defaulters; and
- the ID Card Number is to be entered on the 'Cash Book by Installments' as it is the unique individual reference by which the person concerned can be traced.

### Control Issues

Opportunity for improvement was identified in the following area:

- A high incidence of Goods and Service Purchase Order (GSPO) issued after receipt of Invoice.

### Compliance Issues

#### Inventory

The Inventory Database is not being compiled according to MF Circular 14/99.

### 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 Service Purchase Order upon placing of an order. This will ensure that proper authorization for the purchase is not vitiated.

### Inventory

The exercise outlined in MF Circular 14/99 dated 24 November 1999 and which should have been completed within one year, should be immediately undertaken and the task finalised with the least possible delay.

A Heritage Assets Catalogue is to be compiled for the heritage items that the Gozo Courts have been entrusted with. As a minimum, this catalogue is to include the information as required by Appendix C of MF Circular 14/99.

### V.A.T. Fiscal Receipts not attached to Payment Vouchers

The Gozo Courts have to inform, on a quarterly basis, the VAT Department of those

suppliers who fail to submit a VAT receipt following payment of supplies of goods and/or services.

### Management Comments

Management accepted the recommendations and has already started taking the necessary measures to address the weaknesses relating to the late issue of the Goods and Service Purchase Orders.

Since NAO's audit the Inventory Database has been adjusted but no Room Lists or Catalogue of Heritage Items have as yet started being compiled.

The V.A.T. receipts not found attached to the Payment Vouchers were submitted to NAO by the Gozo Courts as part of their response to NAO's report. However, some of the V.A.T. receipts were noticed to be dated well after the dates appearing in the relevant Payment Vouchers.

## Gozo Libraries – Expenditure

### 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. A collection of books and publications that have been published abroad is also found.

### Key Issues

#### Insufficient Audit Trail of Books purchased

Books purchased by the Gozo Public Library, even those purchased on behalf of other libraries in Gozo, are given a bar code and recorded in the respective ledger, i.e. that of the Public Library Register, Legal Publications Register, Lending Library's Register or the Branch Libraries Registers. However, no cross reference is indicated on the invoice or payment voucher in order to identify in which of these ledgers the books purchased have been taken on charge. It was very difficult to trace the payment vouchers to their respective local branch register posting.

Furthermore, books purchased for other libraries are not being taken on charge when delivered by the supplier, but only recorded upon distribution to the respective libraries. This procedure increases the risk that procured books are misplaced and remain unaccounted for.

### Control Issue

Opportunity for improvement was identified in the following area:

- A high incidence of Goods and Service Purchase Orders (GSPOs) have been issued after the receipt of the invoice during 2003.

### Recommendations

#### Insufficient Audit Trail of Books purchased

A main register is to be maintained whereby each and every book acquired is recorded with its location at procurement stage. Legal publications and donated books are to be recorded only in the subsidiary registers since no money is involved to acquire them.

#### 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 Service Purchase Order upon placing of an order. This will ensure that proper authorization for the purchase is not vitiated.

### Management Comments

Management accepted the recommendations and has already taken the necessary action to address the weaknesses.



## School Council's Accounts

### Background

The School Council Accounts for 'Agius de Soldanis' Junior Lyceum and Secondary School in Gozo (operated by the School Council) were selected for examination. The Education Office in Gozo transfers funds received from tuck shop contractors to the School. However, income from photocopies made to students is the main source of revenue for this School Council. Other income generated by the School is from the use of lockers by students and proceeds from fund raising activities.

### Key Issue

#### Lack of Audit Trail in the Recording of Revenue

Revenue collected by the School Council from fund raising activities, income from photocopies and deposits paid by students for the use of lockers lack audit trail, rendering confirmation of its accuracy and completeness impossible.

### Compliance Issue

#### Cash Book

Movements of Bank and Cash transactions are not clearly reflected in the manual cash book maintained by the School Council. Balance of cash in hand and bank balance is only shown as an aggregate amount in the cash book resulting in loss of control over cash. A reconciliation between

the cash book balance and the bank statement as required by the General Financial Regulations is not being prepared.

### Recommendations

#### Audit Trail in the Recording of Revenue

A serially pre-numbered official receipt is to be issued for all revenues collected according to the General Financial Regulations. The spreadsheet kept by the School to record amounts contributed by the students for the use of lockers should also include the date when the contribution was effected. This will enable the School to reconcile the money collected for a given period.

For revenue from photocopies a pre-paid card system could alternatively be adopted.

Furthermore, school activities generating income are to be supported by a Statement of Income and Expenditure showing surplus or deficit as an end result for each activity.

#### Cash Book

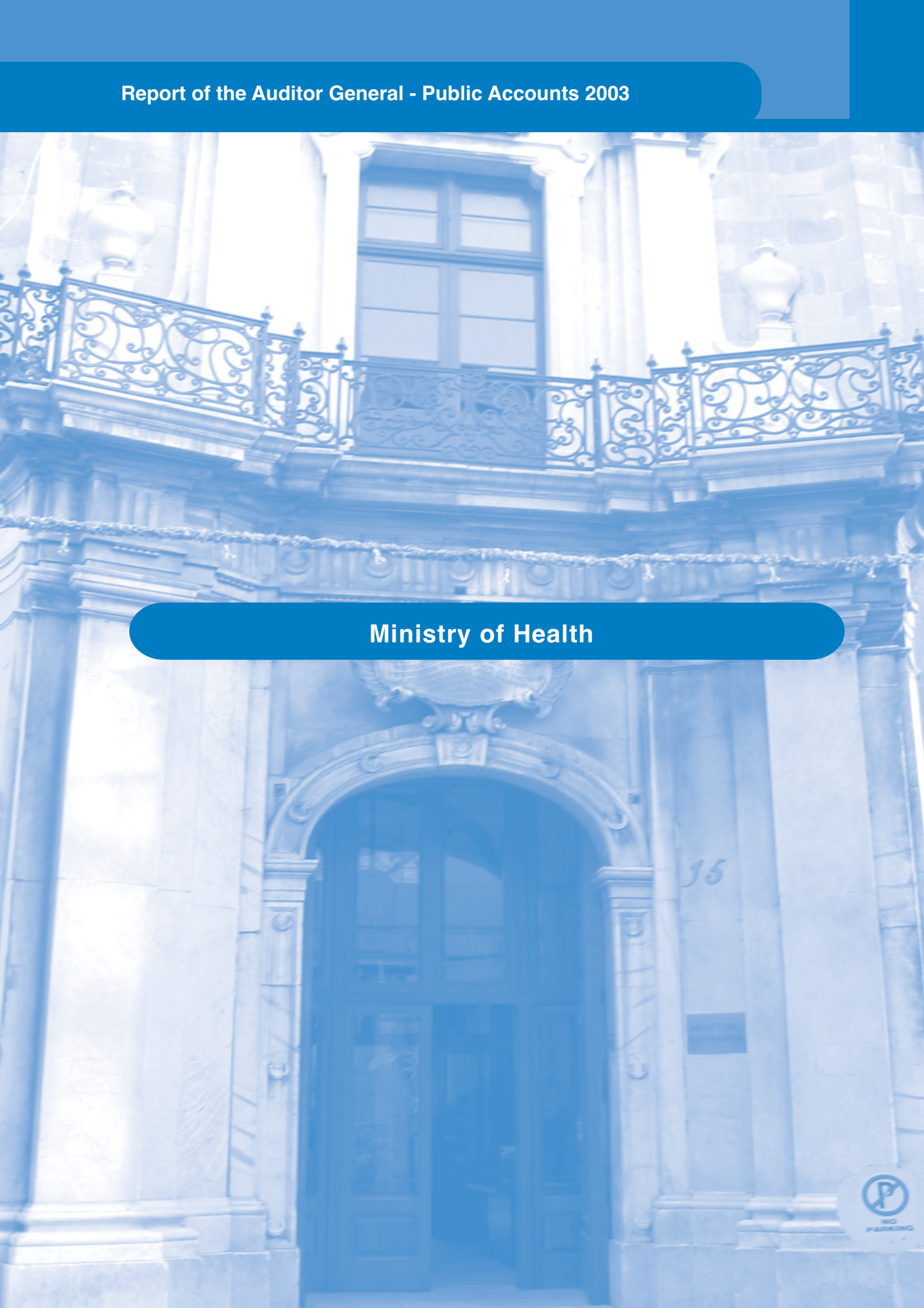
The cash book, which is to be balanced daily, should clearly and separately show the movement in each bank account and cash in hand. The School Council should prepare bank reconciliation statements on a monthly basis.

### Management Comments

Management accepted the recommendations and will take the necessary actions to address the weaknesses.



Ministry of Health



## Ministry of Health - Expenditure

### Background

The audit covered the following six Cost Centres:

- Ministry
- Government Pharmaceutical Services (GPS)
- Institutional Health Care
- Institutional Health Care St. Luke's Hospital
- Primary Health Care
- Health Promotion

An overview of the use of general-use vehicles and fully-expensed vehicles of the above Cost Centres in accordance with relevant Public Service Management Code sections was carried out. This covered the operations of the Transport Section which controls all vehicles of the Ministry of Health.

In the case of GPS, all payments relating to the expenditure of this Cost Centre are processed by the Accounts Section of the same GPS.

The Accounts Section of the Ministry is responsible for the expenditure of the other five Cost Centres examined. The Section's duties include raising Goods and Services Purchase Orders and Payment Vouchers, processing payments, and forwarding all related documentation to Treasury.

Transactions of these Cost Centres for the year 2003 were carried out using the Departmental Accounting System (DAS).

### Key Issues

#### Hire of two Reefers for St. Luke's Hospital

- The hire of the first reefer (refrigerated dry container for the storage of plasma) was

estimated to cost Lm1,240 for a period of four months. The hiring cost incurred totalled Lm14,991 as the hire period was extended for more than three years.

- The cost of hiring a second reefer was estimated to be Lm1,200 for two months. The hiring of this reefer, which was still being hired up to October 2003, amounted to Lm35,190, for an extended period of more than four years. Although the possibility of purchasing this reefer or purchasing a new one was considered, to date, the matter has not been given the importance it deserves.
- No formal agreement was signed for the hiring of the second reefer at a monthly rate of Lm600. Even though no mention was made in the correspondence exchanged of whether this rate included VAT or not, this was always charged. This was never contested with the supplier and all invoices have been settled.
- Maintenance and repairs on both reefers were always borne by the Ministry of Health. No formal arrangement was made in this respect except for the four-month agreement for the rental of the first reefer, in which an arrangement was agreed to by both parties in this regard. With the expiry of the first agreement and the hire of the second reefer, these costs, amounting to Lm4,410 till October 2003, were never challenged.

#### Drawing up of GSPOs

There is a high incidence of cases where goods/services were purchased/received prior to the issue of the relative GSPO. Non-

compliance ranged from seven per cent to seventy one per cent 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 ten per cent to forty two per cent of the transactions in the cost centres examined.

The last two shortcomings were already highlighted in 2000, 2001 and 2002 during the audit of expenditure on other cost centres within the Ministry portfolio.

### Control Issues

Opportunities were identified for improvement in the following areas:

- The lack of adequate controls exercised by the Transport Section over vehicles that are garaged in G'Mangia which are used by the Institutional Health Care and St. Luke's Hospital.
- No control is exercised over vehicles used by the Ministry, Health Promotion, and Primary Health Care.
- A database of all vehicles is kept at the Transport Section but basic information necessary to exercise some form of control is missing.
- No consistency exists in the issue of fuel requisitions raised by both the Ministry and by the Transport Section. This increases the risk of non-compliance with regulations.
- Instances were encountered where officers entitled to a fully-expensed car use more than one supplying station. The same was observed in the case of a general-use vehicle. This also increases the risk of non-compliance with regulations.

### Compliance Issues

#### Lack of Required Authorisation

GSPOs in five Cost Centres (representing between one per cent to

thirteen per cent of the samples examined) were not authorised when ordering goods or services.

#### Tender for the Supply of Electric Jugs

A tender for the supply of electric jugs was awarded to the second cheapest offer but jugs delivered were not as specified in the letter of acceptance and in accordance with the sample submitted. The jugs were identical to the specifications of those offered by the cheapest tenderer whose offer was rejected. These goods were accepted without exercising the Division's right to redress.

#### Cleaning Services at Cospicua Health Centre

The contract for cleaning services at Cospicua Health Centre expired in February 2003, but the same contractor continued giving the service.

Furthermore, two invoices were received covering the month of August of 2003 leading to an overpayment.

#### Non-Compliance with Procurement Procedures

No quotations were obtained by the Medicines Regulatory Unit for the purchase of furniture items and stationery items.

Further purchases of furniture items were made from the same supplier in contravention of the Public Service Procurement Regulations.

#### Use of Vehicles

##### Log Books/Fuel Requisitions and Issue Notes:

- The lack of details entered on log books/fuel requisitions was a common occurrence in the majority of vehicles examined.
- Three general-use vehicles in use at the Ministry do not even keep a log book.
- The log book of a vehicle in use at the Security Section of St. Luke's Hospital was never filled in.

## Fully Expensed Vehicles:

- Four officers entitled to the use of a fully-expensed vehicle exceeded the limits of fuel consumption as set in MF Circular 5/98.

## Incomplete Inventory Database

The Inventory Database and Room Inventory Lists of the Ministry, Health Promotion Department and Primary Health Care are not being updated on a regular basis. Inventory items are not marked with an asset identification number as required by MF Circular 14/99.

## Recommendations

### Hire of two Reefers for St. Luke's Hospital

An early decision on the most cost effective alternative should be taken. Any overpayment incurred should be recouped and future invoices should be thoroughly checked before effecting payments.

### Drawing up of GSPOs

Goods and services should be covered by a GSPO when placing an order, thereby ensuring that each and every purchase is duly authorised.

### Misallocation of Expenditure

All items of expenditure must be appropriately accounted for in the correct account. In the absence of sufficient funds a virement is to be requested.

### Control Issues

A departmental board is to be set up to rationalise the vehicle operations of all Cost Centres such that internal controls and an audit trail are inbuilt to ensure that expenditure is judiciously disbursed.

### Lack of Required Authorisation

Goods or services are to be ordered only if accompanied by a GSPO signed by an authorised official.

## Tender for the Supply of Electric Jugs

It should always be ensured that the items delivered are according to specifications. The defaulting supplier should have been penalised and the goods refused in accordance with the specifications and conditions accompanying the tender documents.

## Cleaning Services at Cospicua Health Centre

When the period stipulated in a call for tenders is due to expire and the service is still required, a new call is to be issued prior to the expiry date.

## Non-Compliance with Procurement Procedures

Procurement Regulations and other related legislation should always be adhered to. Purchases exceeding Lm500 should not be obtained before requesting at least three relevant quotations.

## Use of Vehicles

### Log Books/Fuel Requisition and Issue Notes:

- All log books should be kept as laid down in the Public Service Management Code and include all the necessary details for every journey. It is also important that the mileage and stamp/endorsement of the fuel supplying station is entered on the Requisition and Issue note.

## Fully Expensed Vehicles:

- The limits set for fuel consumption must be strictly adhered to. Overpayments are to be recouped.

## Incomplete Inventory Database

The Inventory Database must be kept up-to-date at all times and must be in compliance with the relative circular.

## Management Comments

Management submitted unsatisfactory replies on the following areas of concern:

- i) Drawing up of GSPOs.
- ii) Misallocation of Expenditure.
- iii) The inconsistent use of fuel requisitions and use of supplying stations.
- iv) Tender for the Supply of Electric Jugs.
- v) Non-Compliance with Procurement Procedures.
- vi) Use of Vehicles: No log book for a general-use vehicle.
- vii) Fully-Expensed Vehicles: Exceeded limits of fuel consumption.

No reply was given to these findings:

- i) Hire of Reefers
  - No agreement concerning the rate of Lm600 monthly.
  - No formal arrangement for maintenance and repairs.
- ii) The Database kept at the Transport Section.

## St. Luke's Hospital - General Stores

### Background

The Staff at the General Stores are responsible for the ordering, storage, issue and receipt of expendables and permanent items, uniforms, stationery and items of maintenance.

The store, besides for St. Luke's and other hospitals, caters for various Health Centres and outstations, consisting approximately of 164 outposts, 57 of which are patient related.

### Control Issues

Opportunities were identified for improvement in the following areas:

- Excessive quantities of a small number of store items were found in some wards. The indiscriminate request for these items is leading to hoarding, which in turn increases running costs.
- Lack of control over physical quantities of uniforms, photocopy paper and other stationery items due to weak recording of movements.
- Bin cards are not utilised and re-order levels and quantities for specific items are not kept.

### Compliance Issue

#### Stock Take Report

The annual stock take report sent to NAO did not conform to the requirements of Section 106(1) of the General Financial Regulations.

### Recommendations

#### Control Issues

- The Stores/Hospital's management should carry out inspections on a periodic basis to ensure that the practice of overstocking is discontinued. A more rational stores management system is to be introduced to ensure that items are distributed according to the requirements of the wards concerned.
- Proper control should be exercised on the receipt, issue and recording of store items.
- Bin cards are to be maintained for all store items. A more rational system of stock management and control should be used. Inbuilt features (consumption rates, minimum and maximum stock levels, re-order levels and quantities) in the current software should be availed of.

#### Stock Take Report

Regular stock takes should be carried out as stipulated by the General Financial Regulations. A report on each stocktaking exercise is to be drawn up, any discrepancies investigated and copied to the Auditor General in terms of standing instructions.

### Management Comments

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

However, the areas of concern relating to hoarding of store items and uniforms were not satisfactorily addressed.



## St. Luke's Hospital - Provision Stores

### Background

The staff at the Provision Stores are responsible for the ordering, storage, issue and receipt of food items. They supply the main kitchen that caters for patients' meals and the kitchens in the doctors' and staff quarters that cater for entitled personnel. They also supply all wards where patients' breakfast is prepared. Provisions are also sent to Sir Paul Boffa Hospital to cater for its patients and entitled staff.

### Key Issues

#### Stock Control System

- The stores are not equipped with an adequate stock control system. The existing computerised ledger does not support basic information.
- Various items showing negative balances in ledger were not examined with a view to rectify the situation.

#### Discrepancies between Physical Quantities and Book Balances

Differences in quantities were observed in the selected sample when comparing ledger balances with actual quantities in stock.

#### Quantities Requisitioned in Excess

There were instances where provisions issued on a requisition basis to a number of wards exceeded requirements. The same situation prevails in the case of items supplied to wards on a 'ration' basis. The current system is leading either to waste or the risk of abuse, both of which increase running costs.

### Control Issues

Opportunities were identified for improvement in the following areas:

- No records of movements are kept for daily food consumables. Controls are further weakened with the use of different units of measure.
- No records of the number of daily meals prepared are kept. Meals are prepared without referring to any pre-established consumption rates.
- Bin cards are not used.
- Provisions are delivered on a 'ration' basis instead of on a 'requisition' basis. These rations are not aligned with patient/doctor population.
- Printed requisition forms are not being pre-numbered and in book form.
- The non-existence of re-ordering levels/quantities.
- Various cost centres/divisions within the Ministry housed in Valletta are ordering items from the Provision Stores on a regular basis.
- Notwithstanding that a directive was issued to cease purchasing bottled water, this item still continues to be purchased.
- No action taken against the supplier following complaints regarding the supply of stale and moulded bread.
- The vegetables' supplier often refuses to supply items contracted for without being penalised.

### Compliance Issues

#### Purchasing from the Open Market

Cereals, baby powder and bottled water, which are consumed in large quantities, are

being purchased from the open market replacing the tendering process.

### Stock Takes

Although a physical stock take is carried out at the end of each year, items are not being physically checked against book balances. No discrepancy list is drawn up and no reconciliation of the differences is effected.

### Recommendations

#### Stock Control System

- It is recommended that a proper stock control system is installed with the least possible delay.
- The negative balances found in the ledger should be examined and corrected. Furthermore, the cause of these errors should be investigated and rectified so that similar errors will not recur.

#### Discrepancies between Physical Quantities and Book Balances

A full stock take should be undertaken as soon as possible and the ledger is to be adjusted accordingly. Proper control should be exercised on both the procurement and issue of store items. Stock takes are to be carried out periodically as required by the General Financial Regulations.

#### Quantities Requisitioned in Excess

Provisions to wards are to be distributed according to requirements. This would drastically reduce the risk of retention of excess stock, wastage or abuse.

#### Control Issues

- Proper controls over movements of daily food consumables should be introduced and uniform units of measure in the issue and receipt are to be adhered to.
- The new system of record keeping must be closely interlinked with the records of meals cooked. This could be achieved only with the introduction of consumption rates of

different provisions that reflect the actual daily requirements of the kitchens.

- Bin cards are to be maintained for all store items. These should be kept on location and up-to-date with all issues and receipts.
- Consumption rates are to be implemented and only quantities resulting from these rates are to be issued.
- Requisitions are to be pre-numbered and bound in book form to enable better control.
- Re-ordering levels/quantities should be incorporated in the computerised stock control system.
- The ordering of items by divisions housed in Valletta from the Provision Stores are to stop or be officially sanctioned.
- The purchase of bottled water must be discontinued. However, the testing of the water supply is to be carried out continuously to justify the decision not to purchase bottled water.
- Action is to be taken not only to enforce the penalties contemplated in the contract but also to blacklist the supplier if necessary.
- Management is to ensure that the contract provides a steady and varied supply of vegetables. In default, penalty clauses in the contract should be invoked.

#### Purchasing from the Open Market

Management is to determine the rate of consumption of cereal, baby powder and bottled water so that purchases may be made by means of tender instead of purchased directly from the open market.

#### Stock Takes

Regular stock takes should be carried out as stipulated by the General Financial

Regulations. A report on each stocktaking exercise is to be drawn up. 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.

However, in other areas, the reply was either superficial or expressed little hope of progress in the near future.

### Management Comments

Management concurred with a number of findings and is taking action to rectify certain shortcomings.

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## Below-the-Line Account – Donations by Local and Foreign Bodies

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### Background

The below-the-line account – Donations by Local and Foreign Bodies was established in 1993 when the Ministry of Health merged into one account several below-the-line accounts whose aggregate balances were Lm22,088. Subsequently, this account became known as “Donation to the Department of Health by Local and Foreign Bodies”. The last movement in this account was registered in 2002. Currently, the account has a balance of Lm50,569.

### Key Issue

#### Unutilised Funds

Notwithstanding initial attempts to utilise the funds deposited in this account, this has registered a steady increase since its inception, possibly indicating that the

account is currently not being administered effectively.

### Recommendation

#### Unutilised Funds

The balance in this account is to be either spent or passed to revenue. However, this is not to be interpreted as winding up this account. It is to be kept alive and used solely when a donation is received for a specific purpose which cannot be implemented as soon as the donation is received.

### Management Comments

Management accepted NAO’s recommendation and will be taking the necessary action.

## Below-the-Line Account – Retention of Monies - Sir Paul Boffa Hospital

### Background

The purpose of this below-the-line account is to safekeep those amounts that were withheld from payments to suppliers who are awarded contracts of works. These retentions are finally released and paid to the supplier after the lapse of six months following completion of works. This below-the-line account was opened in the year 2000 with a balance of Lm648 and has since remained unchanged.

### Key Issues

#### Lack of Documentation

No documentary evidence of the balance in this account or any acceptable explanation for this deposit has been provided. The lack of audit trail made it impossible to determine not only the correctness of this account but also the recipient of this retention, if in actual fact the amount did arise from a payment for contractual works.

#### Retentions not Withheld

In the three contracts examined that included a retention clause of five per cent, no retention money was withheld. This results in loss of control over the supplier in the eventuality that the work or service provided proves unsatisfactory. The hospital would not be able to take redress in such cases.

### Compliance Issues

#### Other Matters

- A supplier who was awarded a contract for the supply and installation of a lift

did not furnish the hospital with a bank guarantee as required in the respective tender document.

- When the supplier discontinued works, the penalties due in case of abandonment of contract as laid down in the Conditions of Contract were not enforced.
- Works already carried out by the supplier who abandoned the contract, valued at Lm5,155, were not taken into consideration when the contract was awarded to the second bidder.
- No certification of work by the Architect in charge was carried out before settling two invoices related to this tender.

### Recommendations

#### Lack of Documentation

The source of this deposit is to be investigated so that the amount is identified with the supplier from whose payment the retention money was deducted. If it results that the balance is not a retention, the deposit should be passed to revenue.

#### Retentions not Withheld

Retention clauses should be enforced in all instances when these form part of the contractual conditions.

#### Other Matters

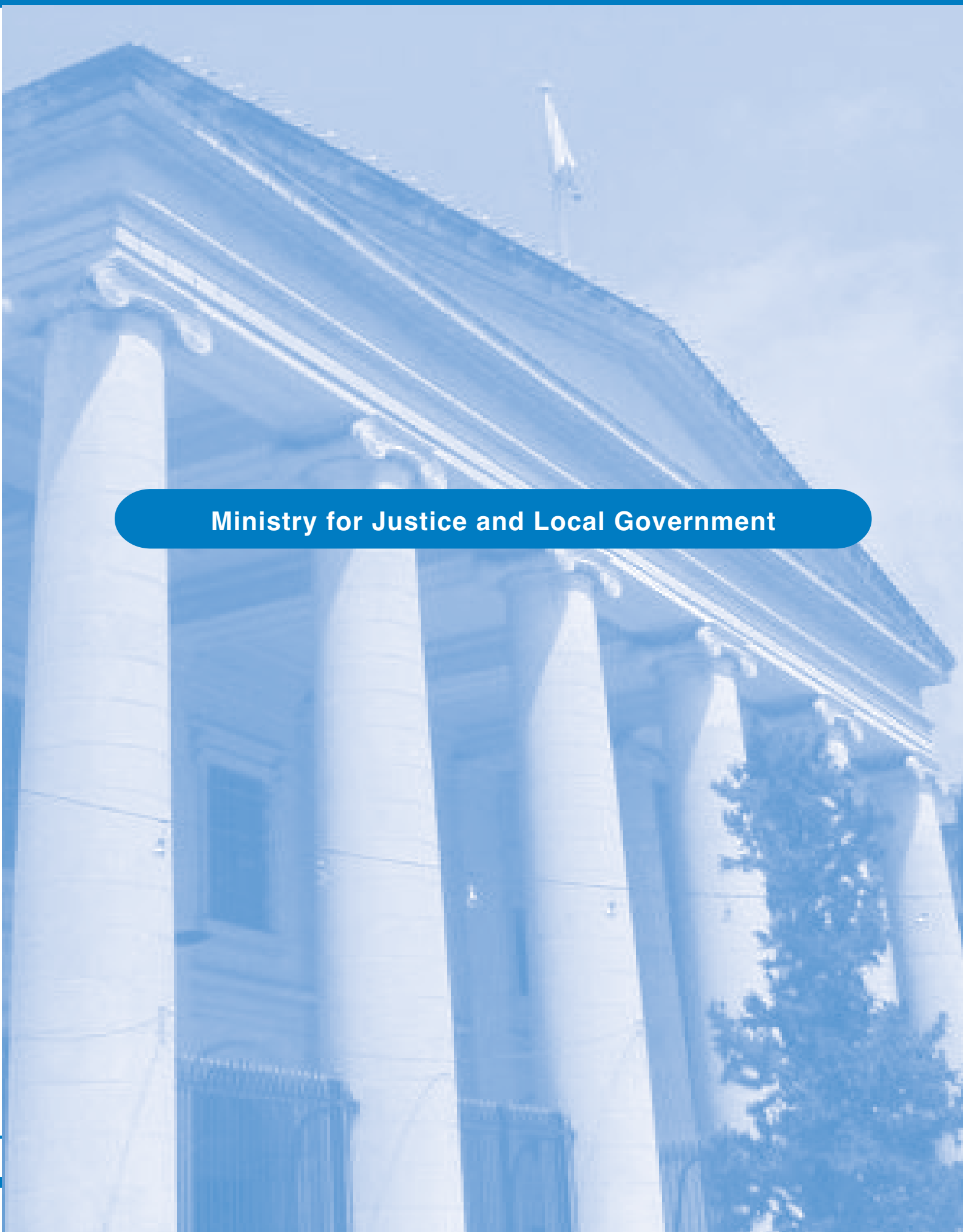
All safeguards provided for in the conditions of contract should be enforced. Stern warnings are to be issued to whoever allows contractors not to abide by conditions imposed. Management should request the

architect's certification of works before settling any invoices.

### **Management Comments**

Management accepted NAO's recommendations and will ensure strict compliance in future.

**Ministry for Justice and Local Government**



## Courts of Justice - Revenue - Criminal Courts

### Background

The Magistrates Courts are responsible for collecting penalties imposed by the criminal judicial system. Fine enforcement is crucial in maintaining the credibility of the judicial system. At present, cases of a criminal nature are assigned to fifteen Magistrates who operate from twelve halls. The total number of cases during 2003 exceeded 9,000.

### Key Issues

#### Unreliable LECAM Fine System

The LECAM (Legal Case Management) Fine System was introduced in July 2003 to replace the manual system (Hall Register). Various weaknesses were identified in this system when three reports, namely (a) 'Report for Auditors', (b) 'Search List Printout' and (c) 'Return of Arrears of Revenue' covering the period 16 July 2003 to 30 September 2003 were extracted and their relative details compared.

Weaknesses included:

- Incorrect amount of Arrears of Revenue.
- Bills being sent to persons who already paid the fine because the record of outstanding balances differs from the report from where the information is extracted.
- Bills being sent to the wrong person due to reference numbers not being unique.

#### Control Issues

Opportunities for improvement were identified in the following areas:

#### Fines omitted from Hall Register

Twenty four (24) fines amounting to Lm1,801 inflicted by Magistrates were omitted from the Hall Register which is the basis from where the list of debtors could be extracted. These fines, paid in 2003, were for cases heard during 1997 (1 fine), 1998 (2 fines), 2000 (3 fines), 2001 (3 fines), 2002 (4 fines) and 2003 (11 fines). The existence of these fines was acknowledged from the receipt books. These omissions could be the result that entries in the Prime Note and in the Hall Register are being registered by the same person.

#### Receipt details not recorded on Hall Register

Fifty nine (59) receipts totalling Lm2,436 had their details not recorded on the Hall Register. These were payments made at the Cash Office by persons settling the amounts that they owed to the Courts. Due to this omission the amount of outstanding fines shown on the Hall Registers is incorrect and debtors are overstated.

#### Discrepancy between amount of fine on Receipt, in Hall Register, on Prime Note and as per Sentence delivered

There were eleven (11) cases which had a discrepancy regarding the amount of the fine recorded on the various documents.

#### Compliance Issues

##### No follow-up of unpaid fines

The Deputy Registrars of the Halls only enter the fines in the LECAM Fine System after a relatively long lapse of time.



Up to the time of our audit there was no follow-up of unpaid fines within the time stipulated by the Magistrate. Fines that were not paid in full were not converted into the contemplated alternative as prescribed by law.

### Recommendations

#### Unreliable LECAM Fine System

An early meeting with MITTS is recommended to sort out problems existing in the system. The various reports extracted from the system should provide the same results once these reports are being extracted from the same database.

#### Fines omitted from Hall Register

Reconciliations between fines entered on the Prime Note and those entered on the Hall Register/ LECAM are to take place on a regular basis thereby ensuring that all fines have been properly entered and that records are complete.

#### Receipt details not recorded on Hall Register

Cash Office personnel should update all Hall Registers with the receipts issued during

the day. This exercise should be extended to past receipts issued which have not been allocated to the correct debtors. Debtors' accounts should be updated before they are entered in the LECAM Fine System which is now replacing the Hall Registers.

### Management Comments

Management investigated findings and took action to rectify the shortcomings highlighted in the report. With regards to the LECAM Fine System some meetings have already been held with M.I.T.T.S to modify the system.

Furthermore, subsequent to this audit with effect from February 2004, a procedure was established between the Cash Office, the Assistant Registrar in the Court of Magistrates (Malta) and the Director, Criminal Courts whereby an average of twenty prison tickets are being processed daily and signed by the Director, as the Registrar of the Criminal Courts, in respect of those persons who fail to pay the penalty inflicted on them by the judiciary.

## Courts of Justice - Library Follow-up Audit

### Background

Library books are made available to Judges, Magistrates and Lawyers working at the Courts of Justice. However, the general public can make photocopies from the books against a payment of 25c per copy.

### Scope of Audit

This audit was intended to follow-up the findings and recommendations featuring in the 2001 Audit Report and to examine whether weaknesses in the system of recording revenue collected and deposited, the cataloging of books, and the relative lending procedure were addressed.

### Control Issues

Opportunities for improvement were identified in the following two areas:

- **Replacement of photocopier:** In reply to the 2001 audit, management stated that a card-operated photocopier was to be installed to control income from photocopies.

However, the photocopier has not been replaced, thus accuracy of revenue collected from photocopies still cannot be ascertained.

- **Weak control procedure in lending books:** Borrowing Cards used for registration of lending books is still not in conformity to the recommendation submitted in the 2001 audit report.

No indication as to the due date of return is shown on the cards, resulting in lack of control on borrowed books.

### Compliance Issues

#### Cash Deposits

Notwithstanding previous observation, revenue from photocopies is still not being immediately deposited as stipulated in MF Circular 8/2002.

#### Catalogue of Books

The recommendation submitted two (2) years ago for the adoption of a proper procedure to compile the catalogue of books has been initiated. However, the information is being gathered solely from the details on payment vouchers and no physical reference is being made to the books.

### Recommendations

#### Control over the Procedure of Lending the Books

- a) The Borrowing Cards should be re-designed to include:
  - i. date when book/s is/are being borrowed;
  - ii. details of book/s including Title and Author;
  - iii. date when book is due to be returned and actual return date;
  - iv. signature of borrower against each book borrowed; and
  - v. signature of librarian when book is returned.
- b) The librarian should chase borrowers who default on the return time limit specified on the borrowing card.

- c) If books are retained beyond the stipulated date, the borrower should sign again for the book to re-confirm that the book is still in his/her possession.

### Cash Deposits

The librarian should follow MF Circular 8/2002 - Procedures for the Management of Cash, as outlined in Section 6.1 (a), namely, the Revenue Collection Mechanisms.

### Catalogue of Books

The compilation of the Catalogue of Books, with details of actual books held at

the library and those on loan, is to be finalised with the least possible delay.

### Management Comments

In their reply management stated that money received from photocopies is not substantial enough to merit the installment of a card-operated photocopier. This goes against their commitment made during financial year 2002.

No comments were forwarded as to how control is going to be improved on the procedure of lending of books and to NAO's observations on Cash Deposits and the compilation of Catalogue of Books.

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## Courts of Justice - Summoning and Expenses of Witnesses, Jurors and Experts in Criminal Court Trials

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### Background

Expenses related to the summoning of witnesses, jurors and experts in criminal court trials are paid from the Programmes and Initiatives Account. These expenses consist of fees paid to experts as well as expenses for accommodation, transport, meals and payment to jurors for their services.

presented for payment more than once without being detected.

- Payment Vouchers issued for meals supplied during juries not always supported by the relative receipts.
- Misallocation of Expenditure.

### Key Issues

#### Fees paid to Court Experts

There are no official rates of payment for professional services rendered to the Criminal Court such as translators/interpreters, dissectors and forensic experts. The unofficial rates on which payments are being based have been set up years ago. In some cases fees are based on what professionals usually charge for their service.

Recommendations proposed by the "Commission on the Appointment of Court Experts", which was set up in 2001 to review fees to experts, have not yet been implemented.

### Compliance Issues

#### Payments not covered by VAT Fiscal Receipts

A high incidence of thirty nine (39%) of the payment vouchers verified (i.e. forty six (46) out of one hundred and eighteen (118)) were not supported by a VAT fiscal receipt.

#### Multi Payment System

Various services rendered by individuals are being treated as multi-payments and no tax is being deducted as per FSS regulations. These amounts have to be included with salaries and declared under FSS regulations, otherwise the person should have a V.A.T. registration number if carrying on an economic activity, in which case that person should be treated as a vendor.

### Control Issues

Opportunities for improvement were identified in a number of areas:

- No cross reference to link data recorded on the Register kept at the Criminal Section, the Sub Voucher Forms issued by the same section and the Register of Inquiries kept by the Halls. Due to the non-existence of the "Register of Inquiries" in some Halls, reports may be

### Recommendations

#### Fees paid to Court Experts

Standard tariffs should be introduced in the Criminal Code to regularise the payment system. An official list should be compiled with the names of the experts and their field of expertise. Furthermore, recommendations proposed by the Commission in their respective report should be considered and implemented as early as possible.

### No Cross Reference between Registers

The Deputy Registrars of the Criminal Section who record the reports presented by the experts on a register should assign a consecutive number (to be referred to as "Sub Voucher Form Reference Number") to each report presented. This number is also to be entered on the sub voucher form and used as a reference by the Accounts Section. In this way, every claim will bear a unique reference number. The register kept by the Criminal Section must also include the name of the magistrate who appointed the expert, thereby establishing a link with the individual Halls. Control should be exercised over payments through a standard proper account/ record maintenance.

### Payment Vouchers not entirely supported by the Relative Receipts

In terms of Section 52 (2) of the General Financial Regulations 1966 "*Payment vouchers ..... shall be accompanied by the relative invoices, sub-vouchers, bills, certificates, and any other justifying documents*".

### Misallocation of Expenditure

Expenditure should be charged to the proper account to reflect actual cost of expenses spent on jurors.

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

The Courts of Justice should report to the V.A.T. Department suppliers who default on the issue of the V.A.T. receipt. Every effort should be made to regularise this matter.

### Multi Payment System

When classifying an expense as a multi-payment, it must be ensured that such expenditure can neither be classified as salaries nor paid to a person or body of persons that are carrying on an economic activity, thus being entitled to register under the V.A.T. Act.

## Management Comments

Management has agreed in principle with the recommendations put forward in the report.

While the Director General confirmed that there are no tariffs in the Criminal Code for Payment to Experts, he also stated that a request for such tariffs had been made on frequent occasions to the competent authorities.

## Department of Local Councils - Expenditure

### Background

The Local Councils Department is the regulatory body that ensures that Local Councils have the legislative set-up to cater for Local Government needs and offers management and administrative support.

It is responsible for the statutory funding of Local Councils and also acts as a catalyst to devolve and decentralise responsibilities formerly assumed by Central Government.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Items of inventory bought during 2003 were not entered on the inventory database or room lists.
- A number of government employees acted as judges for 'Sebbah Pajjizek' Competition. Their remuneration was paid gross without FSS deduction.
- The Inland Revenue Department was not notified of payments of ground rent to third parties against which no adequate receipt is given.
- Expenditure items were not posted to the proper account.
- Goods and Services Purchase Orders were drawn up after the respective purchases were effected.
- Payments were not covered by fiscal receipts and the Department failed to report such instances to the VAT Department.

### Compliance Issues

#### Expired Contracts

- i. The car hire contract for seven out of nine cars expired. Cars were hired on a long term basis making this alternative costlier than an outright purchase.
- ii. The contract for the marketing campaign of 'Sebbah Pajjizek' Competition expired in February 2003. Nevertheless, video filming of the award of prizes for this competition was provided by the same supplier whose contract expired. The cost of this video filming was Lm546.25.

#### Transport

- i. All cars were used for journeys from officers' private residence to their office and back. The use of cars for private purposes within the Field Services Section varied between 68 and 76 per cent of total usage.
- ii. Two cars were hired solely for employees who are not entitled to the exclusive use of a car. The log book of one of the cars revealed that only fifteen per cent (15%) of the journeys were on official duties.
- iii. Information recorded on log books is not in accordance to the Public Service Management Code.
- iv. Fuel is issued at a standard rate irrespective of the fuel actually consumed on official duties.

## Recommendations

### Control Issues

- The inventory ledger is to be completed in accordance with MF Circular 14/99.
- The remuneration of judges for 'Sebbah Pajjizek' Competition should have been transferred to the respective Departments via a transfer voucher. This remuneration would have eventually been paid to the individuals through the FSS system.
- The Department is to contact the Commissioner of Inland Revenue to ensure the correct procedure whereby payments with respect to ground rent are brought to the awareness of the Inland Revenue Department.
- All expenditure items must be appropriately posted to the correct account. Management's attention is drawn to MF Circular 3/2000 which states that *"it is essentially important as from now that expenditure transactions are carefully and properly classified and recorded"*.

- Goods and services should invariably be covered by a GSPO upon placing of an order. This will ensure that each and every purchase is duly authorised.
- All vendors who fail to produce a fiscal receipt following payment for goods or services are to be reported to the VAT Department in a timely manner.

### Expired Contracts

- i. The Department should review the transport needs and could consider the possibility of owning the vehicles which are needed in the longer term.
- ii. Quotations should be obtained for supplies and services costing between Lm500 and Lm1,000.

### Transport

The transport procedures in Section 8.2 of the Public Service Management Code are to be strictly adhered to.

## Management Comments

Management concurred with most of the findings and has initiated necessary action to rectify shortcomings.

# Audit of the Executive Secretaries' Financial Operations

## Background

The Executive Secretary is the administrative and financial head of the Local Council. His role is to ensure that all Council's operations are carried out within the parameters of the law, regulations and procedures. He is also the advisor of the Mayor and Councillors. His responsibilities include executing the Council's legitimate decisions with the least possible expense, with the desired expediency and which will have a positive and lasting effect on the community.

undue influence from the Mayors/ Councillors.

Mayors, Councillors and Executive Secretaries are not fully aware of the role and responsibilities of an Executive Secretary. This may result in a situation where Councils expect or demand the performance of duties not contemplated by legislation.

## Key Issues

### Qualifications

The qualifications requested by legislation for filling the post of Executive Secretary are very generic and basic. They are not sufficient to enable them to perform the full range of duties connected with financial management and control requested by legislation.

## Compliance Issues

### Limited Knowledge of Financial Procedures

Mayors, Councillors and Executive Secretaries often have a limited knowledge of their legal rights and obligations, resulting in Councils taking improper initiatives.

### Appointment of Accountants

Fifty three per cent (53%) of Local Councils use the services of an accountant. In a few instances the appointee is not professionally qualified.

### Donations

Councils offering donations in kind or otherwise which do not conform to legislation are creating undue pressure over Councils who comply strictly to the law.

### Job Dependability

The Executive Secretary is employed directly by the Local Councils for a definite period of three years. Extensions for further periods of three years and performance bonus awards are also at the discretion of the Council. As a result there is a high risk that an Executive Secretary may not carry out his duties independently and without

### Banking

Revenue is not being deposited on a daily basis in default of the financial legislation.

## Recommendations

### Qualifications

The qualifications for the employment of an Executive Secretary should be of such a level as to ensure that the appointee is capable of performing the full range of financial duties and responsibilities effectively and efficiently.



### Appointment of an Accountant

If the qualifications for the appointment of an Executive Secretary are raised there would not be the need to recruit an accountant at an added expense to the Councils.

### Job Dependability

The employment of an Executive Secretary should be for an initial period of three (3) years after which employment is to be for an indefinite period.

An independent body is to be established so that an Executive Secretary could contest employment related decisions taken by the Council. This should alleviate pressures on the Executive Secretaries.

The Department of Local Councils, in conjunction with other stakeholders, should compile a job description. Mayors, Councillors, Executive Secretaries and prospective applicants should be made aware of its contents in order that there may not be any ambiguities.

The criteria to be used for the annual bonus payment to be awarded is to be established by the Department of Local Councils in conjunction with other stakeholders, ensuring a standard format.

Consideration is to be given whether other interested stakeholders should be allowed to comment on the award proposed.

### Limited knowledge of Financial Procedures

Training in the form of lectures to Councillors, Executive Secretaries and

Council's employees is to be reintroduced. Measures are to be taken to ensure attendance.

A manual setting out guidelines of a Council's operations is to be drawn up and made available on line.

Early action is indicated to strengthen the Local Councils Support Unit, as recommended by NAO and agreed to by the Public Accounts Committee in October 2001.

### Donations

The Department of Local Councils is to step up action against unauthorised donations in view of the by-passing of financial regulations and the adverse effects on other law abiding Councils.

### Banking

When this shortcoming was highlighted it was stated that it is not cost effective to spend time queuing at the bank when small amounts are involved. The Department is to issue standard guidelines on the frequency of bank lodgements, taking into account the economical aspect of such lodgements in cases of small amounts.

## Management Comments

The Director of Local Councils concurred with our findings and is addressing the issues raised either by proposing legislative amendments or by undertaking other administrative measures.

## Local Councils

### Background

In terms of Section 65(1) of the Local Councils Act, 1993 the audit of the Local Councils' financial statements was carried out on behalf of the Auditor General by seven private audit firms, appointed as Local Government Auditors, following a call for applications.

The financial statements covered the year up to 31 March 2004. The Government allocated Lm9.88m to Local Councils and another Lm300,000 was voted towards their e-Government programme.

Audit reports and financial statements of each of the sixty eight Local Councils were to be submitted by not later than 30 June 2004.

The audit of the Local Councils Association was carried out by a private audit firm appointed in terms 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 statements covered the year to 31 December 2003. Government allocated Lm27,000 to the Association.

### Key Issues

#### Qualified Reports

Qualified audit reports were issued for the following concerns:

1. Incorrect accounting treatment/disclosures.
2. Shortage of liquid funds/ inability to meet financial obligations/net current liability position.

3. Fixed assets incorrectly accounted for or not verifiable.
4. Financial situation indicator benchmark not maintained.
5. Failure to provide for bad debts.
6. Incorrect accounting of Special Needs Funds (SNF).
7. Other amounts not verifiable.
8. Irregular banking procedures.

Other audit reports highlighted concerns for shortcomings arising due to the failure of the Department of Local Councils to take timely corrective measures to amend legislation or to enhance the software. These concerns are:

- (i) Omission of the budget figures from the financial statements.
- (ii) Income or debtors from the Local Enforcement System (LES) not verifiable.
- (iii) Income, debtors, loss or creditors related to LES understated due to the failure by the Joint Committee to provide audited amounts.

Fifty five (81%) audit reports were qualified, twenty-four of which for one of the above concerns. (Appendix A)

Furthermore, nineteen reports were qualified for two of the above-mentioned reasons, six were qualified for three reasons and four for four reasons. One was qualified for five reasons, and another for six. (Appendix A)

Two reports, which were qualified for the omission of budget figures, included also an emphasis of matter (Appendix A) as follows:

- a. Forecasted inability to meet financial obligations as they fall due.
- b. Two contractors are claiming Lm83,657 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 nine Councils with expenditure exceeding income. The table hereunder lists the Councils, the amount of the excess for the year under review and the corresponding position in the preceding year.

Local Council	2003-2004 Lm	2002-2003 Lm
Mdina	(4,818)	33,338
Balzan	(13,860)	25,214
Ghaxaq	(5,758)	8,271
Kalkara	(62)	(22,677)
Kercem	(2,762)	25,211
Pembroke	(7,494)	41,499
San Giljan	(32,059)	85,501
Santa Venera	(24,578)	12,845
Swieqi	(9,178)	6,313

## Working Capital

Seven Local Councils recorded a negative working capital. The following table lists these Councils, the amount for the year under review and the corresponding figure for the previous year.

Local Council	2003-2004 Lm	2002-2003 Lm
Birgu	(6,727)	(26,636)
Rabat (G)	(12,605)	(15,728)
Ghasri	(1,518)	2,158
Pembroke	(5,416)	32,351
San Pawl	(10,761)	62,875
Swieqi	(14,342)	3,974
Xewkija	(2,254)	(661)

## Financial Situation Indicator

Ten Local Councils registered a Financial Situation Indicator below the five per cent benchmark set out in Regulation 4(c) of LN 155 of 1993 - Local Councils (Financial) Regulations 1993, as amended by Section 2 of LN 320 of 2003 - 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	(6,727)	89,628	(7.51)
Rabat (G)	(12,605)	153,103	(8.23)
Ghasri	(1,518)	53,306	(2.8)
Kalkara	2,934	80,622	3.64
Mosta	31	314,967	0.01
Paola	1,223	208,507	0.59
Pembroke <sup>1</sup>	(5,416)	124,332	(4.36)
San Lawrenz	2,333	48,639	4.80
San Pawl il-Bahar	(10,761)	372,447	(2.89)
Swieqi	(14,342)	147,986	(9.69)
Xewkija	(2,254)	101,070	(2.23)

## Control Issues

Local Government Auditors identified opportunities for improving controls in a number of areas:

- a) Receipts/invoices not always issued.
- b) Invoices not pre-numbered.
- c) More than one receipt book in hand.
- d) Improper accounting of reimbursements.
- e) Accounting of income and expenditure from cultural/social activities.
- f) Control and monitoring of expenditure against budgeted projections.

<sup>1</sup> Pembroke, although exempt, has been included in the list because they registered a negative percentage (4.36%) in the Financial Situation Indicator.

- g) Donations and sponsorships given in contravention to legislation.
- h) Long outstanding debtors and creditors.
- i) Works/purchases obtained by direct order instead of a public call for tender.
- j) Excessive community activities' and hospitality costs.
- k) Allowances given to Councillors and Executive Secretaries for the use of mobile phones.
- l) Receipts used by the Council may be easily reproduced.
- m) No internal control over amounts charged by the Water Services Corporation for re-instatement works.
- n) Analysis of invoices and calculations thereof were not regularly and thoroughly carried out.
- o) Schedules of payments not appropriately signed.

## Compliance Issues

### Audit Report and Financial Statements

Sixty one reports were delivered on time i.e. by 30 June 2004 while the remaining seven reports were received in July.

### Management Letters

Management letters served highlighted audit findings and recommendations. Fifty three Local Councils (80%) sent a response to the management letter as required by Section 7, sub-sections (3) and (4) of Legal Notice 156 of 1993 - Local Councils (Audit) Regulations, 1993. There were only six instances where the reply was submitted on time.

The table above lists the areas of concern mentioned in the management letters and the number of Councils where such concerns were raised:

Areas of Concern	No. of Local Councils
Local Enforcement System	55
Fixed Assets	54
VAT Receipts	51
Tenders/Contracts/Quotations	47
Creditors/ Accruals	37
Accounting	35
Bank/Cash	31
Sponsorships/Donations	23
Insurance	23
Salaries	19
Re-imbusement/Allowances	18
Petty Cash	14

### Local Enforcement System (LES)

- a) Contraventions over one year old still outstanding.
- b) The Joint Committees are not generating and forwarding statements of income from contraventions, thus Councils cannot account correctly for debtors/ income.
- c) Unaudited reports submitted by the Joint Committee.
- d) Income due could not be identified and it is doubtful if recoverable.
- e) Fines paid at the Licensing and Testing Department are deposited into the Council's bank account once a month.
- f) Reports generated for a specific time range vary when printed at different dates.
- g) Payment of contraventions issued by the Police is not being accepted before details are included in the computer system.
- h) Unidentified deposits are not included with creditors.
- i) Debts increased even though income from contraventions decreased from last year.

- j) Debtors shown in financial statements do not match with Datatrak reports.
- k) Income from contraventions not being entered regularly.
- l) Income reconciliation is only prepared at year end.
- m) Fines paid at other Local Councils are matched with relative receipts by trial and error.

### Fixed Assets

- a) Fixed Assets Register is not regularly updated with all necessary details.
- b) Discrepancies exist between the Nominal Ledger and the Fixed Assets Register in cost, accumulated depreciation, description, category and location.
- c) Fixed Assets Register records not sufficiently descriptive to identify the individual assets.
- d) Low value items included in the Fixed Assets Register.
- e) Provision for depreciation not calculated on a monthly basis or not being calculated correctly.
- f) Capitalisation of recurrent expenditure.
- g) Assets expensed instead of capitalised.
- h) Assets disposed of not accounted for.
- i) Assets funded from Special Needs Funds not fully expensed when acquired.
- j) Incorrect classification of capital expenditure.
- k) Assets not included in the register.
- l) Assets not appropriately tagged.
- m) Assets capitalised when the expense is incurred rather than when the project/work is completed.

### 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.

### Tenders/ Contracts/ Quotations

- a) Quotations not obtained for expenditure over Lm 500 and tenders not issued for expenditure over Lm2000.
- b) Letter of Acceptance not issued.
- c) Closing date for tenders less than one month from date of publication.
- d) Performance guarantee/bond not received before the commencement of work.
- e) Tender not awarded to the cheapest bidder.
- f) Quotations requested instead of tenders for purchases/services over Lm2,000.
- g) Contracts awarded to tenderers presenting incomplete documentation.
- h) Management fee incorrectly deducted or not deducted at all.
- i) Payments for works/services made without being certified by a qualified person.
- j) Contract was expired and no new call for tenders issued.
- k) Performance guarantee not in accordance with financial procedures.
- l) Not all documents in accordance with tendering procedures were available.
- m) Works carried out without a valid contract.
- n) Bank guarantee was less than ten per cent of the value of works.
- o) Minutes approving the call for tenders and the final adjudication process were not made available.
- p) Rates and prices charged did not match those stipulated in tender.
- q) Schedule of offers signed by the Executive Secretary and one Councillor

instead of by the Executive Secretary and two Councillors.

### 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) Creditor lists includes balances in dispute.
- d) Lists of creditors/accruals are not complete or contain errors.
- e) Amounts written off without being shown in minutes to have Council's approval.

### Accounting

- a) No report drawn up to reflect the income generated and expenditure incurred in organising social activities.
- b) Income from permits, activities, tenders and reimbursements all recorded in the same account.
- c) Adjustments effected by auditors at year end to correct balances.
- d) Payment vouchers not properly cross-referenced to the schedule of payments as approved in the Council's minutes.
- e) Budget report not prepared in accordance with financial regulations or not prepared at all.
- f) Audit adjustments found necessary last year not posted in books of accounts.
- g) Various notes to the financial statements are not in accordance with the Local Councils (Financial) Procedures.
- h) Income overstated.
- i) Income accounted for without knowing its origin.
- j) Accounting not in accordance with International Accounting Standards and/

or instructions from the Department of Local Councils.

- k) Income recorded on a cash basis.
- l) Accrued income erroneously entered in the accounts.
- m) Significant variances between budgeted and actual figures.
- n) Cash in hand not agreeing with book balance.

### Bank/Cash

- a) Cash not deposited daily or twice weekly.
- b) Income received in cash or by cheque batch posted in the accounts when deposited instead of individually recorded when received.
- c) Stale cheques not written off.
- d) Bank reconciliations not prepared on a regular basis or not adequately prepared.
- e) No documentation to cover income.
- f) Savings and current accounts are overdrawn.
- g) Substantial amounts of cash not deposited in savings or term deposit accounts.
- h) Receipts not deposited sequentially as they are received.

### Sponsorships/ Donations

- a) Total donations to entities exceeded the 0.5 per cent of the annual allocation and individual donations exceeded Lm50.
- b) Donations/sponsorships in cash or in kind to institutions/entities not listed in the Eight Schedule of the Local Councils Act or payments of bills on their behalf.
- c) Payments for sponsorships shown as payments for services rendered to the Council.

## Insurance

- a) Mayors and Councillors included in the Health Insurance Scheme.
- b) Insurance policy covered buildings not owned and employees not employed by the Council.
- c) Assets are overvalued or undervalued for insurance purposes.
- d) No action taken to recover claims that have been outstanding for more than one year.

## 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) Incorrect Mayor's honoraria.
- e) Discrepancy between the FS5 and FS7 forms.
- f) Incorrect amounts of NI Contributions in FSS forms.
- g) Request for overtime not authorised and documented but approved verbally.
- h) FSS forms not submitted or submitted late.
- i) Payment to employees in lieu of vacation leave not availed of.

## Reimbursements/Allowances

- a) Fixed monthly allowance established to reimburse expenses incurred by Councillors and the Executive Secretary.
- b) Reimbursement for telephone/mobile phone bills, mobile phone cards and travelling expenses effected without any supporting documents attached.

- c) No expense claim form for reimbursements.

## Petty Cash

- a) Payments of over Lm10 effected from petty cash.
- b) Separate payments on the same day to the same supplier in total exceeding Lm10.
- c) Petty Cash not reconciled with accounting records.

## Other Concerns

Although the following concerns occurred individually in different Councils, their materiality warrants separate mention:

- a) The health insurance of the employees in accordance with the collective agreement is not being paid.
- b) A direct order amounting to Lm14,486 was given for road and street patching without a call for tenders.
- c) The value of works on one particular street exceeded the estimate by Lm12,029.72. No correspondence or reports from the Architect were found informing the Council that additional work was to be carried out. Furthermore, the Architect gave his authorisation to the contractor without any written authority from the Council.
- d) A Heritage Route Project which has been going on since 1999 was initially estimated to cost Lm99,293. The project will have exceeded the adjudicated cost by Lm209,382.
- e) A third party is fiscally receipting payments made out to a contractor for the hire of a roller. Furthermore VAT is being paid over and above the tendered rate.
- f) An amount of Lm989 was paid for transport connected with the Youth Football Scheme of the locality.
- g) Eighty one (81) e-talk cards of Lm10 each were purchased for Councillors, the

Executive Secretary and employees. Furthermore, an amount of Lm1,987 was paid in respect of mobile telephony agreements charged to the Council for the Mayor and one of the Councillors.

- h) Payment of Mayor's mobile phone bill amounting to Lm870.
- i) Works carried out on pavements costing Lm21,113 were not covered by a call for tenders.
- j) No bye-law was passed to regulate the organisation of a summer school. It resulted also that no internal controls were in place and that financial procedures were persistently infringed in cash handling resulting from the various activities organised. Payments effected to teachers were not supported by a proper fiscal document.
- k) A number of cancelled receipts were encountered. In some instances, the original receipts were not found attached to the receipt book.
- l) Councillors were given a gold pin in recognition of the work performed and a Christmas hamper at a cost of Lm415 and Lm240 respectively.
- m) Cash in hand amounting to Lm10,469 resulted at year end. A physical cash count carried out during the audit resulted in Lm16,580 cash in hand, of which Lm1,790 were stale cheques. The cash in hand included payment of contraventions belonging to other Councils.
- n) A discrepancy in the reconciliation of an amount of Lm48,251 was not addressed.

### Other Matters

#### Previous Year's Weaknesses

Only one Local Council addressed all weaknesses highlighted in the management letter for the previous financial year. The weaknesses were only partially addressed or were not addressed at all in the others.

### Local Councils' Association

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) Depreciation charge is not automatically computed by means of the accounting software.
- b) A number of adjustments were made to correct mispostings and errors.
- c) Invoices not addressed to the Association.
- d) No purchase orders raised.
- e) Plant Register is in the process of being updated.
- f) A proper document was not obtained to support the purchase of a digital camera from abroad. Furthermore, the asset could not be inspected because it was not on the Association's premises. It could not be ascertained whether it was declared for Customs Duty purposes.
- g) A Visa credit card is held in the name of the Association regardless of Memo 8/2002.
- h) The Association has a savings account in which fines and penalties for contraventions are deposited. A balance of Lm10,433 remained in this savings account as it could not be established to which Council/s the amount was due.
- i) Minutes of meetings were not always approved.

Furthermore, the audit report was qualified due to the omission of budget figures in the financial statements. The management letter included a mention that a formal rental agreement for the Council's premises was not drawn up.

These concerns are due to the failure by the Department to take timely necessary corrective measures.



### Department of Local Councils

Amendments to current legislation that were recommended by NAO and agreed to by the Department (including the removal of budget figures from the financial statements and the drawing up of Performance Indicators) have not yet been addressed.

### Recommendations

The financial statements relating to the pooling agreements entered into by different Councils to facilitate the collection of fines from contraventions should be audited in time so that Local Government Auditors could be in a position to verify the income and debtors of each respective Council.

A serious effort should be made by Councils to address the concerns highlighted by auditors in the management letters so that the weaknesses could be resolved satisfactorily.

The Department of Local Councils should ensure that Mayors and Executive Secretaries comply at all times with all the provisions of the Act, regulations and procedures and sanction those Councils that persist in carrying out irregular operations.

In this respect it is of the utmost importance that the Department of Local Councils should carefully consider the contents of the management letters and the Councils' response to them. This will ensure that recommendations made by auditors are taken up by the respective Councils to achieve better financial control and adherence to the law, regulations and procedures.

As in previous reports, most weaknesses highlighted are the effect of weak internal controls. NAO has been recommending to the Department to effect various amendments to the Local Councils Act, Regulations and Procedures to address this issue. Although the Department was in agreement with these recommendations little progress was registered.

In 1998, NAO recommended the setting up of a Local Councils Support Unit within the Department of Local Councils. The role of the Unit was intended to address internal controls and other weaknesses not related to finance. This recommendation, which was agreed to during the Public Accounts Committee meeting of October 24, 2001, has not yet been fully implemented.

Currently the Unit consists of one employee. Both NAO and the Department agree that this is not sufficient. In order to strengthen the set up, the Department initiated procedures to recruit two Monitoring Officers and a Senior Monitoring Officer. This initiative was not accepted by the Management and Personnel Office of the Office of the Prime Minister following consultation with the Ministry of Finance.

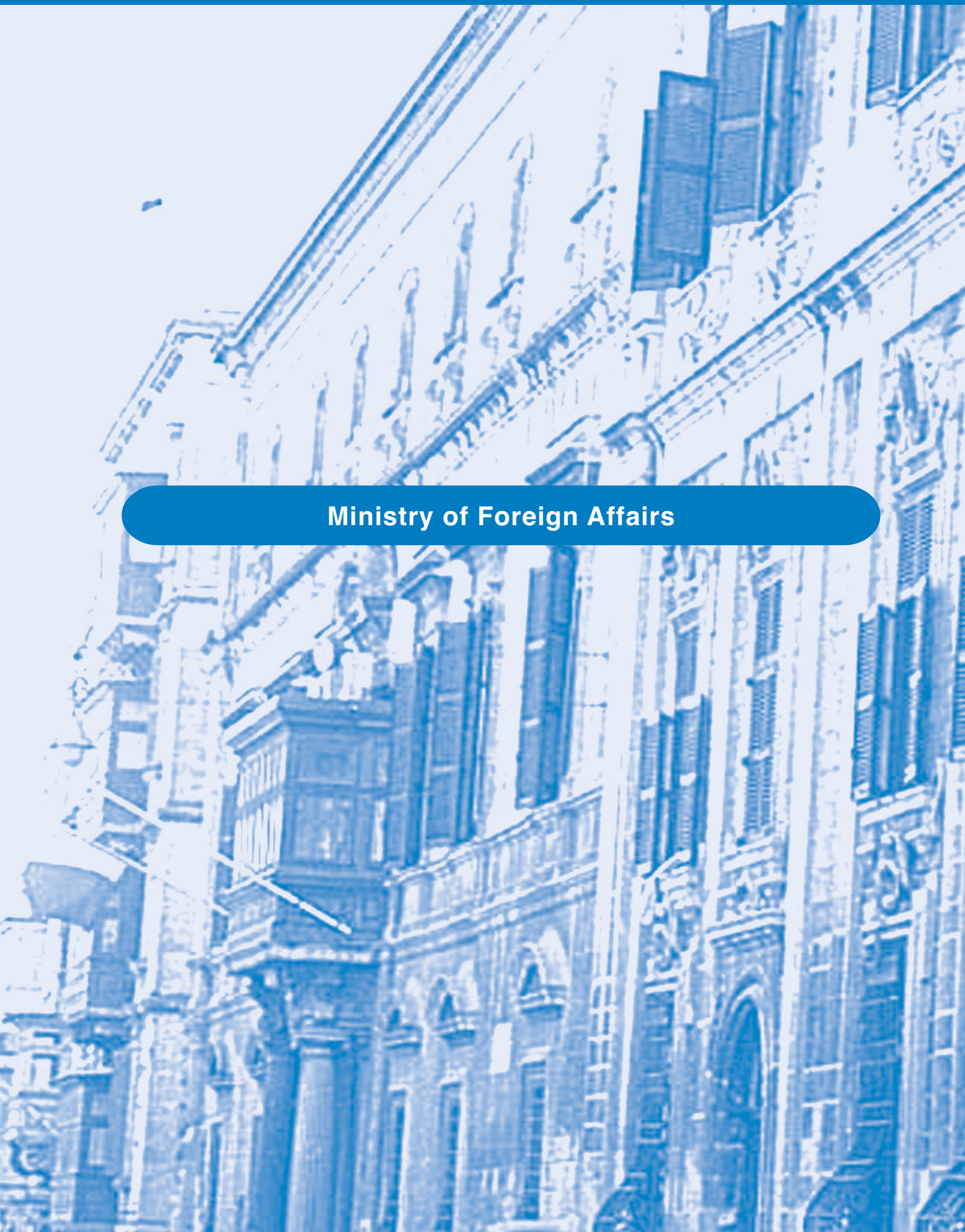
### Opinion

During the year the compliance rate with financial regulations and internal controls continued to deteriorate with the re-emergence of previous years' shortcomings. Furthermore, there was an increase in the number of defaulting Councils.

Appendix A

Council	Qualified Reports (for headings refer to page 242)											Emphasis of Matter	
	1	2	3	4	5	6	7	8	(i)	(ii)	(iii)	(a)	(b)
Valletta	x					x		x		x			
Mdina										x	x		
Bormla		x							x				
Qormi									x			x	
Zebbug	x	x	x						x				
Zabbar									x				
Siggiewi	x	x	x						x				
Zejtun	x	x							x				
Rabat (G)	x	x							x	x			
Attard	x								x	x			
Balzan										x			
B'Kara	x	x	x						x		x		
Dingli									x				
Fontana									x		x		
Gudja										x			
Gzira	x												
Gh Sielem									x				
Gharb									x				
Ghargur									x		x		
Ghasri				x					x				
Ghaxaq									x				
Hamrun	x		x						x				
Iklin									x		x		
Kalkara				x	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		
Paola				x						x			
Pembroke									x	x			
Pieta									x				
Qala									x		x		
Qrendi									x				x
Safi									x				
S. Lawrenz				x					x				
Sannat									x				
Sliema									x		x		
S. Lucija									x				
Swieqi		x		x	x								
Ta' Xbiex									x		x		
Tarxien					x	x				x			
Xewkija				x					x				
Xghajra									x				
Zurrieq					x					x			
Mtarfa									x				
	10	8	6	6	4	2	1	1	44	13	11	1	1

Ministry of Foreign Affairs



## Ministry of Foreign Affairs - Revenue

### Background

The Maltese diplomatic missions overseas protect the rights and interests of Malta and Maltese citizens; provide information about Malta; register births, marriages and deaths; issue passports; handle requests for visas; administer oaths and authenticate documents.

This audit focused on the revenue collected by six missions, namely Athens, Canberra, The Hague, London, Vienna and Washington in relation to the issue of Passports, Visas and the Authentication of Certificates.

Other sources of revenue audited include fees collected from the Hire of Flags, the issue of "CC" Plates to Consular Core and other administration fees charged by the Ministry.

### Key Issues

#### Completeness of Revenue Collected

Due to the logistical problems and incomplete details submitted by the missions, checking on revenue is limited. Completeness of revenue collected could not be ascertained.

#### Allocation of Revenue from Administration Fees

According to an Internal Office Circular issued by the Ministry of Foreign Affairs, the administration fee element on the issue of passports and visas is credited to various expenditure accounts as the Mission Head considers necessary. However, no Finance authority appears to have been obtained for the adoption of this procedure. As a result,

the missions may be having more funds at their disposal than they were originally allocated.

### Control Issues

Opportunities for improvement were identified in the following areas:

- Weak control over the number of passports issued by the missions. The number of passports recorded as issued during 2003 does not tally with return submitted to the Passport Office by the missions. Instances were also encountered where passports were not being issued in sequence.
- The number of visas issued by the missions could not be reconciled with records kept by the Police Department as the latter only have records of approved visas. A number of individuals, who according to the missions have been issued with a visa, were not listed on the Police records.
- Lack of signatures reflecting responsibility for movements of visa booklets and unused receipt books.
- Inadequate audit trail on the hire of flags by the Ministry and weak control over their respective returns.
- No audit trail on the authentication of certificates issued by the overseas missions which could enable confirmation of the completeness of such revenue collected.
- No records kept by the Ministry as regards administration fees collected on the transfer of money by individuals in Malta to their relatives in foreign countries.

## Compliance Issues

### Hire of Flags

#### Lack of updated Inventory Records

Purchases of flags are not being taken on charge and no updated inventory records of flags exist at the Ministry. A stock take was performed during 2001 but records have never been updated with new purchases or movements of flags.

#### Revenue not properly receipted

When DAS is not available, temporary receipts are given by the Accounts Section to the person borrowing the flags instead of the official receipt. Furthermore, a discrepancy resulted between the revenue that should have been collected from the hired flags and the actual amount recorded in DAS by the Accounts Section.

## Recommendations

#### Completeness of Revenue Collected

For better internal control purposes, management should ensure that there is adequate segregation of duties throughout the revenue collection process. Every source of revenue is to be supported with sufficient information.

#### Allocation of Revenue from Administration Fees

The administration fees charged by the missions should be posted to a Revenue Account instead of offsetting the expenses by crediting expenditure accounts. Otherwise, figures in the financial report will be distorted.

#### Passports

Timely, accurate and detailed information is to be forwarded to the Passport Office by the missions after reconciling with entries duly recorded in the Cash Book. Besides serving as a control over revenue, this should also serve as an effective control over the stock of blank passports.

#### Visas

Monthly returns of visas issued are to be forwarded by each mission to the Police

Department who are expected to keep updated records of visas issued and reconcile return with visas approved.

#### Visa Booklets and Unused Receipt Books

Every movement of the visa booklets and receipt books should be signed for by the officer effecting the movement. At the end of every year, each Embassy should report to the Head Office the Visa Counterfoil Book Numbers and Receipt Book Numbers that are still unused and in its possession.

#### Hire of Flags

Source documents are to be pre-numbered and dated. A requisition form is to be filed for each request without exception. The proper approval for the waiving of the hiring fee is to be attached where applicable.

The requisition forms are to clearly indicate the additional charges to be incurred if flags are retained for more than one week. They should also indicate that the upfront deposit will be lost if the flags are retained for more than a specified period after the due date. Cheques with the deposit amounts are to be immediately deposited.

Requisition forms should be dated and include full details of the borrower. Proof of payment should be supported by the receipt number on the same form.

#### Authentication of Certificates

It is recommended that a computerised system similar to that used locally is adopted by the missions for the authentication of certificates.

#### Money transferred through the Missions

Transactions on behalf of individuals which are effected by the Ministry are to be recorded in an 'ad hoc' register clearly showing name of transferor and receiver, date and amount transferred.

#### Hire of Flags

#### Lack of updated Inventory Records

A hundred per cent check on the stock of flags is to be carried out as soon as possible, taking into consideration the flags out on hire.

A yearly stock take is to be performed in terms of the General Financial Regulations which also requires a report of such stocktaking to be copied to the Auditor General.

### Revenue not properly receipted

The Officer in Charge of the stores is to ensure that the borrower is in possession of a proper official receipt for the correct amount before giving custody of the flags. The receipt is to be signed by the officer handing the flags to the borrower, while the receipt number is to be entered on the requisition form.

### Management Comments

Management accepted most of the recommendations and will be taking the

necessary action to address the weaknesses. However, they stated that the issue of segregation of duties is a problem in the majority of the missions due to insufficient personnel posted to these missions.

A reply received from the missions also stated that reconciliation of passports and visas was difficult. This reply was considered as insufficient by NAO. Nonetheless, according to Management, the return submitted to the Passport Office in respect of passports issued by the missions has now been rendered redundant by the recent change in the passport issuing regime.

Management is in discussion with the Ministry of Finance in order to obtain approval for the retention of income collected from administrative fees.

## Ministry of Foreign Affairs - Expenditure, Transport and Inventory

### Background

The main objective of the Ministry is to assist in the formulation of foreign policy and to project and implement this policy on behalf of the Government of Malta in conformity with the Constitution whilst maintaining the best possible relations with all countries. It has also enhanced Malta's relationship with the European Union leading to membership of the Union.

### Control Issues

Opportunities for improvement were identified in a number of areas:

- Lack of segregation of duties in the procurement process.
- In contravention to the standard procedure, fifty six per cent (56%) of the payment vouchers verified had their respective purchase order raised after the receipt of invoice from the supplier.
- Payments effected without checking of the relative invoice for errors, consequently lacking assurance that the items received and paid for match with the items ordered.
- Use of telephone service for non-official business increasing expenses unnecessarily.
- Lack of control over the use of government expensed vehicles used by the Ministry and fuel consumed as no log books are being maintained. Furthermore, Government owned vehicles are not being returned to base at the end of the day but used by officers whose conditions in the contract of services does not include such benefit.

- Inventory records at the Ministry are inconsistent and incomplete.

### Compliance Issues

#### Undeclared Income by Taxpayers

Various services rendered by third parties are being treated as multi-payments and as a result no tax is being deducted for income tax purposes. These payments either had to be included with salaries and declared under FSS regulations, or payee should have a VAT registration number, and should be treated as a vendor. Moreover, a fiscal receipt is not always being submitted to the Ministry in respect of payments for services rendered.

#### Non Compliance with Procurement Regulations

The service for printing a publication, the cost of which exceeded Lm20,000, was not procured by a public call for tender as required by the Procurement Regulations. Order was placed after three quotations were sought. Ministry of Finance approval to place a direct order was obtained when the service was already rendered by the supplier.

#### Insufficient Details on Payment Vouchers

Payment vouchers did not always contain full particulars of the items purchased, as required by the Financial Regulations.

#### Misallocation of Expenditure

Eight per cent (8%) of the payments were not posted to the proper account. This hinders an effective comparison of budgeted as against actual expenditure.

### Interest paid due to Late Payments in respect of Visa Bills

The process of effecting payment to cover bills paid by visa cards abroad takes too long. Bills are not paid by the due date and the Ministry incurred interest charges as a consequence.

### Recommendations

#### Segregation of Duties

It is recommended that the officer who raises the GSPO does not authorise and sign the payment voucher himself.

#### Control over Procurement of Goods and Services

GSPOs are to precede the purchase of any goods or service. This will ensure that proper authorisation for the purchase is obtained as stipulated in the regulations.

#### Checking of Invoices before Payment

On signing a voucher, the officer in charge should certify the accuracy of every detail in the voucher as he is held responsible that computations and additions have been verified and are arithmetically correct.

#### Use of Telephone Service

The Ministry is to assess the risks of misuse of resources. Premium calls and international calls that are of a personal nature are to stop and are to be identified before effecting telephone bill payments.

#### Use of Government Expensed Vehicles

A log book is to be maintained for each government expensed vehicle at the Ministry with the exception of cars that are part of a performance agreement. The log book is to reflect full details of fuel requisitions and trips.

Exclusive use of official cars relates to official duties and vehicles should not be retained after office hours unless it is included with the benefits in the contract of service. An official car so retained constitutes 'unauthorised use' and cannot

be justified. If it is absolutely necessary that vehicles be retained after office-hours due to the nature of the work, authority should be sought from the Ministry of Finance stating the reasons for non compliance to MF Circular 8/90.

#### Proper Inventory Records

To exercise the necessary inventory controls as well as bring oneself in line with the accrual based accounting concept, it is necessary to maintain proper records of inventory items with the correct valuation and duly updated with any movements in accordance with MF circular 14/99. The description of the asset should be as precise and detailed as possible.

Each Heritage asset is to be separately catalogued by the entity entrusted with its care. Catalogue of Heritage items is to include a photograph of the item, together with a scrupulously detailed description by a Government appointed expert and endorsed by him on the printed copy of the catalogued sheet for that Heritage Asset.

#### Undeclared Income by Taxpayers

When classifying an expense as a multi-payment, it must be ensured that such expenditure can neither be classified as salaries nor paid to a person or body of persons that are carrying on an economic activity, thus being entitled to register under the VAT Act.

#### Non Compliance with Procurement Regulations

The procurement of such services by Government is to be made by contract after the award of tender. The terms and conditions agreed upon should be clearly indicated. It should be ensured that request for services is made in advance of and not after the actual services have been rendered.

#### Insufficient Details on Payment Vouchers

As stated in the General Financial Regulations, all vouchers should contain full particulars to facilitate checking without reference to any other document. On signing



a voucher, the officer concerned is certifying the accuracy of every detail as he is held responsible that computations and totals have been verified and are arithmetically correct.

### Misallocation of Expenditure

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

### Interest paid due to Late Payments in respect of Visa Bills

Bills for visa card payments are to be paid by the due date in order to avoid unnecessary interest charges.

### Management Comments

Internal Circulars have been issued by the Ministry in an effort to address

shortcomings highlighted in the Audit Report. The recommendations made were accepted by the Ministry and implemented with the following exceptions.

While the Ministry regrets that use of telephone service may have been made for non-official business, following the installation of the new PABX at the Ministry where pre-existing lines were integrated in the new system, it is not possible to identify from which particular set and line the premium calls were made. Maltacom has informed the Ministry that it cannot provide appropriate call logging software.

However, with regard to interest paid due to late payments in respect of Visa bills, the Ministry stated that it starts processing statements immediately but the problem of time arises due to the necessary verification prior to sending the relative payment voucher to the Treasury, and subsequently, the time taken by the Treasury to process the payment voucher. Nonetheless, NAO contends that every effort is to be made to honour the bank's due date.

## Embassies and High Commissions - Expenditure

### Background

The Maltese Missions situated in Athens, Canberra, London, The Hague, Vienna and Washington are the six embassies in respect of which expenditure has been audited.

### Key Issues

#### Lack of Segregation of Duties

There is no evidence on the majority of the payment vouchers raised by the Missions that these are being prepared, checked and authorised by different officers.

#### Verification of Payments

Lack of verification of a number of payment vouchers and invoices by the Head of Mission and by the Head Office before payments are certified correct. This issue is also evidenced by the lack of supporting documents backing the payment vouchers. The validity and accuracy of certain expenditure could not be ascertained.

### Control Issues

Opportunity for improvement was identified in the following area:

- Mis-classification of expenditure incurred by the missions.

### Compliance Issues

#### Non-adherence to Conditions of Service

Prepaid mobile phone cards were being provided as a replacement for home phone service. There is no written evidence that the appropriate authority was obtained for

this arrangement to over-rule the telephone allowance entitlement provided for in the 'Conditions of Service for Officers serving Overseas'. This entitlement was limited to telephone rental payments plus an amount of twenty per cent (20%) of the remainder of the regular bill.

From the sample of payment vouchers audited it was also observed that reimbursement appears to have been made in respect of expenses of a nature which the officers are not entitled to.

### Recommendations

#### Segregation of Duties

Adequate segregation of duties should be in place in the process of raising payment vouchers in order to enhance internal controls. A standard payment voucher should be re-designed by Head Office, providing space for signatures of officers preparing, checking and authorizing the payment at the Missions. Space could also be provided at the bottom of the payment voucher for use by Head Office certifying correctness of expense after this has been verified.

#### Verification of Payments

As stipulated by Section 52 of the General Financial Regulations, all Payment Vouchers should contain full particulars of service such as dates and rates so as to enable them to be checked without further reference to any other documents. Furthermore, these are to be duly supported by the relative invoice and receipt so that appropriate checking could be carried out.

Full control is to be exercised by officers in charge of certifying invoices for payment.

### Classification of Expenditure

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

### Non-adherence to Conditions of Service

Only those expenses included in the 'Conditions of Service for Officers serving Overseas' are to be reimbursed. When arrangements other than those outlined in this manual are made, these should have the appropriate written authority.

### Management Comments

The Ministry accepted our recommendation regarding the lack of segregation of duties. However, it was

emphasised that in the majority of Maltese Embassies there is not enough personnel and hence it is difficult to implement it.

With respect to the verification of payments, Management stated that they are aware of the relevant supporting documents which should accompany the payment vouchers. However, in many instances, shortcomings are not material and do not warrant the return of the accounts to the Mission concerned.

Management are aware that the 'Conditions of Service for Officers serving Overseas' were not adhered to by one Mission with respect to prepaid mobile phone cards. This arrangement came to an end with the return of the officer concerned to the Ministry.

## Ministry of Foreign Affairs - Malta / EU

### Information Centre

#### Background

The Malta-EU Information Centre (MIC) was established in May 1999 with the main objective of contributing to a high level of information and education about the European Union in Malta.

#### Key Issues

The weakness in the payment process system and inefficient internal control administered by the Centre have resulted in a number of overpayments effected to suppliers and which were detected during the audit.

#### Control Issues

Opportunities for improvement were identified in the following area:

- Almost all payment vouchers verified had their respective purchase order raised after the receipt of invoice from the supplier.

#### Compliance Issues

##### VAT Fiscal Receipts

A high incidence of payment vouchers were not supported by a VAT fiscal receipt.

##### Direct Order not entirely covered by the Right Level of Authority

Finance approved a direct order for commissioning a survey of Public Awareness on Malta's EU Accession. The survey which was to be carried out over a period of 5 weeks for a total cost of Lm3,250 (excl. VAT), actually took over 7 weeks to conclude for a total cost of Lm4,550 (excl. VAT). Approval from the right level of authority was not obtained for the amount

of Lm1,495 (incl. VAT) which exceeded the direct order.

##### Payments for Security Agreements

Security during financial year 2003 was being rendered by a provider on a regular basis. No agreement entered with the service provider was made available by the MIC.

##### Arrear Charges

No arrear charge approval appears to have been requested to effect payment covering three (3) invoices dated November 2002 amounting to Lm2,100, which payment was effected in February 2003.

#### Recommendations

##### Weakness in the Payment Process System

Action is to be taken immediately to recoup the six overpayments amounting to over Lm2,500. A review of all payments effected is strongly recommended in view of the serious weakness in the payment processing system.

Full control is to be exercised by the officer in charge of authorising invoices for payment.

##### Procurement Procedures

GSPO is to precede the purchase of any goods or service. This will ensure that proper authorisation is obtained as stipulated in the regulations.

##### VAT Fiscal Receipts

Defaulters of fiscal receipt regulations are to be made fully aware of government rules.

Moreover, the Division is to discontinue business with defaulters and is duty-bound to report the non-submission of fiscal documents to the VAT Department.

### Direct Order not entirely covered by the Right Level of Authority

Once service is considered to be one related to the same survey, covering approval is to be obtained from the Ministry of Finance for the difference in question.

### Payments for Security Agreements

If such an agreement exists, a copy is to be submitted to this Office.

### Arrear Charges

Any claims which remain unavoidably unpaid at the end of a financial year should not be defrayed from the votes of the subsequent year unless authority is obtained from the Secretary for their being paid as arrear charges on the accounts of the financial year to which they refer. (Financial Regulations – Section E 74 (1) and Finance Circular MF 14/98). Correspondence granting the authority should be quoted on the payment voucher and made available upon request.

## Management Comments

During the last quarter of 2003 and the first months of 2004 MIC Acting Head had already initiated a complete review of

payments effected and as from October 2003 a system was introduced whereby all invoices are being thoroughly checked before these are signed.

However management did not say whether any other overpayments were detected from the complete review performed by the MIC.

Three suppliers have been requested to refund the double payment and two alleged double payments are still being investigated by MIC. Management stated that the other two invoices from a supplier were found to be identical, but that this was not a double payment as the invoice numbers were supposed to read A and B respectively.

With regard to GSPOs raised after the receipt of the suppliers' invoices, management explained that this was due to the intensive referendum campaign within a tight time schedule. A tracking system of expenditure was introduced to avoid over-spending.

While the recommendation on VAT fiscal receipts has been accepted and implemented, the Department failed to furnish a copy of the agreement covering Security Service.





**Non Central Government Organisations**

## Cana Movement

### Background

The Cana Movement aims to help people prepare for, achieve and maintain successful marriages and to support them in their relationships. This is being achieved through the provision of the following services: an educational service, a therapeutic service and a marriage enrichment service.

The audit under review covered the year ended 31 December 2003. The main aim of this audit was to ensure that public funds advanced in the form of subsidies were being utilised for the specific purposes for which these were donated.

### Control Issues

Opportunities for improvement were identified in a number of areas:

- Purchase Orders not issued prior to commitment of the purchase of goods and services.
- Insufficient control over inventory and asset identification due to lack of a Fixed Assets Register.

### Compliance Issues

An amount of Lm 28,712, corresponding to ninety eight per cent (98%) of trade debtors, has long been outstanding as at year end with an amount of Lm 5,953 being provided as provision for bad and doubtful debts.

Furthermore an amount of Lm8,720 owed at year end by one debtor continued to increase to Lm10,054, indicating that the Movement continued to transact business with this particular defaulting debtor.

### Recommendations

#### Control Issues

It is important that, whenever possible, goods and services are to be covered by a Goods or Service Purchase Order upon placing of an order. This will ensure that prior authorisation for the purchase is obtained as stipulated by relevant regulations.

The Fixed Assets Register started in previous years should be completed with the least possible delay. Every inventory item should be inserted in the Register with all relevant details, such as cost and date of purchase. The absence of an up-to-date, complete and accurate Fixed Assets Register has a serious bearing on accrual based accounting.

#### Compliance Issues

We recommend that regular monitoring and control of all debtors be performed. In particular, debtors should be reviewed monthly and follow up action should immediately be taken on any debtors who exceed the established credit period.

Furthermore, it is being recommended that a monthly repayment programme be entered into with the debtor in question. The Movement should otherwise consider other steps to recover amounts due.

### Management Comments

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



## Capt. O. F. Gollcher Art and Archeological Foundation

### Background

The Gollcher Art and Archeological Foundation was founded in 1962 by Capt. Olaf Frederick Gollcher and his wife Teresa. Capt. Gollcher bequeathed a number of properties situated around Malta to the Foundation. The revenue generated therefrom is being invested to enrich the National Museum with precious works of art and archaeology.

The audit under review covered the year ended 31 December 2002. This audit was carried out in accordance with the Will setting up the Gollcher Foundation - Article 7, wherein it is stated that *"all income and expenditure and in fact all accounts shall be audited, at least once a year, by the Government Auditor"*.

### Key Issues

The accounting records of the Foundation are maintained on the cash basis of accounting. Income and expenditure are only accounted for when received and paid respectively. This basis limits the proper disclosure of all revenues and expenditure as it does not account for accrued and/or deferred income and expenditure and assets and liabilities of the Foundation.

The property belonging to the Foundation has neither been valued nor recorded in the financial statements.

The Foundation does not maintain a register of its investments which can be reconciled to the respective original share certificate for control purposes. Investment valuations were not being recorded in the year under review and this resulted in insufficient monitoring of investments.

Villa Brunswick in Mgarr and its adjacent land are being rented to third parties for the amount of Lm860 per annum as per document signed by the Administrator of the fund in 1990. This document stipulated that the Villa could be leased for one year to be renewed automatically for a maximum period of ten years. Despite the expiry of the lease period, the lease is still being renewed automatically on an annual basis.

An inventory of the items held on the premises was never compiled. Moreover, antiques belonging to the Foundation are being kept in the leased property. This increases the risk of losses of these valuable assets.

### Recommendations

#### Key Issues

The Foundation should take all the necessary steps to switch to the accrual basis of accounting. This would enable it to produce an income and expenditure account and a statement of affairs in line with proper accounting standards.

The Foundation should seek the services of a Notary Public and carry out the necessary searches in order to determine all the properties that are wholly or partly owned by the Foundation. Subsequently, a property valuer should be appointed to give a proper estimate of the market value of all properties held by the Foundation.

A securities' register should be maintained wherein all movements in shares, bonds and stocks are recorded. The Foundation, through its intermediary, should also request a shares/bonds certificate for those securities where such certificates were not available. It was observed that the Foundation is exercising more

prudence in its investment strategy and avoided high-risk investments.

The lease of Villa Brunswick is to be reviewed. If it is deemed that it is in the interest of the Foundation to lease these premises, then such lease should reflect current market value.

The antiques within the leased property should be removed immediately. Antique furniture and other valuable objects should not be left in a private residence in view of the evident risks involved. It is recommended that these items be taken and transferred under the control of the Foundation and that a revised inventory be immediately drawn up.

### Management Comments

The Board remarked that:

- Accounting records of the Foundation has always been maintained on the cash basis of accounting. The Board is still of the opinion that the Foundation be kept free from Government control.
- The implementation of the accrual accounting would entail incurring an onerous financial burden on the Foundation. These expenses would be incurred by the ordering of researches by a Notary Public, a detailed survey of the Foundation's properties by a property valuer and by the employment of a part-time accountant.
- The Foundation provides a yearly list of properties held with the respective annual rent collected.
- Following the loss made from the purchase of Bonds in Argentina in year 1999, the Foundation had registered a profit of 22% in the sale of three equities during the period March 2003 and May 2004.
- Villa Brunswick was given out on lease in 1990 to the highest bidder who also undertook to carry out the installation of all essential services as well as a number of other major ameliorations. The future lease of Villa Brunswick is a prerogative that devolves upon the Board of the Foundation.
- An inventory of the furnishings and other articles in Villa Brunswick was carried out in 1986 but none of these items were at that time deemed to have antique value. Furthermore, the Foundation holds a copy of this inventory.

## St. James Cavalier Centre

### Background

The 'Fondazzjoni Centru għall-Kreattività' operates the St. James Cavalier Centre in Valletta. The Centre was opened to the public in September 2000 and its mission statement focuses on the Centre's role as a catalyst for the contemporary art scene in Malta.

The audit under review covered the two year period ended 31 December 2003. The main aim of this audit was to ensure that public funds advanced in the form of subsidies were being utilised for the specific purposes for which these were donated.

### Key Issues

The Centre does not keep a Fixed Asset Register disclosing individual items with cost, depreciation and net book value. In addition, there is an undisclosed amount of fixed assets held at the Centre which have either been donated or paid by other organisations and which have not been recorded in the accounting records.

### Control Issues

Opportunities for improvement were identified in a number of areas:

- Bank reconciliation statements not prepared on a monthly basis with a number of discrepancies coming to light.
- Debtors list and debtors control not reconciled;
- An inadequate provision for doubtful debts provided for long outstanding debtors.

### Compliance Issues

#### Payroll

Discrepancies were noted when reconciling the monthly FS5 to the end of year FS7 for 2002 and 2003. In addition, the FS7 submitted to the relevant authorities for year 2002 also showed an amount of overpayment that was remitted to the Inland Revenue.

### Recommendations

#### Key Issues

The updating and compilation of the Fixed Assets Register, in line with Circular MF 14/99 should be given priority. The amount shown on the Fixed Asset Register should be reconciled to the amounts shown in the general ledger. Assets held by the Centre but belonging to third parties should be formally transferred for eventual inclusion in the St. James accounting records.

#### Control Issues

- Bank reconciliation statements are to be prepared monthly.
- Debtors are to be properly monitored and follow up action is to be taken to recover long outstanding debts.
- An adequate provision for doubtful debts is to be provided.

#### Compliance Issues

The Centre should give more importance to the compilation of the FSS forms which may lead to the payment of penalties and interest if incorrectly filed. It is advisable that these forms are reviewed by another official or by the auditor of the Centre before

submission to the Inland Revenue Department.

### **Management Comments**

Management has concurred with all our recommendations and action has already

been taken to address these shortcomings. It was henceforth remarked that the compilation of the Fixed Assets Register will require additional time in view of current human resource levels.

## Conservatorio Vincenzo Bugeja

### Background

The Conservatorio Vincenzo Bugeja is a trust fund instituted by virtue of a deed made by Marquis Vincenzo Bugeja dated 4 December 1880. The main aim of the Conservatorio is to provide therapeutic services and education to girls with behavioural problems. It is made up of five different units, namely the Istituto Femile, the Ramo, Arti e Mestieri, the Executors Account, the Fejda programme and the Jeanne Antide programme.

The audit under review covered the year ended 31 December 2002. This audit was carried out in accordance with the Deed of Foundation of the Conservatorio wherein it is stated that *"The Accounts of the Institute will be audited by the Government Auditor General as duly authorised by the Chief Secretary's letter of the 1 June 1872"*.

### Key Issues

- The accounts are maintained on a financial spreadsheet drastically limiting audit trails and not maintained in accordance with International Financial Reporting Standards. A modified cash based system is in operation adversely affecting the true and fair view of the financial statements.
- Property, equipment, furniture and fittings owned by the Foundation have not been valued and recorded in the financial statements. Moreover, the Foundation does not maintain a Fixed Assets Register.

### Control Issues

Opportunities for improvement were identified in the following areas:

### Financial Assets

The Foundation does not maintain a register of its investments which can be reconciled to the respective original share certificate for control purposes.

### Cash at Bank

- The bank reconciliation statement of one particular bank account was not being prepared on a regular basis.
- A balance on another current account was not supported either by the bank statement or the bank confirmation letter.
- Stale cheques were not reversed.

### Compliance Issues

#### Expenditure

- Weekly pocket money given to residents is not always being signed for.
- Transport expenses are not supported by fiscal receipts.
- Only ten per cent (10%) of the cost of painting services incurred was supported by fiscal receipts.
- The boardroom refurbishment expenditure was not recorded as capital expenditure.

#### Payroll

- A discrepancy was discovered in gross wages between the financial statements and the FSS returns.
- Out of a total of 39 employees on Fejda and Jeanne Antide payroll, contracts were only issued to 21 employees.

- A sample check of the attendance sheets revealed that in the case of two employees, the attendance sheet was not being fully completed.
- Overtime is not being paid at the rates stipulated by law but is being paid at a flat rate per hour.
- Every item of expenditure incurred should be duly approved before it is incurred, allocated to proper account heading and supported by the correct fiscal receipt. Every effort is to be made to enforce the principle that V.A.T. receipts are to be obtained from suppliers.

### Recommendations

#### Key Issues

- An appropriate accounting software package needs to be implemented and the financial statements should be prepared in accordance with International Financial Reporting Standards.
- The Foundation should carry out the necessary searches to ascertain all the property owned and appoint a property valuer to estimate the market value of all immovable property. A Fixed Assets Register should be kept. Lease agreement conditions relating to this property are also to be included and monitored in this register.
- Employment contracts are to be issued in all cases for both programmes. Furthermore, payroll internal controls should be strengthened through better monitoring of attendance sheets.
- Wages and salaries should be reconciled at year end to the financial statements and FSS returns.
- Overtime worked should be paid for at the rates stipulated by law.

### Management Comments

Management has concurred with most of our findings and stated that the necessary action will be taken accordingly. In addition management also remarked that:

- The implementation of accrual based accounting would entail incurring an onerous financial burden on the Foundation. Substantial expenses would be incurred upon the ordering of researches from a Notary Public, upon requesting a detailed valuation of the Foundation's properties by a property valuer and the installation of an accounting software.
  - Stale cheques represented the annual ground rent paid on property at St.Venera for a number of years. These cheques were never cashed since a court dispute was still outstanding.
  - It is envisaged that overtime of full timers will be reduced such that additional manpower will be recruited by hiring extra part-timers.
- An investment register should be maintained by the Foundation wherein any movement in stock prices is monitored, and any changes in investment holdings are recorded and supported by investment certificates.
  - All bank account balances should be supported by bank statements and a bank reconciliation statement is to be prepared for all bank accounts. Unpresented cheques are to be monitored every month and stale cheques are to be reversed as they expire.

#### Compliance Issues

- Weekly pocket money given to residents needs to be evidenced.

## Malta Council for Culture and the Arts

### Background

The first accounting year of the Malta Council for Culture and the Arts (MCCA), formerly the Department of Culture, covered the 9 months ended 30 September 2003.

### Key Issues

#### Disclosed Asset Worth

- Furniture, machinery and equipment at the Luqa and Ricasoli compounds, including stand apparatus hosted by the Council for outdoor performances, are being omitted from records and financial statements. The National Audit Office (NAO) is of the opinion that such omission constitutes a material misstatement in the financial statements of the Council.
- Available records of fixed assets do not include heritage assets and third party property.

#### Receipt of Goods and Services

Certification of satisfactory receipt of goods and services is not being evidenced. This is crucial for determining the liability of the Council towards its suppliers especially at cut-off dates as not all purchase invoices would have been acknowledged following delivery.

### Control Issues

Opportunities for improvement have been identified in the following areas:

- Stock of CDs for sale was being omitted from the records and financial statements.

- A number of purchases still unpaid at 31 December 2002 were not treated as balance sheet items.
- Management information on the operations of pay events, included in the financial statements compiled for internal purposes, was not completely compatible with the figures of the Council's statutory private auditors in the first accounts of the Council.
- Users are not being barred access to accounting records relating to closed reporting periods.
- The high incidence of complimentary tickets, particularly those pertaining to the Carnival programme and the final night of the Maltasong festival and other cash generating activities/events, can be administered with more business acumen.
- Unsold tickets are not all being retained in support of past audit trails and closed accounts of pay events.
- Complimentary tickets were not being supported by any form of documentation signed by the recipients.
- No fixed petty cash float is in use, and advances to employees prior to the availability of the petty cash voucher are not being supported.

### Compliance Issues

#### Accrued Income and Expenditure

The accruals concept has not been fully respected in the income and expenditure account reported to management for the

year ended 31 December 2003, for example in the case of rent and hire of premises.

### Bank Reconciliation

Proper bank reconciliation statements were not being drawn up.

### Overdrawn Bank Balance

An unauthorised overdrawn bank balance appeared in the balance sheet of the Council.

### Procurement Requirements

Most commitments in respect of purchases were not duly anticipated by price quotations as and where required.

### Services contracted to Employees

Certain payments were made out to employees for contracted services extraneous to the Final Settlement Tax (FST) system.

### Official Vehicles

- Fuel issues to the Council fleet are not being validated with the records of distance covered on official business.
- Excluding one car relating to a performance contract, fixed weekly fuel supplies and the retention of a government-expensed vehicle after office hours are not congruent with Transport Regulations.
- The information required from the Council relating to the running expenses of its official fleet was not submitted to NAO.

### Stock Records

Physical checks of the stock of CDs in hand are hard to evidence in the absence of records.

## Recommendations

### Fixed Assets

For full compliance with MF Circular 14/99 and/or binding accounting standards,

pertinent records are to be regularly updated and physically checked for accuracy. An Asset Transfer Note or similar document needs to be introduced in support of the necessary adjustments, due to assets continually changing locations.

### Receipt of Goods and Services

Certification of satisfactory delivery can be made on a copy of the purchase order being generated by the accounting system in use.

### Capital Reserve

For a more accurate reported value of net assets originally taken over by the Council, stock of CDs and creditors in respect of pre-2003 purchases are to be included in the records as an adjustment to opening balances at 1 January 2003.

### Profit or Loss from Operations

A cut-off date is to be set for an event's income and expenditure account after the close of the particular operation. Provisions for doubtful debtors of event income are to be made if the Council deems these would be relevant. Once a profit or loss has been confirmed in the audited accounts, material errors and/or omissions related to past operations should be accounted for separately in the year these are discovered in accordance with standard accounting practice.

### Main Accounting System

Records of closed reporting periods should be secured against any user access. Precaution needs to be exercised when making use of correcting reversal routines inbuilt in SAGE; adjustments by journal entries at time of correction are more reliable.

### Fund Raising Operations

Commercially sound practices need to be introduced in the running of all fund raising activities in a bid to render the Council more independent in the financing of its operations.

As to the Carnival programme, records of complimentary tickets issued should be



reconciled with those of the contracted organisers and are also to be vetted by an independent officer. Unsold tickets are to be retained for an audit trail as well as for the purpose of such reconciliation.

A tighter complimentary tickets policy should be adopted coupled with favourable prices to make Maltasong more marketable.

### Complimentary Tickets

Complimentary tickets issued should be:

- supported by documented records;
- justified by a specific Council policy; and
- determined where applicable by an inclusion in the agreement with the sponsor to this effect.

### Petty Cash

Petty cash could be better controlled if fully maintained on the standard imprest system. Advances made out to employees in anticipation of the petty cash voucher could be covered by signed 'IOU notes' or similar document.

### Accrued Income and Expenditure

One is to ensure that disclosed known expense items such as hire of premises and/or rent should be equal to the total rent payable by the Council in respect of the reporting period.

### Bank Reconciliation

Monthly bank reconciliation statements of funds held in accounts with commercial banks should be drawn up in terms of General Financial Regulations (GFR).

### Overdrawn Bank Balance

Besides lending themselves to compliance with standing regulations, daily bankings of cash receipts would keep at bay unauthorised overdrawn bank balances.

### Procurement Requirements

Price quotations are the minimum control expected for purchases of more than Lm1,000 and less than Lm2,500, in conformity with Public Procurement Regulations.

Moreover, such control is to be exercised in compliance with related provisions of these regulations.

### Services Contracted to Employees

As a government-funded institution the Council is expected to meet its fiscal obligations. These include declaration on statutory fiscal returns of all payments made out to suppliers and contracted service providers, including Council employees.

### Official Vehicles

- Certification of log books on the basis of reasonable distance covered on official trips and fuel issued.
- Vehicles are to be returned to base after a day's work. Retaining an official vehicle after office hours cannot be justified by the user paying a fringe benefit tax.
- An annual return is to be filed with the NAO of all running expenses in accordance with MF Circular 8/90.

### Stock Records

Annual hundred per cent (100%) checks are a requirement of Section 106 of the GFR.

## Management Comments

Management had already adopted some of the recommendations of the NAO and the timely implementation of others will follow suit. However, it has not been mentioned what position the Council is going to take in respect of:

- the accounting treatment of the free letting of equipment to voluntary welfare associations;
- establishing a more accurate value of the net assets taken over by the MCCA at the start of its operations on 1 January 2003, that is, whether the Council would be restricting itself to identifying the opening fixed assets without regard to opening stocks, debtors, cash and liabilities; and

- adherence to transport regulations for Government expensed vehicles governing the statutory returns to be filed with this Office and the Ministry of Finance.

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## Malta Development Corporation - Factory Rentals

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### Introduction

The evidence NAO based the comment: *“Failure to take immediate action by MDC’s Legal Office, for the notification of the Eviction Order”*, reported in the Report of the Auditor General for 2002, was revisited.

The basis of the audit report was obtained from the documents found in the two (2) files, presented for examination during the course of the audit, which in turn NAO featured in the detailed report attached to the management letter dated 10 April 2003, addressed to the Malta Development Corporation (MDC).

### Developments

NAO, on further examination, is seriously concerned that the Corporation failed to:

- forward all the relevant documents during the course of the audit;

- refer NAO’s finding to their Senior Legal Advisor; and
- provide further evidence as counter-arguments in its replies.

A letter dated 26 January 2001 from the Review and Compliance Unit, addressed amongst others to the Senior Legal Advisor with instructions to evict a factory tenant, was not forwarded to the audit team when requesting all the relevant documents relating to the issue. Malta Enterprise, that replaced MDC, confirmed that the document was not inserted in the file forwarded for examination.

Evidence now indicates that the Senior Legal Advisor had executed this brief to institute legal procedure to evict the tenant from the factory within two weeks.



Other Reports

Performance Audit  
Environment Protection Department

Report by the Auditor General  
No. 5/2001: July

Internal Audit Functions  
within Government  
Ministries

Performance Audit  
Museums Department  
Historic Sites

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## Performance Follow-up Audit

### The Quality Service Charter Initiative

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#### Introduction

A quality service charter is a written commitment by an organisation to provide its customers with a quality service. Service charters inform the public about the services that are available, the mode of access and the standards that are to apply. Charters may undergo modifications in tandem with any developments occurring within the chartered scenario.

The Quality Service Charter (QSC) Initiative was launched in February 1999 with the aim of delivering better services to the general public. Up to July 2004<sup>1</sup>, a total of forty-nine quality service charters had been launched.

The Initiative has, since its inception, been advertised to mirror, in part, Government's commitment towards the enhancement of the operations of the national public service, as attested by comments expressed during the launching of the Initiative and, in October 2003, the circulation of the White Paper entitled "A Public Service for the 21<sup>st</sup> Century".

One of the main targets of the Initiative is to assist all Government departments that are providing an integral service and have direct contact with the general public. This assistance is to include the re-engineering – to the necessary extent – of operations for the purpose of providing an enhanced medium for the delivery of services, formulate and maintain service charters and apply customer-friendly concepts.

The institutional framework governing the QSC Initiative centres on a Charter Support Unit (CSU) within the Office of the Prime Minister (OPM). CSU is entrusted with the

<sup>1</sup> The findings in this report reflect conditions up to July 2004.

management and administration of the Initiative and with the provision of relevant support services to departments, both before and after these become charter owners.

The Value for Money Section within the National Audit Office had conducted an exploratory study during the period November 2000 to March 2001 to assess the efficiency and effectiveness of the QSC Initiative.

Objectives of the 2001 exercise included:

- To determine whether Government policy on Quality Service Charters was being upheld;
- To assess the general effectiveness of the charters with emphasis on:
  - i. changes required by the departments to accommodate the charters;
  - ii. adherence by departments to standards determined on charter launch; and
  - iii. control mechanisms enabling monitoring of progress.

The resulting finding was in the main critical of the manner with which the QSC Initiative was being implemented and carried a list of recommendations which reflected the findings and conclusions emerging from the study.

In 2004 a follow-up performance audit was undertaken. The objective of this audit was to determine whether recommendations in the original exercise had been taken up. Key findings and recommendations of the

original exercise thus formed the backbone of the follow-up audit.

This follow-up audit tackled issues related to the operational dimension of the initiative. At chartered department level, it focuses on the monitoring of services supplied, rather than on the standards themselves. Economic aspects or costs of the services on offer by chartered departments were not deemed to be within the scope of the audit.

In carrying out the follow-up, NAO:

- a) examined relevant documentation, including progress reports, monitoring and evaluation reports, internal audit reports and reviews carried out;
- b) interviewed key personnel responsible for administering, implementing and assessing the initiative; and
- c) applied questionnaires to obtain feedback from charter owners.

The findings for this audit were elicited from a sample of twelve charters, seven extracted from the originally assessed group of twenty-five and the remaining five from charters launched after the 2001 exercise.

## The Charter Support Unit

### Structure and Planning

In 2001, CSU had been found to be sparsely staffed. At the time, NAO had considered adequate staffing of the unit and the allocation of sufficient resources to be critical for the success of the QSC Initiative.

Since then, CSU has expanded its scope of operations through (a) seeking to include governmental entities other than departments within the QSC Initiative and (b) assuming responsibility for the administration of the Customer Care System (CCS)<sup>2</sup>.

Resources, however, still remain problematic. The result of inadequacies in this respect manifests itself in discrepancies between projected and actual charter

<sup>2</sup> A computerised system sited on the Internet, enabling the assessing, processing and following up of requests generated online by the general public.

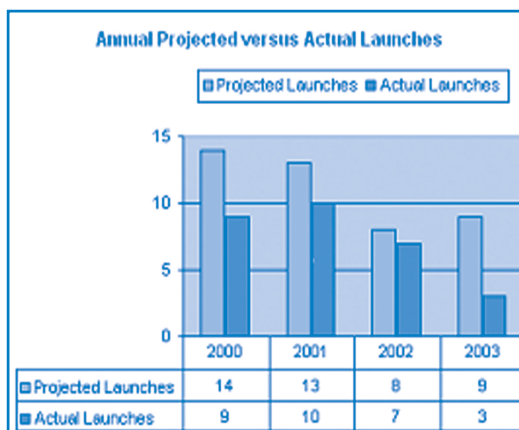


Figure 1 - Source: Projected launches: CSU plans  
Actual launches: CSU website

launches. Figure 1 (above) portrays this in graphical form for the years 2000 to 2003.

CSU has been repeatedly unable to achieve targets set in its own quarterly plans, after having abandoned the original long-term, multi-year plan of action devised for it by the Management Efficiency Unit.

Furthermore, publishing a quality service charter is but one stage of the Initiative, of which post-launch monitoring constitutes a critical element. CSU should dedicate sufficient attention to ensure that existing charters are upheld by their owners.

NAO opines that the appropriate size and structure of a well-functioning CSU is still to be defined. OPM may need to revisit the QSC concept through CSU's vision, mission and structure to give a firmer impetus to the QSC Initiative.

### Charter Brochures and CSU Website Attributes

Chartered units publish brochures giving details of the services they are to provide. In its 2001 exercise, NAO had determined that, while the contents were clear and comprehensible, not all brochures gave updated information. The website maintained by CSU was also found deficient in this respect.

Currently, CSU is undergoing a brochure revision exercise, the aims being to (a)

produce shorter, more readable and simple worded documents and (b) ensure that brochures contain updated information and an integral feedback form.

However, NAO tests revealed that this re-designing exercise is still in its early stages, as three out of the sampled twelve charters have not yet been reprinted, notwithstanding the fact the charters in question had undergone changes.

Tests comparing the actual chartered services on offer and the contents of the CSU website have also resulted in mismatches in the case of three charters (out of the sampled twelve). The electronic version of the charters as presented on the website does not reflect reality in these instances.

NAO concludes that efforts aimed at the updating and subsequent reprinting of charter brochures to reflect actual services offered should be stepped up. Updates of the CSU website should be similarly further improved. Following this report, CSU informed NAO that a review of all charters is under way.

### Surveys and Public Awareness

A CSU-conducted national survey in 2001 had revealed that less than fifteen percent of respondents had heard or were aware of the QSC Initiative, while those able to mention a chartered department amounted to less than five percent.

Notwithstanding NAO's recommendation with respect to customer surveys, no initiative-wide surveys on public opinion have been carried out since 2001.

In addition, initial promotional activities aimed at enhancing awareness amongst the general public have nearly come to an end. NAO is of the opinion that CSU and charter owners ought to pool efforts towards the identification and subsequent deployment of sources of promotion.

<sup>3</sup> Director General, OPM, in the keynote address made during the February 1999 launch of the Initiative.

### Internal Audits

Other control mechanisms of the QSC Initiative are internal audits, originally intended to be carried out for all chartered sites at circa 12-week intervals<sup>3</sup>. NAO's 2001 exercise had revealed that out of the twenty-five chartered departments, eight had not had their first internal audit.

In addition, all departments were experiencing delays since the time of the last internal audit, if any. The 2001 exercise had concluded that the policy of having internal audits of chartered units at quarterly intervals was not functioning and had recommended the assessment of the viability of such a policy. At the time, CSU, responsible for upholding the relevant policy, intended to request that the inter-audit (internal) period be set at six months.

The situation in 2004 is felt to be worse than that at the time of the original NAO exercise, and is highly divergent from the policy determining frequency of internal audits as set out during the Initiative launch. In fact, since the Initiative's conception in 1999, only thirty-five internal audits have been conducted. Even when basing on the six-month policy for internal audits favoured by CSU in 2001, one hundred and sixty audits are outstanding.

Of the twelve sampled departments only five have had an internal audit carried out, and none of the five have had a second audit.

The Internal Audit and Investigations Directorate (IAID) has, since June 2000, been responsible for the conduct of internal audits within the public sector. IAID's position with respect to (internal) audit frequency for QSC owners varies considerably from the targets mentioned above. While IAID is committed to carry out (and has carried out) internal audits to assess QSC owners' performance, the Directorate claims that it is abiding by an agreement reached with CSU. This agreement stipulates that regularity of internal audits is the prerequisite of IAID and is to be based on IAID's work plan and availability of its resources.



The 2001 NAO exercise had also revealed a weakness in that not all audited units had received a copy of the internal audit report of their own unit. NAO had then recommended the distribution of internal audit reports to the persons heading the chartered departments.

This follow-up exercise has ascertained that the originally-identified weakness in communication persists – of the five internally audited departments, only two were in receipt of their respective reports. Effective distribution is critical if recommendations are to be taken up. IAID contends that, in line with its mandate, it forwards copies of internal audit reports to the Permanent Secretary, OPM and to the Permanent Secretary under which the chartered department falls.

NAO opines that IAID and CSU should seek to develop a mutually convenient practical plan towards the regular and targeted holding of internal audits. CSU should also ensure an effective distribution of the resulting reports once these are compiled.

### The Chartered Departments

#### Performance Monitoring

The level of upholding of chartered services commitments can only be gauged through performance measurements. In its 2001 study, NAO had identified the Standards Monitoring Template<sup>4</sup>, a template document designed to guide individual chartered units to measure their performance, as an important tool in this regard.

At the time, a number of departments had claimed they were not in receipt of these templates. In actual fact, in most cases the departments had not given enough weight to these forms and no relative action had been taken. Very few departments had logged activities and generated performance indicators on critical attributes of the chartered services.

<sup>4</sup> Drawn up by CSU in conjunction with MEU.

Of the twelve chartered departments in the 2004 audit sample, only four confirmed they were in receipt of the templates. However, none of the departments in question have implemented the templates. Only one of the sampled departments has undertaken performance monitoring efforts. This department relies on its own application of methodologies for monitoring, rather than those suggested in the Standards Monitoring Template.

Chartered departments are provided with a valid tool for the administration and control of their respective quality service charters. Despite this, no consistent performance measurement is conducted.

#### Customer Feedback

The 2001 study had revealed that only four of the twenty-five charter owners were logging details of customer feedback, and that of these four, only one was carrying out formal analysis thereof. NAO had then recommended that all customer feedback be logged and analysed, and that any corrective action taken be monitored.

The situation in 2004 has regressed in this regard as only one of the twelve sampled charter owners actively maintains logs of written complaints<sup>5</sup>.

#### Surveys

In 2001, none of the chartered departments were found to perform formal surveys to understand their customers' perceptions of the services being delivered. NAO had then recommended use of such surveys to assess intangible standards such as courtesy, responsiveness and empathy.

The situation in 2004 has changed, albeit marginally. Three of the twelve sampled departments have carried out a survey addressing perception, awareness and/or satisfaction since NAO's 2001 exercise. One of these departments has

<sup>5</sup> CSU is aware of the deficiency related to customer feedback collection and analysis at chartered department level and is trying to address the issue through the online Customer Care System (CCS) which it administers.

made use of the resources of the National Statistics Office (NSO) to carry out a survey on the effectiveness of a particular service it offers. Such a practice is laudable and other charter owners should look into the possibility of involving NSO to carry out surveys.

### Marketing

In its 2001 study, NAO had recommended that marketing plans be drawn up and implemented by charter owners, in order to help promote their services.

The current study shows that only one of the twelve sampled departments is actively engaged in promoting the QSC.

### Confidentiality / Privacy

In its 2001 study, NAO had opined that, in general, charter owners took adequate measures to safeguard their clients' confidentiality. On the other hand, privacy was considered to be lacking in the serving areas of certain departments. NAO had recommended that chartered departments should ensure a better degree of confidentiality when communicating with customers.

In 2004, confidentiality issues are addressed on a legislative basis through the Data Protection Act. Notwithstanding, the situation in the sampled chartered departments showed that more work needs to be done to further strengthen measures safeguarding client privacy.

### Information Technology

NAO findings in 2001 had revealed that, of the twenty-five charters, only eight were supported by a website. Contact via e-mail was possible in the case of thirteen charters. NAO had then recommended the enhancement of IT facilities.

All twelve charters forming the 2004 audit sample feature on individual websites that describe the services on offer. In addition, nine of the twelve offer the partial or full provision of service/s online. Although further

progress is possible, the current situation compares favourably to that of 2001.

### Training

NAO's original study had recommended that managers analyse the training needs of front-liners and implement such training.

This follow-up has ascertained that, out of the five sampled departments who launched their charter after the 2001 NAO exercise, only one held training for staff prior to charter launch. This represents a comparatively worse situation than that in 2001. At the time, all chartered departments had afforded similar training to front-liners.

### Conclusions

Success of the QSC Initiative rests upon customer satisfaction. Chartered departments are provided with all the tools required for effective running of their charters: training schemes, feedback mechanisms, Standards Monitoring Templates, IT facilities and internal audits.

Despite this, effective usage of these tools is, in general, lacking. The partial or non-utilisation of such tools, coupled with shortcomings within CSU, the central player in the QSC concept, disable an objective commentary on the effectiveness of the Initiative. In turn, this inhibits adequate gauging of the standard of services being delivered.

Findings detailed in this follow-up audit had already featured in NAO's original exercise, the report for which had been forwarded to OPM in 2001. During the last three years shortcomings similar in nature have also been highlighted by IAID in its internal audit reports of QSC owners.

The initiative may very well be facing the critical risk of complacency. For each identified area of concern, NAO, through this report, proposes recommendations aimed at avoiding this risk.

NAO opines that a re-assessment of the QSC Initiative towards the holistic achievement of the objectives set forth during its launch is in order.

In the meantime:

- CSU should conduct its own post-charter evaluations;
- Chartered departments should apply management techniques for the measurement and benchmarking of performance;
- IAID should hold internal audits at a practicable frequency.

