

Report

by the

Auditor General



Public Accounts 2004

Table of Contents

Introduction	10
Office of the Prime Minister	13
Revenue	14
Data Protection Compliance	15
Communications Centre	17
Microsoft Enterprise Agreement	19
Below-the-Line A/c – Improvements to Buildings	20
Armed Forces of Malta – Medical Stores and Inventory	22
Ministry for Social Policy	25
Social Security Department - Old Age Pensions within the European Union Scenario(For the period 1 May to 31 December 2004)	26
Department of Housing, Construction & Maintenance	35
Capital Project – Construction & Finishing of Flats & Garages at Marsaxlokk	35
Ministry for Gozo	40
Non-Submission of VAT Fiscal Receipts	42
Ministry of Finance and Economic Affairs	46
VAT Department - Eco-Contribution System Analysis	48
VAT Department - Non-submission of VAT Fiscal Receipts	54
Ministry for Tourism	58
Institute of Tourism Studies - Follow-up on Log Books, Revenue, Expenditure, Inventory and Miscellaneous Matters	60

Ministry for Justice and Home Affairs	64
Police Department - Fuel Pump Station Follow Up Audit	66
Ministry for Rural Affairs and the Environment	68
Agriculture Support Scheme Account	70
Government Experimental Farm – Livestock and Cattle Stores and Inventory	73
Non-Central Government Organisations	77
Malta Communications Authority	78
Malta Centre for Restoration	80
Malta Resources Authority	82
Pension & Contingency Fund	85
The Capt. O.F. Gollcher Art & Archeological Foundation	88
Co-Operatives Board	90

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.

This Report is divided into Ministerial Portfolios, each containing one or more departments or sections which were the subject of our review. Also included are a number of reports on non-central government organisations. 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

This 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

- Agreements by the Office of the Prime Minister and third parties, mainly service providers, are being entered into after commencement of work or towards the end of the project. Both parties are not always abiding by all provisions of the contract. Moreover, invoices are being certified correct for payment without adequate details substantiating the amounts paid. (page 15)
- An audit on the internal controls of a capital project carried out at the Department of Housing, Construction & Maintenance revealed that:
 - Estimates on bills of quantities prepared by the Department, prior to the tendering process varied considerably from actual figures. Comparison of the contracted rates against those originally estimated by the Department also revealed substantial fluctuations.
 - Tests were not carried out regarding conformity with applicable standards of main items used in the construction process.
 - No formal authority was requested by the contractor before performing additional works or any variations from original bills of quantities. (page 35)
- The Ministry for Gozo did not translate the contents of MF Circular 5/2002 – relating to the submission of Fiscal Receipts - into formal policies and procedures to be adopted by all three (3) Departments forming part of the Ministry. Departments and Cost/Responsibility Centres within the Customer Services Department adopted their own procedures thus hindering effective control by the Ministry. Various Cost/Responsibility Centres within the Customer Services Department failed to submit any Returns to the VAT Department. Lack of adequate communication and co-ordination with the VAT Department were noted. (page 42)

- Upon the introduction of the Eco-Contribution Act No. XII of 2004 (Cap. 473), which came into force on 1 September 2004, the VAT Department lacked the system structures and controls to ensure that systems were functioning efficiently and effectively. Controls were missing over inspections, procedures, registrations and stock declarations. Proper guidance to the public on unclear issues of the Act was lacking. The Department did not plan to use information already available on the VAT Database. (page 48)
- The Social Security Department was not prepared for EU accession as adequate upgrading of the infrastructure and training at the Department did not take place prior to accession. Communication problems exist between Institutions within the EU. There is a lack of audit trail as regards the computations of pensions and Old Age Pensions' applications raised locally for individuals with no completed periods of insurance in Malta. A bilateral agreement with a Member State was erroneously considered following membership, while the Department failed to consider overlapping periods of insurance. (page 26)
- A follow-up audit at the ITS on the findings and recommendations featuring in the Audit Report for financial year 2002 revealed that certain issues previously raised by the NAO remained unaddressed by the Institute. (page 60)
- Inadequate stock records of livestock items withdrawn from stores at the Government Experimental Farm were being maintained while donations given as well as those received were not supported by official documents signed by both parties. (page 73)
- Control over the administration of the Agriculture Support Scheme needs to be upgraded. It resulted that payments were effected to beneficiaries with details differing from that of the application. The Ministry was not in possession of a valid bank guarantee relating to advance payments for financial aid. (page 70)
- During a follow up audit of the Fuel Pump Station at the Police Department various discrepancies were noted, in particular when physically checking actual quantities in the tank with the respective records shown on the ledger. Other matters were also highlighted that showed a lack of enforcement of procedures in the control and recording of fuel. (page 66)
- A number of audits carried out on selected Non-Central Government Organisations (NGOs) and other Government authorities revealed a number of weaknesses: (pages 78-91)
 - The financial statements of a number of Non-Central Government Organisations were not prepared in accordance with International Financial Reporting Standards (IFRSs). The accounts of these entities are still being prepared on the cash based accounting system.
 - Property belonging to the Gollcher Foundation was neither valued nor recorded in the financial statements.
 - The Malta Resources Authority lacks the adequate software to administer income from licence fees and is unable to determine the exact amounts outstanding.
 - Lack of controls over the safeguarding of fixed assets was noted in some entities since a Fixed Assets Register was not being kept or updated.

- The provisions of the Public Service Management Code with respect to travel overseas were not always adhered to.
- A sample of invoices subjected to our review revealed weaknesses in the billing and credit notes systems and in the sales ledger control resulting in an incomplete audit trail of invoices and a general lack of controls.

Introduction

Introduction

In terms of Section 108 (5) of the Constitution of Malta and the First Schedule of the Auditor General and National Audit Office Act, the Public Accounts of the Government of Malta are to be audited and reported upon annually by the Auditor General to the House of Representatives.

I am pleased to present this mid-year Audit Report on the Public Accounts for financial year ending 31 December 2004. This report summarises the findings of the financial and compliance audits on Malta Government, and a number of non-central government organisations, which have been concluded up to June 2005. The report is intended to compliment the Annual Audit Report which will be published towards the end of the year.

This is the first time that a mid-year Audit Report is being issued by this Office. The motivation behind this publication is to bring to the fore issues of current interest which have been subjected to our review. It should help in reducing the time gap between the completion of audits carried out during the first half of the year and the reporting time thereof to the Parliament.

As is now customary to our reports, we have tried to be as user friendly as possible, bringing to light the findings emerging from our reviews in a concise, clear and effective way.

In this report we have tried to increasingly focus on the audit of systems and issues relating to specific government activities, apart from the routine financial and compliance audit work. The individual audit report write-ups that follow highlight and comment upon such systems and issues as Data Protection Compliance, Eco-Contribution System, and Agriculture Support Scheme Account. The Executive Summary of Findings provides a snap shot of the most significant findings from audits carried out this year to date.

As in the past few years, Findings are being reported in a standardised format by Background and Key, Control and Compliance issues. Recommendations and Management Comments are also included.

The Annual Audit Report that will be published towards the end of this year will incorporate audits carried out on 2004 Public Accounts during the second half of this year, and include a reference to audit issues incorporated in this mid-year report. The Annual Audit Report will then also include the Audit Opinion which will cover the audits carried out during the whole of 2005 in respect of 2004 Accounts. This will complete the whole statutory financial and compliance audit reporting cycle for 2005.

I augur that in this way, the audit reports on the Public Accounts of the Malta Government will be of a more current nature. This should be to the benefit of the Parliament and the citizen who will in this way be presented with a more updated situation on the state of public finances.

I would like to acknowledge the cooperation that we received from the Ministries, Departments and other entities audited. In the large majority of cases, such cooperation has been readily forthcoming.

It has to be stressed that this report, along with other Financial and Compliance, Performance and other Special Reports issued by this Office, should serve the purpose of contributing to an improved and more transparent system in financial accounting and administration and government activities in general.

I would like to express my appreciation for the work of the Public Accounts Committee which reviews and holds Sitings on our reports on a consistent basis. I am sure that this report will provide useful material for the future work of this Committee.

Finally I would like to recognise the efforts and dedication of the officers who assist me in the proper discharge of my responsibilities.



J. G. Galea
Auditor General

July 2005

Office of the Prime Minister

Revenue

Background

During 2004 the main source of revenue was received from oil companies in respect of exploration as well as production licences. Other sources of revenue included royalties received for the Malta George Cross Fiftieth Anniversary Medals and various refunds.

The Oil Exploration Department was transferred on 24 March 2004 to the Ministry for Resources and Infrastructure (MRES). However, the department still utilized funds that were budgeted for the Office of the Prime Minister for financial year 2004.

Control Issues

Opportunities for improvement were identified in the following areas:

- Inadequate documentation supporting royalties due to the Government of Malta from an overseas company in respect of the Malta George Cross Fiftieth Anniversary Medals. Consequently, revenue collected could not be verified.
- Lack of control over allocation of revenue received from administration fee. A net accumulated amount exceeding Lm90,000 was posted in the below-the-line account (Funds for Oil Exploration Division) which is meant to be used for the purchase of equipment as well as for oil exploration related educational and training expenses. This amount should have been transferred to the consolidated fund.

Recommendations

Royalties due for the Malta George Cross Fiftieth Anniversary Medal

The department should seek official certification of the value of sales and net cost so as to be able to verify the accuracy and completeness of the royalties due.

Administration Fees erroneously entered in Account – ‘Funds for Oil Exploration Division’

An amount of Lm90,239 should be transferred from the below-the-line account and credited to the revenue account in the consolidated fund while future allocation of revenue is to be effected with more diligence.

Management Comments

All medals are numbered and therefore there is full control on the sales during a specified period. At the beginning of each year, the overseas company issues a Payment Advice Statement to the Cabinet Office which includes the sales affected by end of year, the number of medals sold, the net cost of each medal and the royalties due. Unfortunately, this information was not presented to NAO during the audit in spite of enquiries made at the time.

Management is not of the opinion that the administration fees were erroneously entered in this below-the-line account. It has been argued that these fees were specifically raised and collected to provide funds to the Oil Exploration Department in order to administer oil exploration contracts. NAO still contends that such administration fees should be transferred to revenue and an ad hoc expenditure item created.

Data Protection Compliance

Background

A 'Collaboration Agreement between MITTS Ltd and Office of the Prime Minister for the provision of Services related to the Data Protection Act' was signed on 28 August 2002. This agreement covers the period 1 January 2002 to 31 December 2005.

The objectives of the services to be offered by MITTS Ltd as outlined in the agreement are to advise, co-ordinate and assist in the implementation of the provisions arising from the Data Protection Act 2001 within the Public Service, so as to assist Government and Departments to comply with the said provisions.

Key Issues

Signing of Agreement after Work commenced

The above mentioned agreement which covers the period 1 January 2002 to 31 December 2005 was signed on 28 August 2002, indicating that work was well underway upon the signing of the contract.

Insufficient Information on Invoices

Monthly invoices issued by MITTS Ltd during 2004, amounting to Lm119,880, only include the hours worked and the rates of pay of the various official grades. Invoices do not include details of the work carried out and ministries/departments covered.

Control Issues

Opportunities for improvement were identified in the following areas:

- No formal 'Program of Works' is being prepared by MITTS Ltd for the approval of OPM upon the commencement of work on a particular task.
- No 'Change Requests' are being raised for any necessary adjustments or changes to the 'Programme of Works'.
- Invoices are certified correct by OPM without verification of hours worked due to the lack of supporting information provided by MITTS Ltd.
- The statement of ongoing costs in respect of Time and Material Tasks at hand as well as the projection of the following twenty-four month period is not being provided by MITTS Ltd to OPM as is stipulated by Article 18 of the agreement.

Compliance Issues

Misallocation of Payments

Payments made for hours worked by MITTS personnel on the Data Protection Compliance for the month of July, amounting to Lm10,290 was allocated to account "Professional Services – Other Support Services" instead of "Contractual Services – Others". Payments totaling Lm74,049, comprising the first six months of 2004 and the month of August, were also erroneously allocated to account - Other Subsidies on Products instead of the said account.

Recommendations

Signing of Agreement after work commenced

Agreements are to be entered into and signed by the parties before the start of any project. This should 'inter alia' include a comprehensive terms of reference as agreed upon by the parties to the contract.

Insufficient information on invoices

The project team manager at the OPM should obtain detailed supporting documentation to justify the invoiced amounts, including job sheets showing hours, location and details of works carried out as well as a job satisfaction form signed by the department head as proof of satisfactory work.

No formal 'Program of Works' being prepared

The commencement of tasks is to be immediately preceded by a formal 'Programme of Works' whereby the department will be in control of costs and completion target dates.

Changes to Work Schedule

Any changes to modify the initial instructions for a particular task as listed in the 'Programme of Works' should be modified through a 'Change Request' as stipulated by the contract.

Certification of invoices

The OPM is to ensure that MITTS Ltd supplies proper back-up documentation to the invoices. These should not be passed to the Treasury for payment before authentic proof of satisfactory delivery of service is obtained from the Department/s concerned.

Statement of ongoing costs

Once entered into, an agreement is binding. Both parties therefore have to abide by all provisions of its content. Such provision was meant as a tool to assist proper budgetary control.

Misallocation of Payments

Items of expense are to be properly accounted for in the appropriate account. In previous years payments have also been allocated to this account. Therefore, for consistency and comparative purposes, this account should continue to be utilised.

Management Comments

Management agreed with some of the recommendations but presented the following remarks and reservations:

- Activities effected before the signing of the agreement were limited to the provision of consultancy and training services while the actual tasks did not commence before the agreement was signed on 28 August 2002.
- OPM stated that it cannot impose internal procedures on MITTS and as such does not agree with job sheets. A job satisfaction form is also not considered necessary as, prior to certifying accuracy of the invoices received from MITTS, their Co-Ordinator assesses the extent of progress achieved on the basis of the monthly status reports as well as from first-hand knowledge about the project.
- Any formal programme of works drawn up as stipulated in the agreement would have to be modified every time they start a new task. Consequently, creating programmes for each job would not add any other value to further control over the project implementation process.
- Budgetary control is determined by OPM during the business planning process for each year. The latter ensures that funds allocated for this project are not exceeded while MITTS deploys personnel depending on these amounts. Depending on the budgetary allocation, MITTS is informed in advance so as not to exceed such amount.

Communications Centre

Background

The scope of the project is the provision of Information and Communications Technology (ICT) project management and consultancy services for the implementation of the designated EU Council Networks (i.e. ESDP – NET, CORTESY and EXTRANET Networks). This contract covered the period 1 January 2004 to 30 November 2004.

Key Issue

Contract signed towards the end of the Project

The contract for the Extension of EU Council Networks was signed in August 2004 covering the first eleven months of the same year indicating that works were well underway when the contract was signed.

In fact the Schedule of Fees in the contract includes a breakdown of the labour costs incurred up to end July 2004 amounting to over Lm67,000. This also specifies the grades of the persons involved in the work and the rates at which they were paid. The amount was paid on 31 August 2004 before all parties to the contract had signed the agreement.

Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of supporting information to substantiate the labour hours charged by MITTS Ltd for work carried out up to 31 July 2004 amounting to over Lm67,000.

- Lack of back-up receipts supporting the reimbursement of expenses.
- Subsistence allowance for travel by MITTS personnel and reimbursed by OPM are higher than rates stipulated in the pertinent government circulars.
- Invoices for hardware and software are being certified correct for payment prior to the actual purchase by MITTS being effected.

Compliance Issues

Inconsistent Allocation of Payments in the Accounts

Invoices are being charged to various accounts, mostly different accounts attached to Communications Centre Account. An amount for communications racks and Microsoft Exchange Server licence has also been posted to account - IT Equip – CRT – Contracts – Information Technology.

Lm74,049, comprising the first six months of 2004 and the month of August, were also erroneously allocated to account - Other Subsidies on Products instead of the said account.

Recommendations

Signing of Agreement after Work commenced

Agreements are to be entered into and signed by the parties before the start of any project. This should 'inter alia' include a comprehensive terms of reference as agreed upon by the parties to the contract.

Insufficient Information on Invoices

The project team manager at the OPM should obtain detailed supporting documentation to justify the invoiced amounts, including job sheets showing hours, location and details of works carried out as well as a job satisfaction form signed by the department head as proof of satisfactory work.

No formal 'Program of Works' being prepared

The commencement of tasks is to be immediately preceded by a formal 'Programme of Works' whereby the department will be in control of costs and completion target dates.

Changes to Work Schedule

Any changes to modify the initial instructions for a particular task as listed in the 'Programme of Works' should be modified through a 'Change Request' as stipulated by the contract.

Certification of Invoices

The OPM is to ensure that MITTS Ltd supplies proper back-up documentation to the invoices. These should not be passed to the Treasury for payment before authentic proof of satisfactory delivery of service is obtained from the Department/s concerned.

Statement of Ongoing Costs

Once entered into, an agreement is binding. Both parties therefore have to abide by all provisions of its content. Such provision was meant as a tool to assist proper budgetary control.

Misallocation of Payments

Items of expense are to be properly accounted for in the appropriate account. In previous years payments have also been

allocated to this account. Therefore, for consistency and comparative purposes, this account should continue to be utilised.

Management Comments

Management agreed with some of the recommendations but presented the following remarks and reservations:

- Activities effected before the signing of the agreement were limited to the provision of consultancy and training services while the actual tasks did not commence before the agreement was signed on 28 August 2002.
- OPM stated that it cannot impose internal procedures on MITTS and as such does not agree with job sheets. A job satisfaction form is also not considered necessary as, prior to certifying accuracy of the invoices received from MITTS, their Co-Ordinator assesses the extent of progress achieved on the basis of the monthly status reports as well as from first-hand knowledge about the project.
- Any formal programme of works drawn up as stipulated in the agreement would have to be modified every time they start a new task. Consequently, creating programmes for each job would not add any other value to further control over the project implementation process.
- Budgetary control is determined by OPM during the business planning process for each year. The latter ensures that funds allocated for this project are not exceeded while MITTS deploys personnel depending on these amounts. Depending on the budgetary allocation, MITTS is informed in advance so as not to exceed such amount.

Microsoft Enterprise Agreement

Background

The *Microsoft Enterprise Agreement* signed by the Chief Executive Officer on behalf of the Malta Information Technology and Training Services Limited (MITTS Ltd) and the Head of Information and Communications Technology (ICT) Governance on behalf of the Central Information Management Unit (CIMU), deals with the licensing of Microsoft's products that the government required to license across its ministries, departments and other entities as applicable.

Control Issue

Opportunities for improvement were identified in the following areas:

- Invoices are issued by MITTS Ltd in local currency. However the rate of exchange with which American dollars are converted into Maltese Liri does not feature on the invoices. These only specify the period covered by the requested payment in respect of the Microsoft Enterprise Agreement.
- Details as to the physical locations of the 7,700 personal computers spread out in various Ministries and government departments/entities upon which the amount paid to MITTS Ltd

was based were not made available neither by CIMU nor by MITTS Ltd despite the various attempts made by NAO officers.

Recommendations

Insufficient Details on Invoices provided by MITTS Ltd

OPM are to request MITTS Ltd to state the rate of exchange used on each invoice. This should then be verified with the applicable rate of exchange as per terms of agreement.

Basis of Payment

Agreement is to be supported with declarations endorsed by the officer entrusted with IT equipment within each Ministry, Department or entity as applicable, indicating the number of computers available in each location, further broken down by details such as users on behalf of whom such license is being paid, for ease of identification.

Management Comments

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

Below-the-Line A/c – Improvements to Buildings

Background

In 1999 due to the delays in completing the works being carried out mostly on the rehabilitation at the Ground Floor Area at the Auberge de Castille, OPM was unable to settle a considerable number of commitments as the work was not yet finalised.

On 3 November 1999 OPM proposed to the Ministry of Finance to transfer an amount of Lm185,000 (total of pending commitments) to a Below-the-Line Account which was to be opened as per Legal Notice No. 254/98. This account would then be utilised to settle the commitments once all works, goods and services have been appropriately certified following completion. However, the Ministry of Finance only authorised the transfer of Lm137,000 as this was the remaining balance in the Capital Account for the respective year. Only pre-1999 contracts presented to the Ministry of Finance had to be paid from this account.

Key Issues

Balance in the Below-the-Line A/c 8227 – Improvements to Buildings

A number of commitments amounting to Lm184,675 in respect of capital projects in progress was still pending in 1999. Following a proposal by the OPM to transfer an equivalent amount to a Below-the-Line account, the Ministry of Finance only authorized the transfer of Lm137,000 in the said year. As a result, commitments covered by this amount have not been specified. Furthermore, variations to the tendered project specifications may have negatively

effected the budgetary allocations of this account.

As at end December 2004 the remaining balance in the Below-the-Line account stood at Lm72,187, however the commitments that were covered by this amount could not be ascertained.

Lack of Evidence of Proper Authorisation to issue Tenders

In all of the cases subjected to our audit proper authorisation for the issue of call for tenders could not be evidenced.

Control Issues

Opportunities for improvements were identified in the following areas:

- As the initiation and completion dates of works could not be evidenced from any documentation, it could not be ascertained whether works were completed on time or whether the penalty as stipulated in the conditions of the tender should have been imposed accordingly. There was no indication as to whether any fines were inflicted on the contractors.
- A project handled by the Works Division was not fully backed-up by copies of tender documents forwarded by two suppliers.
- Inadequate supporting documents kept by OPM. Tender documents, copies of the Contracts Notice, Letter of Acceptance and Bank Guarantee are retained by the Works Division and not by OPM who are actually funding the expenditure.

Compliance Issues

Misallocation of Payments

A part-payment for the supply and installation of the Suspended Ceiling in connection with the Rehabilitation of Oil Exploration Department, which should have been paid from the capital vote, was paid from the below-the-line account.

Another payment for Electrical Engineering Consultancy Services, which was also not related to the below-the-line account was paid from this account.

Recommendations

Balance in the Below-the-Line A/c – Improvements to Buildings

A list is to be prepared by OPM of all pending commitments which are to be paid from the remaining balance in this below-the-line account.

Lack of Evidence of Proper Authorisation to issue tenders

The necessary authorisation from the Minister concerned should be evidenced on the request form raised by the Contracts Department.

No Penalties imposed for the Delay in the Completion of Works

The starting and completion dates of projects are to be recorded in the tender files and any penalties contemplated in the conditions of the tender are to be enforced.

Audit Trail of Tender Documents

Original tender documents of all the offers received should be retained by the Department concerned for full audit trail and reference purposes.

Inadequate Supporting Documents kept by OPM

Copies of all documents related to each tender issued for works undertaken are to be filed by the OPM, which should ultimately

administer full control over such expenditure. Proper verification is to be performed before payments are effected to suppliers.

Misallocation of Payments

In view of the already existing shortage of funds in this account, OPM has to ensure that payments are to be restricted to the committed amounts pending in 1999.

Management Comments

Management agreed with some of the recommendations but presented the following remarks and reservations:

- With regards to the necessary authorization from the Minister concerned on the request form raised by the Contracts Department management stated that this was the procedure previously adopted by the Secretariat for the approval of the issue for tenders.
- Due to the nature of works carried out, delays in such sensitive projects are very common since designs have to be updated as the project is underway. As a result it was not felt that the contractors were at fault when not completing the works on schedule. However, management agreed that, given the resources, one could ensure better tracking of the day-to-day works of each contractor on the job.
- As the particular tender for works was issued by the Department of Contracts, tender offers were retained by the latter.
- When tenders are issued by the Works Division (WD), all the relative documents are filed in the WD files and only forwarded to OPM when requested. OPM only effects payments to the contractors upon presentation of the Certificate of Payment by the Works Division officer and not upon presentation of invoices only.

Armed Forces of Malta – Medical Stores and Inventory

Background

The Medical Stores of the Armed Forces of Malta (AFM) cater for the provision of medicinal supplies, first aid materials and medical service requirements of AFM personnel. Such stores also furnish the pharmaceutical supplies following medical examination and treatment requirements of the AFM Medical Centre for the complement of Camp Commandant, 1st, 2nd and 3rd Regiments respectively. During the financial year 2004 Lm20,000 was spent on medical supplies.

Key Issues

Medical Prescriptions

The authorised medical prescriptions issued by the AFM Medical Centre were neither controlled by a numerical sequence nor filed for verification purposes. Furthermore, cases of medicine items issued and recorded in the Medical Stores Document were either incorrectly recorded or omitted from the relative soldier Medical Treatment Card. No cross-referencing of soldier service number to whom store items were issued, featured on the Medical Stores Document.

Departmental Accounting System Access

The account keeper of the Medical Stores and the complement of the Accounts Department at the Staff Quartermaster (SQM) Safi were not equipped with the facility of a direct access to DAS network line in order to perform the various processing stages of procurement up to the printing of GSPO on site. Instead, staff

personnel had to travel to Camp Commandant Luqa to perform such duties and again to process the DAS final stage of goods received following delivery of medical stores items.

Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of segregation of duties in the procurement and data processing stages including the inputting of goods received in the Departmental Accounting System (DAS).
- No signature on the Purchase Order (GSPO) of the Medical Storekeeper certifying the receipt of Goods or Service.
- Movements in the Medical Store ledger not signed by the account keeper.
- Procured Medical Store items not recorded as received in the Medical Stores Documents.
- Inaccurate stock records and physical stock quantity discrepancies.
- Incorrect ledger balancing.
- Inadequate control over receipt and issue of ledger sheets.
- No official documented procedure available for the back-up of AFM Medical Stores records.
- Physical asset quantities incorrectly recorded in Room Inventory Lists and Inventory Database.

- The Medical Centre Room Inventory Lists still needed to be dated and certified correct by both the Officer-in-charge of Inventory and that for the respective rooms.
- The individual rooms of the Medical Centre not allocated a room number and affixed accordingly.
- No transfer sheets to authorise and record the movement of inventory items.

Compliance Issues

Inventory Records

During the physical inspection and verification of the inventory database as well as corresponding room inventory lists, items with no Asset Identification Numbers (AINs) were noted. In addition, the labels with the AINs were not affixed to all the physical inventory items. Total Cost or Value of assets was not included in Inventory Database for inventory items pertaining to the Medical Centre.

Recommendations

Medical Prescriptions

A sequential pre-numbered request form for issue of medical supplies should be formulated with the necessary stock item and dispensing quantity details. This should include not only the authorization signature of the medical officer but also the countersignature of the soldier receiving the items. All Medical Stores documents and soldier Medical Treatment Cards are to show cross-references accordingly. In addition, duly completed medical prescription forms are to be appropriately filed.

Departmental Accounting System Access

It would be effectively more economical for the Accounts Department at SQM Safi to be provided with a DAS network line facility on site. This would enable staff to perform all the required DAS processing duties in a more prompt, secure and efficient manner.

Segregation of Duties

The duties of processing multiple DAS tasks should be performed by different accounts personnel for internal control purposes.

Certification of receipt of Goods and Services

The storekeeper of the Medical Store should certify the GSPO for the proper receipt of goods, as the official primarily in charge of store, following proper checking of delivered items.

Ledger Entries not Signed

Every store record entry in the Medical Stores account ledger should be signed by the responsible officer-in-charge.

Medical Stores Documents

Issues and receipts documents at the Medical Stores must be duly completed for all stock items so that a stock balance can be readily ascertained and the physical stock verified at any time.

Inaccurate Stock Records

A stock-take is to be carried out whereby the discrepancies are to be analysed, reported upon and adjusted accordingly. The adjustments required for verified surplus or deficient quantities have to be effected in the respective account ledger, in conjunction with the bin card records.

Incorrect Ledger Balancing

Ledger folio balances must be checked following each receipt or issue of items and then compared with the physical stock. This will detect differences immediately whereby erroneous additions or deductions are not left recurring.

Control over Ledger Sheets

Issue dates of all ledger controlled sheets should be recorded in the Register bearing the respective signatures of the officers involved for issues and receipts thereof. All ledger controlled sheets should be signed by an authorised AFM Finance officer for

security before they are forwarded to the Medical Stores account keeper.

The pages of the ledger controlled sheet register should also be numbered and the total folio range for its numerical sequence certified and dated by an authorised officer-in-charge.

Procedures for Back-ups

The AFM Information Technology Section should formulate and document all the detailed steps required in the performance of back-ups and its frequency in order to strengthen IT control of data files.

Inventory Records

Action should be taken to adjust the room inventory lists and allocate unique AINs to all inventory items in conformity with MF Circular 14/99. AIN labels should be affixed to all inventory items. The inventory database should be reconciled with all the room inventory lists as well as physical items and updated with the correct cost or valuations in preparation for accrual accounting.

The individual rooms of the Medical Centre should be allocated a room number and affixed accordingly. Moreover, the corresponding Room Inventory Lists should be finalised and the room details appropriately reflected in the Inventory

Database. The Room Inventory Lists are to be signed and certified correct both by the Officer-in-charge of Inventory and that for the respective room.

An inventory transfer sheet should be formulated. The pertinent details are to be duly completed and signed by the authorised parties including the Inventory Officer prior to transfers being made from one location to another.

Management Comments

Management concurred with most of the recommendations and action is being taken to comply accordingly. However, reservations were indicated by the AFM management in the following areas:

- It is currently not viable to invest the required financial outlay to connect Staff Quartermaster with DAS System. When Staff Quartermaster is transferred to the offices of the new warehouses to be constructed, such investment will be conducted on this structure.
- It is not feasible to have multiple DAS tasks performed by different AFM personnel which will require a substantial amount of manpower. This is also considered to be impractical and undermines efficiency.

Ministry for Social Policy

Social Security Department - Old Age Pensions within the European Union Scenario

(For the period 1 May to 31 December 2004)

Background

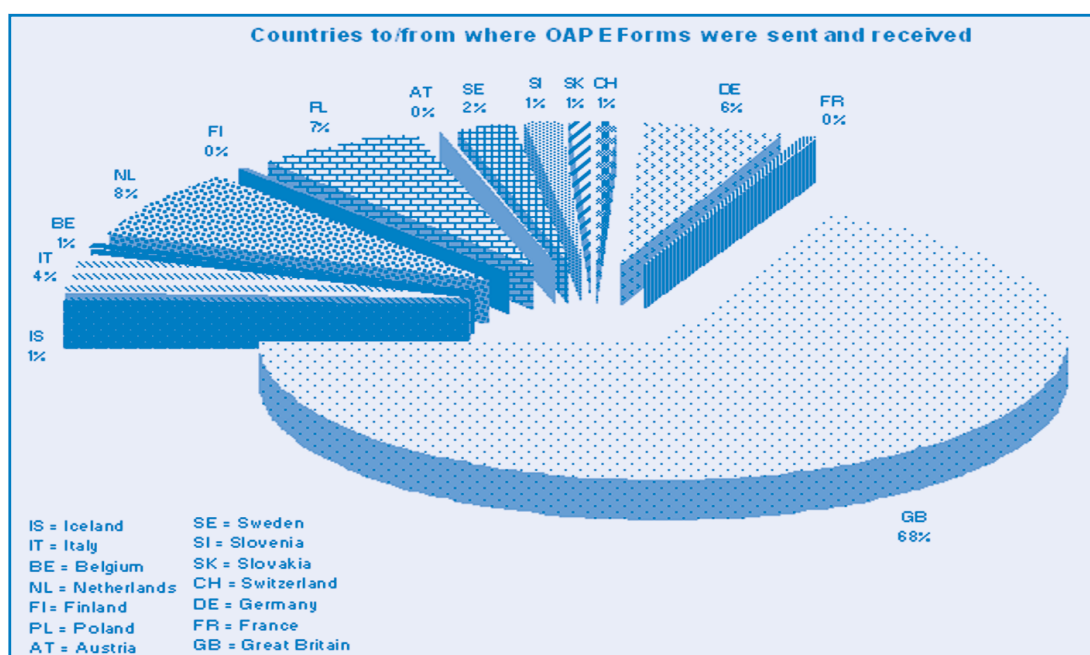
Malta's membership in the European Union (EU) presented new challenges to the Social Security Department (SSD) in Malta. The right to free movement could only be fully exploited if European citizens, now including Maltese citizens, do not suffer disadvantages in the field of social security when crossing the borders within the EU. Community Regulations have been established to safeguard social security rights of EU citizens when moving to different Member States, by co-ordinating rather than harmonising, the different social security systems within every Member State.

The operation of Social Security Schemes in EU Member States is co-ordinated by Council Regulation (EC) Nos. 1408/71 and 574/72 (*the Regulations*).

Regulation (EC) No. 574/72 (*Implementing Regulation*) prescribes detailed rules for implementing the Council Regulation No. 1408/71.

The SSD set-up an International Relations Unit (IRU), committed to facilitate the co-ordination of social security regulations in the EU and the European Economic Area. Pensions, which fall within the scope of the Regulations, have been integrated within all the Sections of the SSD.

A number of forms, known as E Forms, available in all the official languages of the EU and the European Economic Area, were established to be used by all Member States eliminating lengthy and cumbersome procedures which disturb smooth cross-border communication between Social Security Institutions of Member States.



As from the date of Malta's accession to the EU till year end, sixty-eight per cent (68%) of Old Age Pension (OAP) E Forms processed in Malta were sent to, or received from, the United Kingdom.

The audit testing was based on the following sample:

- Twenty per cent (20%) OAP applications received from other Member States – the SSD being a Competent Institution.
- Thirty per cent (30%) OAP applications generated in Malta – the SSD being the Investigating Institution.
- Twenty per cent (20%) OAP applications generated in Malta – no periods of insurance completed in Malta.

Key Issues

Information not forwarded or not available

The full scope of the audit could not be achieved since:

- the SSD did not maintain copies of OAP E Form applications for persons, who applied in Malta, but who had never completed periods of insurance in Malta; and
- one claimant file was not provided by the SSD for testing.

It could not be ascertained whether:

- the SSD had made a request to the Planning and Priorities Co-ordination Division (PPCD) for the provision of Pre-accession Funds; and
- the Pre-accession Funds made available to Malta by the EU were all availed of, or if any amount of these Funds were lost, as a consequence of Government Departments failing to apply for such Funds.

The SSD not prepared for EU Accession

- Prior to accession, adequate upgrading of the infrastructure and training at the SSD did not take place.

During 2005, the SSD was awarded a Transition Facility of €218,000 to bring it in line with the EU. However, NAO is of the opinion that such action could have been taken earlier, since both activities could have been financed through Pre-accession Funds made available to Government Departments. Unfamiliarity on the part of the SSD with the Regulations and the respective case-law of the Court of Justice may be a reason for taking a case to court.

- The SSD's electronic 'System for the Administration of Social Benefits' (SABS), does not cater for the calculation of pro-rata pensions in accordance to the aggregation principle, as required by Regulation (EC) No. 1408/71, resulting in OAP applications requiring a pro-rata calculation, being worked out or amended manually. Moreover, employees at the Pensions Section were not trained to carry out such calculations, giving rise to the risk of pro-rata pensions being either left pending, or subject to errors.

The SSD is not interpreting the term 'Investigating Institution' as implied by the Regulations. Officers at the SSD refer to the term 'Competent Institution' to mean 'Investigating Institution'. Article 41 (1) of Regulation (EC) No. 574/72 explains that: *"Claims for benefit shall be investigated by the institution to which they have been sent or forwarded in accordance with the provisions of Article 36 of the implementing Regulation. This institution is hereinafter referred to as the 'investigating institution'."* This may result in the SSD implementing the wrong procedure for the award of OAP.

Lack of Audit Trail in respect of OAP Applications raised locally - Individuals with no completed Periods of Insurance in Malta

The following irregularities were noted:

- An individual file was not opened for every claim.

- No copies of the E Form applications maintained hindering future retrieval and verification as to whether information in E Forms was confirmed by the SSD as required by the Regulations¹.
- Failure to confirm whether applications were in fact received by the Investigating Institution, may result in claims being left pending.
- No further contact was made with claimants or the Investigating Institutions with regard to pending applications.

Communication with one of the Bidders before the Tender Process

The SSD appears to have not followed a basic principle concerning equal opportunities among Member States with regards to the process for the award of the Twinning Light Project. When requested to submit a draft project fiche, the Department sought help from one of the Member States, with which strong working relationship already existed in view of the long-standing experience in the implementation of the Reciprocal Agreement on Social Security matters with that particular State, who in turn approached the successful bidder on behalf of the SSD.

It resulted that:

- the SSD Twinning Light Project was awarded during December 2004 but communication with the successful bidder initiated six (6) months before;
- one (1) of the three (3) members, appointed on the Evaluation Committee for the selection of the Twinning Light Project, was actively involved during the consultation process; and
- the selected bidder forwarded documents in order to assist the SSD in drawing up a project fiche.

¹ Article 37 (b) of Regulation (EC) No. 574/72 states that: "the accuracy of the information supplied by the claimant must be established by official documents attached to the claim form, or confirmed by the competent bodies of the Member State in whose territory the claimant resides."

Control Issues

Inadequate Filing System

Claimant files were not maintained adequately since:

- documents filed were not always referenced, and were rarely recorded on minute sheets; and
- action taken by the SSD was not always recorded in the relevant files.

The 'Contributory Pensions Section Form'² not signed and stamped

Weaknesses that featured regularly:

- Forms were not stamped and signed at the Index Section – Gozo indicating receipt by the Division.
- No records were found in the related files in confirmation that these forms were sent to the Gozo Division.

Possible tampering with the 'Contributory Pensions Section Form' might affect the pension awardable, since such forms could be completed without being verified with the Stagger records in Gozo.

Inaccuracies noted on the Monthly Returns of Incoming/Outgoing E Forms and related Access Databases

A complete audit trail of incoming and outgoing E forms is not available. Cases were noted where fields were left blank when these should be completed on the Monthly Returns and subsequently on the related Access Databases. From the six (6) Monthly Returns audited covering ninety-five (95) cases, the following fields were left blank:

- the type of benefit being applied for – twenty-seven (27) cases;

² Social security records of every individual prior to 1996 are held on manual ledger sheets at the SSD's Division in Gozo, known as Stagers. If no contribution records of a particular claimant are found by the Stagers, the Pensions Section in Malta manually prepares a 'Contributory Pensions Section Form' which is sent to Gozo. At Gozo, the Stagers identify claimants for whom no contribution records were found in ledger sheets and resends the form to the SSD.

- identification as to whether the SSD is the Competent or Investigating Institution – thirty-four (34) cases; and
- the type of E Forms received – eight (8) cases.

In four (4) instances out of the ninety-five (95) audited, information was not correctly transferred to the Access Databases from the Monthly Returns, while in three (3) out of the fourteen (14) files audited resulting in five (5) E Forms sent to/received from other Institutions, were not registered on the Incoming and Outgoing Access Databases.

Computation of a Pension awarded not maintained in Files

An adequate audit trail showing how the pension was computed was not traced in files relating to seven (7), out of the fourteen (14) cases audited, necessitating a calculation of the pension awardable. This lack of information may result in having a misleading and/or incomplete picture of the claimant's pension calculations.

E Forms not adequately filed

The SSD procedures for the award of an EU related pension fail to instruct when and to whom original Forms are to be sent for processing. There is a weak audit trail to prove that Forms were received and verified by the Department. The following irregularities were observed when fourteen (14) files were audited:

- In two (2) claimant files, originals and not copies of E Forms were found.
- In one (1) file more than one (1) original/copy of the same E Forms were filed signifying lack of control over the number of original E Forms issued.
- In five (5) files, E Forms issued and sent to other Institutions were not copied and maintained in claimant files.

Pension Workings not signed by Checkers

In three (3) out of seven (7) files audited, where a pension was calculated by the SSD,

the pension workings in the files were not signed by Checkers. This could signify that pensions were not manually checked and authorised.

It was noted that some pension workings were signed manually by Checkers, while others were not. This results in lack of consistency and the scope of the control being lost. It was explained to NAO that authorisation by Checkers is performed electronically on SABS.

E Forms not adequately authorised by Checkers or IRU

- Out of the fourteen (14) files audited, E Forms issued by the SSD in ten (10) files were not properly authorised by Checkers or the IRU, who are responsible to ensure that information submitted is accurate.
- When the Officer at the IRU is on long leave, E Forms received from District Offices are forwarded direct to the Pensions Registry without being vetted.

It is very important to have the correct information reported on E Forms, since Member States determine the OAP based on information reported therein.

E Forms/Replies to be received from other Member States not followed-up

In four (4) out of the fourteen (14) cases audited, it was noted that claims which required further information to be provided from other Institutions, were not followed-up, possibly because the E Forms did not reach their destination. E Forms were sent to other Member States through normal mail hindering confirmation.

From one (1) claimant file out of the fourteen (14) files audited, it was noted that E Forms were sent to the Institution concerned twice as a form of reminder. This practice could confuse the Institution receiving the Forms.

Communication Problems between Institutions within the EU

Translation of official documents is being performed by officers at the SSD who are

'knowledgeable' of Spanish, French or Italian but documents in other languages are being left pending. Furthermore, the SSD cannot hold officers responsible for the correctness of translations. This could result in the SSD interpreting documents differently from their actual contents.

This problem was encountered when examining E Forms. Four (4) from the seven (7) Member States included in the sample, changed the format of E Forms sent to the SSD, creating difficulties in understanding their contents. However, the SSD may not reject claims or documents in any one of the official languages on the grounds that they could not be understood as this could be challenged in the Courts of Law against the SSD.

Compliance Issues

E Forms not adequately completed

Various irregularities were noted on E Forms issued by the SSD from the fourteen (14) files audited:

- In two (2) claimant files, E Forms were not signed.
- In ten (10) files, E Forms were not stamped with an appropriate official stamp or not stamped at all.
- In thirteen (13) files, fields of E Forms which should be completed were left blank or completed incorrectly.
- In two (2) files, the field requiring details of the Institution completing the Form were left blank.
- In another two (2) files, the reason for claim rejection was not detailed enough, or incorrect.
- In eight (8) files, the section requesting information about 'Appeals and Periods allowed for Appeal', were left blank, or totally eliminated from the Form, thus not complying with the Implementing Regulation³.

³ Article 48(1) of Regulation (EC) No. 574/72 states that: "The final decision taken by each of the institutions concerned shall be notified to the investigating institution. Each of these decisions must specify the grounds and time-limits for appeal provided for by the legislation in question."

E Forms not issued as necessary

From the fourteen (14) cases audited, on various occasions it was noted that E Forms were not always issued when required. The SSD was therefore not fully adhering to the Implementing Regulation. Moreover, the written procedures issued by the SSD for processing of OAP applications were not abided to by the employees. These include:

- Four (4) cases when E205 was not issued when required.
- Four (4) cases where E210 and E211 Forms were erroneously raised.

Rejection Letters erroneously sent to Claimants/not clearly explained

The SSD is not following the requirements of the Implementing Regulation with respect to rejections⁴, since:

- on four (4) occasions out of the nine (9) files audited, when the SSD was a Competent Institution, it was noted that rejection letters were sent to claimants directly to inform them about the decision taken by the SSD, resulting in the Investigating Institution being bypassed;
- in another case out of the five (5) files audited, when the SSD was the Investigating Institution, a rejection letter was sent to the claimant, prior to receiving the decision from the other Competent Institution concerned; and
- in four (4) out of the eight (8) cases audited where a pension was rejected by the SSD, the reasons given for rejection were not clearly explained to claimants.

The periods allowed for appeal quoted on the rejection letters could confuse claimants, once the appeal period

⁴ Article 48(1) of Regulation (EC) No. 574/72 states that: "When all these decisions have been received, the investigating institution shall communicate them to the claimant in his own language by means of a summarized statement to which the aforesaid decisions shall be appended. Periods allowed for appeals shall commence only on the date of receipt of the summarized statement by the claimant."

commences on the date the Investigating Institution's summarised statement is received by the claimant.

Bilateral Agreement erroneously considered following Membership

Out of the fourteen (14) files audited it was noted that in two (2) cases the bilateral agreement between Malta and the United Kingdom was considered following Malta's membership of the EU. This could be considered an infringement of one of the basic principles of the Regulations – equality of treatment – since United Kingdom citizens would be treated differently from their EU counterparts.

Pension awarded directly to Claimant without the Institution of the Place of Residence being notified

In one (1) out of the nine (9) cases audited where the SSD was a Competent Institution a pension was awarded without notifying the Institution of the place of residence that the pension was awarded directly to the claimant, thus reducing control over the whole procedure by all Institutions concerned. This may also affect the pension eventually awarded by the Institution of the place of residence.

Pension not awarded provisionally by the SSD

- In two (2) out of the five (5) cases audited, when the SSD was the Investigating Institution, it was noted that a separate pension was awarded to the claimants, before the pension process as required by the Regulations was completed, without informing the claimants that such payments were made provisionally and hence were not open to appeal⁵.
- This indicated that the SSD was not aware that until the full process of

⁵ Article 45 of Regulation (EC) No. 574/72 states that: "If the investigating institution establishes that the claimant is entitled to benefits under the legislation which it administers without having recourse to periods of insurance or residence completed under the legislation of other Member States, it shall pay such benefits immediately on a provisional basis."

determining the actual pension amount payable by all Member States concerned was completed, the pension should have been issued on a provisional basis.

Overlapping Periods of Insurance not considered by the SSD

Two (2) cases were encountered out of the fourteen (14) files audited, where claimants declared overlapping periods of insurance in their insurance history. No action was taken by the SSD to explain such irregularity as the OAP due was only based on the contribution records held in Malta. This could result in a claim for a pension being raised on the SSD and on another Competent Institution for the same period.

Measures designed to accelerate the Award of Benefits not implemented

Measures designed to accelerate the award of benefits, as detailed in the Implementing Regulation⁶, were not implemented by the Maltese Competent Authority and Institution with respect to social security benefits paid in cash. This could result in lack of efficiency when awarding benefits to European citizens.

Recommendations

Key Issues

The SSD not prepared for EU Accession

Following the Twinning Light Project, it is recommended to review all OAP applications concerning social security schemes for persons moving within the Community.

Lack of Audit Trail in respect of OAP Applications raised locally - Individuals with no completed Periods of Insurance in Malta

- Copies of E Forms processed should be filed in a general departmental file for audit trail purposes.

⁶ Article 50 (1b) of Regulation (EC) No. 574/72 states that: "The institutions concerned shall, at the request of the person concerned or of the institution with which he is currently insured, draw up his insurance history starting not later than one year before the date on which he will reach pensionable age."

- The SSD should confirm whether E Form applications sent to other Institutions were actually received, keeping an audit trail of such confirmation.

Communication with one of the Bidders before the Tender Process

The SSD should be knowledgeable of EU rules and regulations relating to project implementation. Such rules and regulations should be followed without fail.

Control Issues

Inadequate Filing System

All documents in a file should be referenced. Additionally, every document, as well as any action taken by the SSD, should be recorded in the related file.

The 'Contributory Pensions Section Form' not signed and stamped

This Form should be:

- stamped when received by the Gozo Division and the SSD respectively; and
- signed by the officer-in-charge responsible for checking the records.

Inaccuracies noted on the Monthly Returns of Incoming/Outgoing E Forms and related Access Databases

- Monthly Returns and Access Databases should be completed accurately and include all information required.
- More care should be taken when transferring information from the Monthly Returns to the Access Databases.
- It should be ensured that no E Forms are processed without being registered on the Access Databases.

Computation of a Pension awarded not maintained in Files

Unless the Department implements a system of virtual files, it is in its interest to ensure that once the Pensions Section

determines that a pension is awardable, claimant files should clearly indicate how the pension was awarded.

E Forms not adequately filed

- Management should ensure that procedures issued are abided to by all officers.
- Only one (1) original of every E Form issued should exist. Control should be maintained over original E Forms issued.
- Copies, and not original E Forms should be maintained in claimant files of all E Forms processed, unless the SSD is the Investigating Institution. Departmental procedures should be amended accordingly.

Pension Workings not signed by Checkers

Pension computations filed in claimant files should be signed by Checkers thereby certifying that they have been checked and authorised or else pension workings should be filed in claimant files after electronic sign-off. If the Checker does not agree with pension workings, a note to this effect should be entered on the workings.

E Forms not adequately authorised by Checkers or IRU

All E Forms raised by the SSD should be reviewed and authorised before being sent to other Member States. Moreover, an audit trail to show that such Forms have been reviewed should also be available.

E Forms/Replies to be received from other Member States not followed-up

- The SSD should follow-up outstanding E Forms.
- If E Forms are re-sent to the Institution concerned, a covering letter should also be attached explaining that E Forms were sent previously.
- The SSD could also specify a date by when a reply should be received from

the Institution concerned, especially if the SSD is the Investigating Institution.

Communication Problems between Institutions within the EU

- Translation of official documents should be entrusted to experts.
- As the problem of translation is probably being encountered by other Government Departments, it could be tackled through the joint effort of all Departments. A common Translation Unit could be set-up or make use of the Translation Unit within the Ministry for Justice and Home Affairs.
- Although the SSD is not responsible for changes in the format of E Forms received from other Member States, when information received is not clear, the Member State concerned is to be requested to clarify.

Compliance Issues

E Forms not adequately completed

- E Forms should be accurately completed, stamped with an appropriate official SSD stamp and signed by an official.
- Reason for claim rejection should be clear and detailed.
- The section for 'Appeals and Periods allowed for Appeal' should be included in the required E Form and completed.

E Forms not issued as necessary

- The procedure for awarding OAP as specified in the Implementing Regulation should be adhered to.
- Management should take necessary action against employees who fail to abide by the OAP procedures issued by the Department.

Rejection Letters erroneously sent to Claimants/not clearly explained

- The SSD should refrain from sending rejection letters to claimants who fall within the scope of the Regulations.

- When the SSD is a Competent Institution, the decision taken by the SSD should be forwarded to the Investigating Institution through E210.
- When the SSD is the Investigating Institution, it should receive all E210 Forms from all Competent Institutions, prior to delivering summarised statements to claimants.
- When a pension claim is rejected, the reasons for rejection should be clearly explained on the E210.

Bilateral Agreement erroneously considered following Membership

The SSD should refrain from considering any bilateral agreements concluded with other Member States prior to EU Membership.

If the SSD thinks the current bilateral agreements are to remain operative even following membership, it should comply with the provisions of the Regulation (EC) No. 1408/71.

Pension awarded directly to Claimant without the Institution of the Place of Residence being notified

The SSD should follow the requirements of the Implementing Regulation, by notifying the Institution of the place of residence that a pension has been awarded to the claimant and that the pension will be paid directly to the claimant.

Pension not awarded provisionally by the SSD

The SSD should inform the claimants concerned that payments are being made provisionally and are not subject to appeal.

Overlapping Periods of Insurance not considered by the SSD

The SSD should establish under which legislation claimants were subject during such overlapping periods, besides considering Article 15 of the Regulation (EC) No. 574/72 and Articles 12 to 17a of Regulation (EC) No. 1408/71.

Measures designed to accelerate the Award of Benefits not implemented

The measures stipulated in the Implementing Regulation should be implemented by the Maltese Authorities.

Management Comments

The Department committed itself to consider all observations made in their continued efforts to improve and build upon the co-ordination of social security within the EU. It further remarked that:

- it did not have the services of a legal officer to help in questions of the interpretations of the Regulations and case-law;
- it was considered as sufficient to provide interim training courses during the first months of accession (given also the experience staff have in handling claims under bilateral agreements which are designed on identical principles to the EU regulations) with more specialised training undertaken immediately following accession;
- prior to the preparation of the draft project fiche for the Twinning Light Project, the SSD requested help from other Member States on an informal basis but such help never materialised. The other bidders were forwarded with information about certain aspects of the project. The Department undertook to be extra careful in future projects to ensure that all processes are

according to established rules and regulations;

- arrangements have already been made to enter into an agreement with the Translation Unit for the translation of documentation; and
- it is a procedure adopted in all Member States to send rejection letters before receiving the decision from the other Competent Institution. The procedure as stipulated in the current Implementing Regulation is seen as an advantage for the beneficiary and most Member States are suggesting changes in the new Implementing Regulation in this regard.

NAO does not agree with the following Department's comments:

- The IT system could not have been upgraded before accession.
- Staff who actually work in the area of co-ordination are well aware of the difference between 'Competent' and 'Investigating' Institution.
- If under a bilateral agreement which any Member State might have with another Member State, a person is entitled to an even more beneficial rate of pension than under the national legislation or Regulation No. 1408/71, then this State is obliged to pay that rate of pension.
- It is understandable that there will be overlapping of periods and these are always to the advantage of the contributor.

Department of Housing, Construction & Maintenance Capital Project – Construction & Finishing of Flats & Garages at Marsaxlokk

Background

The Department of Housing, Construction and Maintenance Department acts as an agent of the Housing Authority in the tendering, adjudicating and administration process for the construction of housing units. Projects undertaken by the Department involve the construction of flats and maisonettes on Government-owned land and are completely financed by the Housing Authority.

Key Issues

Estimates Calculations

Comparison of actual against contract quantities revealed that a number of items in the bills of quantity varied considerably from estimates prepared by the Department prior to the tendering process. The variances noted in a number of items in the bills of quantity exceeded the twenty per cent (20%) limit stipulated in the tender conditions. No approvals were requested or granted for these variations.

Comparison of the contracted rates against those originally estimated by the Department, also revealed substantial fluctuations. The initial estimate of total cost by the Department was thirty three per cent (33%) higher than the actual cost, excluding approved variations, additions and allowances for increase in the VAT rate brought in January 2004.

It was also observed that a number of items that were not originally listed in the Bills of Quantity were introduced and utilised during the implementation of the project. Other items were listed in the original Bills

of Quantity and hence tendered for. However these were not utilised during the project.

This raises the possibility of potential bidders tendering at excessive rates for quantities that are considered to be under estimated. Likewise quantities envisaged to be over estimated may be tendered at low rates.

Samples and Testing

At Tendering Stage

The technical report drawn up at tendering stage recommended that based on test results submitted, all four (4) tenderers were to be disqualified. It was later recommended that in view of this situation, the financial proposal should be opened, and eventually all the samples submitted by the tenderer who happened to be the most competitive were to be re evaluated. However, no new request was made to the successful tenderer to submit again the samples for testing before award of the contract.

The samples of ceramic floor tiles submitted by the successful bidder did not conform to the tender specifications as regards thickness.

At Implementation Stage

Ceramic Tiles

No tests were carried out regarding floor tiles for water absorption, surface hardness and abrasion resistance which are important characteristics of any tile. On the other hand, tests performed on the thickness of the sample tiles failed.

Concrete

No tests were carried out in respect of Concrete Grade 15 and tests performed for both Grade 20 and Grade 25 were unsatisfactory. Additionally, the number of concrete samples taken is considered small when compared to the volume of concrete used in the works.

Electrical Works

Schematic drawings for the works were not made available to the Contractor. The contractor did not employ a warranted Electrical Engineer to supervise the works. Inspection and testing were carried out after the electrical works were completed. Although some faults could be corrected after this inspection others could not as they entailed the dismantling of part of the existing installation and the carrying out of different re-wiring.

The Department commissioned Engineering Consultants to inspect and test the works. The Report found sixteen (16) items of departures from the Electrical Regulations. The subcontractor was requested to rectify these departures. Two further inspections were made on three (3) blocks. However, no re-inspections were carried out on two (2) whole blocks out of the five (5). A number of the above mentioned departures were rectified. However, the Consultants stated that three specific items were not installed in accordance with applicable standards.

Variations and Additions

No formal authority was requested by the contractor before performing additional work. A formal request was only presented to the Department (Housing Construction and Maintenance) after works had been carried out. The Contracts Department was only made aware of variations shortly before the drawing up of the final payment certificate.

With reference to five (5) items from the approved variations and additions, the approved quantities were amended and payment was effected for the increased quantities for which no approval was requested or granted. During the process of

requesting and approval of variations, the contractor requested a variation in two specific quantities which were eventually updated. Both the original quantity and the updated quantity were paid for.

Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of important preliminary clauses in the current tender documents.
- Information required from tenderers at tendering stage is not sufficient for the proper evaluation of the bids. The clauses regarding penalties for failed concrete tests are not considered taxing enough to compel the contractor to abide by the specifications.
- The drawings relating to the project could be purchased at a standard rate per drawing. This increased the possibility that certain contractors would not purchase all the drawings of the project. Additionally, no installation drawings & schematics for plumbing works, electrical works and drainage works were provided to the tenderers.
- No sufficiently adequate quality control procedures are in place to ascertain that the relevant standards of performance are being attained by the contractor during all stages of the project.
- It is not considered good internal control practice that a Junior Architect is assigned total responsibility of such projects, without the need to be reviewed by another architect.
- No documentation is maintained of minutes of meetings held with the contractor and the quantity surveyor.

Compliance Issues

Penalties for Delay

No penalties for delay were imposed by the Department (Housing Construction and Maintenance Department) notwithstanding

that the construction and finishing were completed four months following the target date of completion.

Value Added Tax Receipts

Seven out of the eighteen payments effected, adding up to fifty five per cent (55%) of the total cost, were covered by fiscal VAT receipts that were only valid for the first legislation of VAT (1994). These unpersonalised receipts were supposed to be returned to the VAT Department by the registered person following the issue of the second VAT legislation (1998). The Housing Authority did not report the matter to the VAT Department.

Retentions

The retention of 10% of the value of the contract was not maintained for a period of two years as stipulated in the tender documents. The contractor was given the option to be paid the total amount that had been previously retained from each payment certificate, and issue a Bank Guarantee instead, for the same amount.

However the Bank Guarantee covered a period of one year and not the two years specified in the tender specifications.

Interim Payment Certificates

Various works included in a payment certificate were paid for. However, works were still not completed by the contractor.

Eighty two per cent (82%) of the payment certificates were drawn in intervals of less than two months, in contravention to the tender conditions.

Recommendations

Key Issues

Estimates Calculations

The Department should exercise more care in the compilation of estimates by utilising a more appropriate basis for estimating quantities and rates. The Department may also prepare benchmarks for specific quantities. Such standards may

be compiled from past experience and referred to during the budgeting process.

Quantities estimated should be prepared by the quantity surveyor and reviewed by the architect in charge. Rates estimated should also be reviewed by another qualified person prior to approval as estimates.

It is also recommended that during and after each project, cost and quantity variances are drawn up and explanation on departures from estimates is sought. Furthermore, such results should be utilised in the compilation of estimates for prospective projects. The Department would be in a position to draw on effective practice from previous experience to build up a core of expertise in budgeting.

It is also recommended that the Department negotiates new rates for items where variations in quantities exceed 20%. Such a practice would curtail possible abuses of manipulation of rates that may be made by the contractors at the tendering stage.

Efforts are to be made to eliminate the non inclusion of material items in the preparation of estimates.

Samples and Testing

At Tendering Stage

It would have been preferable to obtain samples and the relevant manufacturer's technical literature for the electrical cables and ceramic floor tiles. Moreover the materials delivered on site should have been tested before and during the progress of the works to ensure their compliance with the tender specifications

Once the initial Technical Report had recommended that all tenders were to be disqualified, it would have been advisable to request all tenderers to confirm in writing that they will abide by the tender specifications before proceeding with the opening of the financial proposals.

At Implementation Stage

Ceramic Tiles

The Department should not have accepted such variances in the size of tiles

and should have insisted with the Contractor to provide and lay tiles in accordance with the Specifications.

Concrete

The Department should have instructed the Contractor to provide an Architect's Certificate assuming responsibility for the works. Additionally a penalty of Lm75 for each failed test should have been deducted.

The Department needs to establish and enforce proper guidelines on the quantity of samples to be extracted and tested.

Electrical Works

It is recommended that the relevant working drawings/schematics are provided to the Contractor and electrical works are supervised and certified by a warranted Electrical Engineer employed by the Contractor.

It is also advised that the departures from standards be rectified since the electrical system could become overloaded through the use of additional appliances.

Variations and Additions

Requests for variations are to be received by the Department prior to commencement of work. The Housing Construction and Maintenance Department is to provide the Contracts Department with adequate causes for variations. Such a request is to be made to the Contracts Department in a timely manner and payments effected at timely intervals, in accordance to standing regulations.

Control Issues

- The clauses in the Tender Documents covering Instructions to tenderers should be revised in order to include additional clauses covering requirements particularly for Technical literature, brochures and samples of materials to be used, the names and experiences of subcontractors who are expected to be engaged in carrying out parts of the works, the name, qualifications and experience of the Site Manager and the name of the warranted Electrical Engineer.

The bills of quantities for Works Below Damp Proof Course, Floor Finishes, Concrete, Roofing, Plumbing, Electrical and Drainage Works are to be also improved and revised to include the more detailed works that need to be carried out.

A fixed price should be charged for the complete set of drawings. Additionally, the set should include also structural drawings, schematics for plumbing, electrical and drainage works, and detail drawing schedules booklet for joinery, aluminum, metal and plumbing works.

- The Department is to adopt better continuous quality control measures and insist on good quality work with the contractor. Surprise Quality Control checks are to be carried out periodically. Reports drawn up following such tests will be monitored to ascertain whether shortcomings have been rectified.
- Work carried out and instructions given by the architect in charge are to be reviewed by a senior architect.
- Minutes of meetings are to be maintained and approved by the responsible officials.

Compliance Issues

Penalties for Delay

Penalties agreed upon in the tender specifications are to be imposed as these are used to mitigate any potential irregularities from the contractor's end.

Value Added Tax Receipts

The Housing Authority is to report any such defaults to the VAT Department. Furthermore, such irregularities are to be detected by the Authority and rectified in a timely manner.

Retentions

Any complaints regarding bad workmanship are to be immediately

addressed so that action can be taken prior to the expiration of the bank guarantee. Tender specifications need also be followed in future tenders.

Interim Payment Certificates

Internal control procedures are to be enhanced in order that the payment certificates are counter checked by the architect in charge after being drawn up by the Quantity Surveyor. This will ensure that the works certified by the Quantity Surveyor are actually carried out. Such an internal control is required in the circumstances due to the fact that the services of the Quantity Surveyor are outsourced.

Payment certificates are to be drawn up for periods of not less than two months in accordance with the tender documents.

Management Comments

The majority of replies highlighted by management in their comments were satisfactory. The Department will also be increasing its efforts to improve the current procedures particularly in accordance with the recommendations of the report. In fact the Department has already implemented remedial action to rectify a number of observations. In particular, the following improvements were noted:

- The introduction of 'Variations Requests Information Sheet';
- The engagement of an electrical engineering consultant; and
- The entire overhaul of the tender documents to eliminate discrepancies between the bill of quantities and specifications.

Management agreed with the main points of observations made on Estimates Calculation, Variations & Additions and Tender Documents & Drawings. However, it was contested that some of NAO's recommendations on these matters were either too bureaucratic or not easy to implement in the circumstances.

The Housing Construction and Maintenance Department have already implemented remedial action on recommendations noted for Samples and Testing, Quality Control and Interim Payment Certificates.

Management contested observations on the review of the Junior Architect by another architect and Lack of Documentation on the premise that current controls are sufficient and documentation is retained separate from the project's file.

The Housing Authority stated that its duty is to collect the fiscal receipts and not to verify their validity.

Ministry for Gozo

Non-Submission of VAT Fiscal Receipts

Background

MF Circular 5/2002 requires Heads of Departments and other Accounting Officers, assigned with the responsibility for Departmental compliance with the related Circulars, to ensure that they are invariably issued with a Fiscal Receipt by suppliers who have been paid for goods or services provided. In case of VAT registered Departments, a Tax Invoice has to be provided in lieu of a Fiscal Receipt.

Furthermore, quarterly returns (*Returns*) with details of Defaulting Suppliers are to be sent by each Ministry/Department to the Audit and Assurance Section of the VAT Department. Nil Returns should also be submitted.

Checking of compliance with the above provisions was carried out at the three (3) Departments forming the Ministry for Gozo, namely:

- Corporate Services Department (including EU Affairs, Policy Development and Programme Implementation);
- Customer Services Department; and
- Projects and Development Department.

Key Issues

Non Centralised Systems of Returns and Vouchers' Filing Structure within the Customer Services Department

- The Customer Services Department, as opposed to the Corporate Services and the Projects and Development

Departments, operates under a decentralised system whereby each Cost/Responsibility Centre compiles and submits its respective Returns directly to the VAT Department. This could result in lack of control over the submission of Returns leading to Defaulting Suppliers not being reported to the VAT Department.

- The filing structure of the Customer Services Department is not centralised, having each Responsibility Centre within the Department responsible for the filing of its own Vouchers. The sample chosen for verification had to be very limited since Vouchers provided by these Responsibility Centres were not filed in sequential order, resulting in considerable difficulty and time-consuming to trace the required documents.

Furthermore, two (2) Responsibility Centres within the Customer Services Department did not provide to the National Audit Office (NAO) the Vouchers requested without giving reasonable justification.

Lack of Standard System Structure dealing with the Requirements of the Circulars

The Ministry did not translate the contents of the related Circulars into formal policies and procedures to be adopted by all three (3) Departments.

As a result, each Department and each Cost/Responsibility Centre within the Customer Services Department adopts its own procedures in order to comply with the

directives of the Circulars, thus resulting in a lack of:

- uniformity in the Returns submitted to the VAT Department;
- controls to ensure that Fiscal Receipts or Tax Invoices are issued by suppliers as soon as possible; and
- controls to ensure that all the Returns related to the Ministry are duly submitted to the VAT Department.

Lack of Communication and Co-ordination with the VAT Department

The Ministry did not provide to NAO three (3) Returns which were however recorded in the VAT Department's database.

In the absence of adequate communication and co-ordination with the VAT Department, the Ministry could not confirm whether Returns submitted do actually reach the Audit and Assurance Section of the VAT Department. Furthermore, inadequate record keeping of Returns submitted hinders future retrieval.

Control Issues

Inaccuracies in the Returns submitted to the VAT Department

Six (6) Payment Vouchers amounting to Lm12,590 issued by the Projects and Development Department were not covered by a Fiscal Receipt or Tax Invoice, and were not traced in the respective Returns submitted to the VAT Department.

Unless reported the Defaulting Suppliers could remain unknown for their non-compliance with the relevant provisions of the Act by the VAT Authorities.

No Standard Corrective Action taken by Departments against Defaulting Suppliers

The Departments within the Ministry are not adopting standard corrective action against Defaulting Suppliers with respect to:

- follow-up reminders to suppliers requesting a Fiscal Receipt (either by letter or phone or both); and
- applicable time frames.

Moreover, there are no common procedures between the Cost/Responsibility Centres within the Customer Services Department. Furthermore, six (6) Cost/Responsibility Centres within the Customer Services Department did not inform NAO of the corrective action taken against Defaulting Suppliers.

Effective control by the Ministry over all these procedures, to regularly ascertain that Defaulting Suppliers are being chased efficiently and effectively, could be impaired.

No Centralised Database of Defaulting Suppliers maintained by the Customer Services Department

The Customer Services Department does not maintain a centralised database of Defaulting Suppliers. The Department explained that due to the decentralised system of Returns adopted, it is up to the discretion of each Cost/Responsibility Centre to maintain such a database.

However, it was noted that a substantial number of Cost/Responsibility Centres within the Customer Services Department do not maintain a database of Defaulting Suppliers, thus hindering the accuracy and completeness of the Returns.

Compliance Issues

Returns not submitted to the VAT Department

Fourteen (14) Cost/Responsibility Centres within the Customer Services Department failed to submit any Returns for the full year to the VAT Department.

Unless the Ministry reports the Defaulting Suppliers to the VAT Department, the latter could not take the necessary corrective action against them.

No Copies of Original Fiscal Receipt filed in cases where one Fiscal Receipt related to various Payment Vouchers

The Projects and Development Department within the Ministry for Gozo is not complying with MF Circular 5/2002 para. (iii)¹. No copy of the original Fiscal Receipt was attached to eight (8) Payment Vouchers issued by the Department. However, the database maintained by the Department showed that an original Fiscal Receipt had been received from the supplier.

Whenever the Projects and Development Department receives a Fiscal Receipt from a supplier relating to more than one (1) Payment Voucher, the original Fiscal Receipt is attached to just one (1) Payment Voucher. However, neither are copies of it attached to the other Payment Vouchers nor is any reference made to the Payment Voucher to which the original Fiscal Receipt was attached.

Ease of reference could be impaired whenever no photocopies of the original Fiscal Receipt are attached to the respective Payment Vouchers to which the same Fiscal Receipt relates.

Recommendations

Key Issues

Non Centralised Systems of Returns and Vouchers' Filing Structure within the Customer Services Department

The Customer Services Department should set up a structure whereby one consolidated quarterly Return covering all its Cost/Responsibility Centres would be compiled and submitted to the VAT Department.

Furthermore, Vouchers relating to the Customer Services Department's Vote should be either filed consecutively or a database maintained identifying each Voucher to its respective Cost/Responsibility Centre.

¹ MF Circular No. 5/2002 para. (iii) states that: "fiscal receipts received from suppliers are to be attached to the relative original Payment Voucher for ease of reference."

Lack of Standard System Structure dealing with the Requirements of the Circulars

The Ministry should set up formal written policies and procedures related to the requirements of the Circulars.

Lack of Communication and Co-ordination with the VAT Department

The Ministry should strive to obtain an acknowledgement from the VAT Department.

Furthermore, the Ministry should maintain a database of all the Returns submitted to the VAT Department clearly highlighting the dates of submission and acknowledgement.

Control Issues

Inaccuracies in the Returns submitted to the VAT Department

The Ministry should introduce the following internal control procedures aimed to enhance the accuracy and completeness of the Returns submitted to the VAT Department:

- Each Department should maintain a standard database of Defaulting Suppliers. The Returns would consequently be compiled from the information contained in these databases.
- Duties related to the Returns should be segregated between different officers in order to minimise the risk of abuse.
- Returns should be reviewed by Management before being submitted to the VAT Department.

No Standard Corrective Action taken by Departments against Defaulting Suppliers

The policies and procedures should include detailed guidelines on the procedures which should be adopted by all Departments as corrective action against Defaulting Suppliers.

No Centralised Database of Defaulting Suppliers maintained by the Customer Services Department

In order to compile complete and accurate consolidated Returns covering all its Cost/Responsibility Centres, the Customer Services Department should also start maintaining one (1) centralised database of Defaulting Suppliers.

Compliance Issues

Returns not submitted to the VAT Department

The Ministry should ensure that after the end of every quarter, all the necessary Returns, including Nil Returns, are duly submitted to the VAT Department, as required by MF Circular 5/2002.

No Copies of Original Fiscal Receipt filed in cases where one Fiscal Receipt related to various Payment Vouchers

Whenever a Fiscal Receipt relates to more than one Payment Voucher, the

Projects and Development Department should ensure that:

- a copy of the original Fiscal Receipt is attached to each respective Payment Voucher; and
- a reference is made on each copy clearly indicating the Payment Voucher number to which the original Fiscal Receipt has been attached.

Management Comments

Management agreed with our recommendations and initiated action to implement them, with an exception as regards the fact that various Cost/Responsibility Centres within the Customer Services Department do not maintain a database of defaulting suppliers.

The Department remarked that those sections keeping manual records replied negatively thinking that the question meant an electronic database. However, up to the writing of this report, this Office has still not received copies of the manual records.

Ministry of Finance and Economic Affairs

VAT Department - Eco-Contribution System Analysis

Background

Ecological tax reforms have been introduced by several European countries. At the core of the ecological tax reforms, implemented by these countries, is higher energy taxation to provide a market incentive to save energy and hence create incentives for more economic handling of natural resources.

Environmental tax was introduced in Malta through the Eco-Contribution Act No. XII of 2004 (Cap. 473) (*the Act*) which came into force on 1 September 2004. This law does not tax energy consumption but introduced an Eco-Contribution to be charged and levied at the rates and on the specified products, as detailed in the First Schedule to the Act. Its main aim is to encourage producers¹ to take responsibility for the environmental impact of waste, generated by products placed on the market. Moreover, the new tax aims to provide incentives for the recovery of waste², besides:

- greater use of deposit and refund schemes on containers;
- use of containers with a lesser environmental impact; and
- discourage consumption of products with a 'non-acceptable' environmental impact.

The Eco-Contribution Act, Article 2 defines:

¹ producer as "a person who, for the purpose of trade or otherwise in the course of business, manufactures or brings into Malta products on which the eco-contribution shall be payable in terms of this Act."

² recovery of waste as "the re-use, recycling or reclamation of waste or any other process aiming to extract raw materials or energy from such waste."

Through Legal Notice 392 published on 30 August 2004, the Minister for Rural Affairs and the Environment designated "*the Commissioner of Value Added Tax,.....as the Competent Authority for the purposes of the Act to carry out the functions of the Competent Authority under the said Act.*"

Key Issues

Failure to Set-up the Section Responsible for Eco-Contribution

Upon the introduction of the Act, a separate section was not assigned by the VAT Department to deal with the requirements of the Act. The lack of system structures and controls failed to ensure that systems were functioning efficiently and effectively. The Department justified this lack of action through the lack of human and financial resources.

This report is thus compiled solely on information obtained through meetings held at the VAT Department.

The IT System – ECOCAS – Not Operational

The ECOCAS system which had to go live by mid-December 2004, was not yet tested as at the beginning of January 2005 giving rise to:

- inefficient and ineffective Eco-Contribution processing procedures; and
- lack of controls to ensure producers' compliance with the law.

The Department failed to identify the personnel to operate the new System, resulting in further delays in System implementation.

Customer Care Lacking

- The Department was not in a position to provide guidance to the public on unclear issues in the Act and certain businesses were still not in a position to confirm whether their products were subject to Eco-Contribution. In other circumstances, producers were contesting amounts payable since the amount of tax is equal to or exceeds the cost of the product in question.
- The Competent Authority did not have the technical know-how on the various types of products which were subject to Eco-Contribution. Such knowledge is fundamental since a change in the composition of a product could change the nature of the product and hence its taxability. As a result, the Department lacked the ability to have a complete database of taxable entities.

Lack of Control over Inspections, Procedures and Registrations

Up to November 2004, the Department did not have any plans regarding inspections to be carried out to verify that producers collecting Eco-Contribution are passing it on to Government and no initiatives were taken to ensure that all taxable entities were registered.

As a result, default deterrents, as stipulated in Legal Notice 395 of 2004, Article 5, could not be applied.

Furthermore, the Department did not establish procedures in respect of:

- cancellation of Eco-Contribution registrations as detailed in Article 1(6) in the Second Schedule to the Act, which could result in:
 - cancellation requests being left pending at the Department; and

- failure to identify registrants who no longer need to be registered for Eco-Contribution purposes; and
- corrections and related enforcements, as specified in Legal Notice 395 of 2004, Articles 2(2) and 6, thus increasing the possibility of:
 - understated amounts in Returns, remaining undetected;
 - defaulters avoiding administrative penalties which should be paid in conjunction with such corrections; and
 - Returns being corrected after the ten day period stipulated by the law.

Control Issues

Lack of Plans to Interface with VAT Database

The Department did not plan to use information already available on the VAT database, in order to be able to:

- better administer and implement the requirements of the Act;
- identify possible inconsistencies between declared Eco-Contribution and VAT data; and
- distinguish possible high risk producers, warranting further investigation.

Lack of Control over the Receipt of Registration Forms

Applications for Eco-Contribution Registration Forms were passed on directly to the Inspector without being stamped by the Registry Section. The Registration System was not in place at the time of our audit. This could have led to:

- lack of control on the Forms' receipt dates; and
- the possibility of having producers claiming that they sent their Registration Forms, with the Department unable to contest such claims.

Manual Issue of Returns

Eco-Contribution Returns sent to producers, had to be issued manually until November 2004 since ECOCAS was still not operative, even though the ECOCAS Project Initiation Document stated that Returns had to be issued through the system by the end of October 2004.

The Department stated that note is being taken of manual Returns distributed so that these will not be re-issued when ECOCAS becomes operational. However, the risk of sending duplicate Returns to the same producers increased.

Eco-Contribution Collections and Returns Not Processed

- The Department had only received few Eco-Contribution Returns and respective tax payments, by the end of November 2004. Delays in batching and processing of Returns and cheques received could lead to backlogs as well as failure to enforce timely administrative penalties against defaulters.
- Any Returns and cheques received are being forwarded directly to the Head of the VAT Department's Cash Office, thus increasing the risk of having such documents misplaced, particularly since these are not even registered upon receipt. Till the end of November 2004, Returns and cheques received could not be processed by the Department, as the ECOCAS system was not operational by the beginning of November 2004 as specified in the ECOCAS Project Initiation Document.
- The Department failed to establish:
 - the responsibility for batching such Returns; and
 - an Eco-Contribution processing agreement with local banks. Any bank payments effected by Eco-Contribution payers were being set-off against VAT accounts rather than Eco-Contribution accounts.

Compliance Issues

Opening Stock Return Not Formulated

All “*recognised producers*” were to supply details of stock of refillable bottles to the Department. In November 2004, the Department was still in the process of formulating a Stock Return to be completed by the producers in question, hence further augmenting time lags prior to the attainment of necessary stock information.

Furthermore, the Department did not plan the various procedures to be carried out to exert control and monitor stock declarations made by such producers.

Eco-Contribution Appeals Board Not Appointed

By the end of November 2004, the Appeals Board had not been appointed by the Minister for Rural Affairs and the Environment and the VAT Department had not yet identified:

- representative of the Department to attend such appeals; and
- what preparatory procedures should be adopted to defend cases in front of the Board.

Recommendations

Key Issues

Failure to Set-up the Section Responsible for Eco-Contribution

The VAT Department should appoint a separate team(s) to administer the requirements of the Act. Furthermore, tasks should be clearly defined and responsibilities segregated in order to warrant adequate controls.

The IT System – ECOCAS – Not Operational

- The System should be tested and made fully operational without delay to ensure adequate control and enforcement of the provisions of the Act.

- The Department should identify the persons who will be using ECOCAS and provide them with sufficient training and working knowledge, regarding Eco-Contribution in general and any functions in the new System which are separate and distinct from those in the VAT System.

Customer Care Lacking

- Staff assigned specifically to deal with Customer Care issues should be trained on both legal aspects and technical specifications of the products covered by the Act.
- Rulings on unclear issues should be cleared in the shortest time possible to ensure that any tax due is settled immediately. Producers should be immediately informed about the outcome of any rulings taken.
- Any decisions made with regards to particular producer categories should be noted and made available for future reference, to ascertain that policies are applied uniformly to same category producers.

Lack of Control over Inspections, Procedures and Registrations

In order to be able to better enforce the requirements of the Act, the Department should:

- set up an Eco-Contribution inspection team without delay and establish standard procedures to be followed by Inspectors whilst carrying out their duties; and
- identify the persons who should have registered under the Act and follow-up cases to ensure eventual legal conformity.

The Department should set up procedures:

- to ensure that penalties are issued to all defaulters on a timely basis and further verify that all tax and penalty amounts due, are settled in the

shortest time possible. These procedures should have inbuilt controls to ascertain that all defaulters are actually penalised and, where necessary, action taken within the five year prescription period stipulated in the Act; and

- to be followed prior to cancelling registrations, including controls and checks to ensure that producers making the requests actually no longer need to be registered for the purposes of the Act. Furthermore, any registrations of producers, who no longer need to be registered under the Act, should be identified, cancelled and the person concerned notified accordingly.

Control Issues

Lack of Plans to Interface with VAT Database

The Department should avail itself of any information already held on the VAT System, if it is perceived as being of potential use, for better administering the requirements of the Act.

Lack of Control over the Receipt of Registration Forms

The Department should ensure that all Registration Applications received are primarily registered at the Registry Section and date stamped, thus minimising the risk of altering Registration Form receipt dates.

Manual Issue of Returns

Once ECOCAS is fully operational, the Department should take all necessary measures so that no duplicate Returns are sent to producers who would already have received the manual Returns.

Eco-Contribution Collections and Returns Not Processed

- Returns and cheques are to be registered upon receipt, prior to being forwarded to the Cash Office.
- Standard batching and processing procedures should be set up and

implemented, and the persons responsible identified.

- Agreements with banks should be made as soon as possible so that:
 - producers are provided with an efficient service; and
 - the additional administration work involved in the sorting of payments made to wrong producer accounts, will be minimised.
- Modify incorrect postings to ensure that no Eco-Contribution payments remain posted in VAT accounts.
- Plans of action should be established, to affirm that all Eco-Contribution collected by producers, is actually declared in their Returns and passed on to the Department. Control measures could include reasonableness tests, comparative analysis, as well as direct visits to producers' premises.

Compliance Issues

Opening Stock Return Not Formulated

The Department needs to:

- finalise the formulation of the Stock Return and make it available for use as a matter of priority;
- ensure that all producers who should abide with Article 1(2) in the Second Schedule to the Act, actually do so, immediately; and
- establish procedures to be adopted in order to verify stock declarations made and hence minimise the possibility of abuse on behalf of the producers in question.

Eco-Contribution Appeals Board Not Appointed

- The persons who will be dealing with Eco-Contribution appeals should be appointed to tackle any appeals made, once the Eco-Contribution system becomes fully operational.

- Preparatory procedures to be adopted prior to Appeals Board sittings should be set.

Management Comments

The recommendations were agreed to. It was further remarked that:

- *“..... the VAT Department was assigned the functions of the Competent Authority for the purposes of the ECO-Contribution Act, without any deployment of additional human and financial resources. In the circumstances, and with a staff complement already below requirements, the VAT Department did its best to allocate what was affordable in terms of human resources, with the least possible disruption to the VAT Administration itself”.*
- *“..... the audit carried out in November was rather early, just two months after the introduction of the Contribution”.*
- The ECOCAS system has nearly been finalised:
 - Persons to perform different tasks have been identified.
 - Administrative penalties are being charged automatically by ECOCAS.
 - Returns and corrections of Returns submitted are now being processed through the System. Registered Persons are being notified about cases involving underpayments or wrong tax calculations.
 - *“The Eco-Contribution registration system is now in place.....The date stamping by the Registry is now irrelevant as the system date now takes precedence”.*
- A number of inspection teams will gradually be developed. The Department will try to use VAT

- inspectors to enforce Eco-Contribution Act requirements.
- A risk analysis system should eventually be created “..... *with defined parameters to be able to detect real or potential Eco-Contribution losses*”. In the meantime, monitoring and enforcement are being carried out ex-post. Inspections have to be triggered, for example, by reports made by the public, newspaper articles, etc.
 - *“Once the Eco-Contribution is being administered in conjunction with VAT, those areas that are catered for by other sections in VAT, are assumed to cater also for Eco-Contribution In conjunction with the Ministry of Finance, it will eventually be ascertained whether the increased load on these sections, brought about by these new duties, will require additional staff”.*

VAT Department - Non-submission of VAT Fiscal Receipts

Background

Articles 50 and 51 of the Value Added Tax Act (Cap. 406) (*the Act*) require VAT registered persons making a supply, other than an exempt without credit supply, to provide to the person to whom the supply is being made, a Tax Invoice or a Fiscal Receipt, as applicable.

Following the enactment of the Value Added Tax in 1995, a number of Government Letter Circulars (*Circulars*) have been issued to highlight the obligation of suppliers to issue a Tax Invoice or Fiscal Receipt, as the case may be, following payment by the respective Government Ministry and Department receiving the supply of goods or services (*Ministries/Departments*). Successive Annual Reports of the Auditor General have highlighted the lack of compliance of various Ministries/Departments with these Circulars.

Key Issues

List of Inspections not forwarded

The National Audit Office (NAO) was not forwarded with a list of inspections that were triggered from information contained in the Returns submitted by the Ministry for Gozo. As a result, walk through tests on the investigation files related to these inspections could not be performed.

Lack of Definition for the Responsibility of Filing of Returns

Although MF Circular 5/2002 does not explicitly state that the VAT Department is responsible to ensure that all Ministries/

Departments submit the Returns, it is however the opinion of this Office that it is in the VAT Department's own interest to ensure compliance. Information featuring in the Returns relate directly to the work carried out by the Audit and the Assurance Section within the VAT Department.

There is no follow-up action being taken by the VAT Department against defaulting Ministries/Departments. Furthermore, a complete updated list of all Ministries/Departments required to comply with this Circular is not maintained. This increases the risk of suppliers not issuing the appropriate fiscal documents to the respective Ministries/Departments.

Ineffective Enforcement Proceedings

The VAT Department is legally limited in the effective enforcement action it can take against Defaulting Suppliers who fail to settle the Compromise Fines, within the time frame allowed by Article 84 (3) of the Act. This is due to the lack of proper wording in the defaulter's declaration in accepting the respective non compliance with the provision of the Act.

Full Discretion in Decision Making by the Inspector

Decisions and judgements related to follow-up work on the Returns are solely and fully delegated to the one Inspector responsible for their administration. The selection process of the inspections and any follow-up action is left totally at the discretion of the said Inspector, thereby increasing the risk of the VAT Department losing out on the full benefits derived directly from the effective

use of the information contained in the Returns.

Unpersonalised Fiscal Receipts

Unpersonalised Fiscal Receipts, issued in terms of Section 40 of the VAT Act 1994, and which are currently not valid as Fiscal Receipts, are still being made use of by suppliers and accepted as valid by Ministries/Departments. Their use increases the risk of suppliers not forwarding the full amount of tax collected to the VAT Department.

In fact, the Projects and Development Department within the Ministry for Gozo was forwarded with five (5) Unpersonalised Fiscal Receipts amounting to Lm1,970. These receipts were accepted as valid fiscal documents and were thus not reported in the Returns submitted to the VAT Department.

Control Issues

No Policies and Procedures

The VAT Department does not have any formal written policies and procedures to which the Inspector can refer to whilst performing follow-up action related to the Returns.

This gives rise to lack of:

- system structure to deal with the requirements of the Circulars and the Act;
- controls to ensure that the system in place functions efficiently;
- reporting structure; and
- enforcement, to ensure compliance both by Ministries/Departments with the respective Circulars and by Defaulting Suppliers with the provisions of the Act.

Limited Management Information

The controls which could be exerted by Management are limited since the only Management report which is being prepared by the Inspector, based on information

featuring in the Returns, is limited to the number of Defaulting Suppliers for each Return submitted.

Lack of Time Allocated for the Work related to the Returns

Management is not giving the necessary importance to the work related to the Returns. It is given the least priority since the Inspector has to cope with other duties. This could thus negatively impact on the achievement of the scope and objectives of the System.

Lack of a Structured System as regards the Submission and Registration of Returns

- Treasury Circular 9/99 requested Heads of Departments and all Accounting Officers that as from 3 January 2000, Returns of Defaulting Suppliers were to be addressed to an officer at the VAT Department, who at that time was in charge of the Returns. However, although this officer has been transferred to another Section, a number of Returns are still being addressed directly to him since the Treasury Circular was not adjusted accordingly.
- Not all Returns received by the VAT Department are being passed through Registry before being processed by the Inspector.

In fact, twenty-one (21) Returns, allegedly submitted by the Customer Services Department within the Ministry for Gozo to the VAT Department, did not feature in the database maintained by the latter.¹

Failure to have Returns received and stamped by Registry prior to being processed, leads to:

- lack of control on the Returns' receipt dates; and
- the possibility of having Ministries/Departments claiming that they sent

¹ The audit was held prior to the date of submission of two (2) of these Returns.

the Returns, whilst the VAT Department's records indicate otherwise.

No Deadline for the Submission of Returns

No deadline for the submission of the Returns by Ministries/Departments to the VAT Department is imposed by the Circulars. Currently, the submission date of such Returns is left at the discretion of the Ministries/Departments. This could lead to Ministries/Departments unnecessarily delaying the submission.

Compliance Issues

Discrepancies between the Act and the Answers to the Frequently Asked Questions (FAQ)

Although this Office acknowledges the benefits emanating from the FAQ facility available on the Department's website, discrepancies were noted between the provisions of the Act and the related replies to the FAQ, thus increasing the risk of users misinterpreting the legal obligation.

Recommendations

Key Issues

Lack of Definition for the Responsibility of Filing of Returns

The Circular should clearly state that the VAT Department is responsible for the timely submission of Returns. The Department would thus be in a position to control the Ministries/Departments' responsibility to submit the Returns by:

- maintaining an updated list of Ministries/Departments which are required to submit the Returns in order to immediately identify any defaulting Ministries/Departments; and
- report defaulting Ministries/Departments to the Ministry of Finance and Economic Affairs for necessary corrective action.

Ineffective Enforcement Proceedings

The current VAT Department's letter, issued in terms of Article 84 (3) of the Act, should include a statement featuring the Defaulting Supplier's declaration of acceptance of his non-compliance with the provisions of the Act.

Full Discretion in Decision Making by the Inspector

Core decision making and judgements, such as those related to the selection of samples, should be taken over by higher Management at the VAT Department.

Furthermore, in order to enhance the internal control structure, Management should ensure that the various tasks and responsibilities be clearly defined and segregated accordingly.

Unpersonalised Fiscal Receipts

The VAT Department should:

- liaise with the Ministry of Finance and Economic Affairs to issue the relative Circular so as to make Ministries/Departments aware of this risk and to identify suppliers using Unpersonalised Receipts in their Returns; and
- identify and retrieve from suppliers all such receipt books.

Control Issues

No Policies and Procedures

The VAT Department should set up formal written policies and procedures related to the work on the Returns.

Limited Management Information

The following additional details should also be recorded in the database, thus resulting in more informative reports:

- Date of submission of Returns enabling efficient identification of Ministries/Departments which do not submit timely Returns.

- Results of the inspections carried out on the selected Defaulting Suppliers.
- Follow up details of the corrective action taken by the Legal Section within the VAT Department.

Lack of Time Allocated for the Work related to the Returns

Management should ensure that adequate time is allocated for:

- the proper administration of the Returns; and
- the subsequent follow up of the information contained therein.

This would enable the VAT Department to take action in the case of Defaulting Suppliers and follow-up Ministries/Departments which fail to comply with the directives.

Lack of a Structured System as regards the Submission and Registration of Returns

The VAT Department should ensure that:

- Ministries/Departments are informed whenever there is a change of officer-in-charge of the Returns;
- all Returns received are registered at the Registry Section prior to being passed on to the Inspector responsible of their processing and stamped to indicate the date of receipt; and

- upon receipt of a Return, an acknowledgment letter is sent to the respective Ministry/Department facilitating the identification of Returns lost in transit.

No Deadline for the Submission of Returns

The VAT Department should liaise with the Ministry of Finance and Economic Affairs so that the Circulars would include a submission date to be adhered to by all Ministries/Departments.

Compliance Issues

Discrepancies between the Act and the Answers to the Frequently Asked Questions (FAQ)

The Department should ensure that replies to FAQ portray the requirements of the Act.

Management Comments

Considering that the VAT Department is not responsible to enforce upon other Ministries/Departments the submission of Returns connected with Fiscal Receipts in terms of MF Circular 5/2002, the Ministry of Finance and Economic Affairs has been asked to issue an amendment to the Circular to address the recommendations. Furthermore, the Ministry shall examine the possibility of taking other measures with a view to maximising compliance in the area.

Ministry for Tourism

Institute of Tourism Studies - Follow-up on Log Books, Revenue, Expenditure, Inventory and Miscellaneous Matters

Background

This audit was intended to follow-up the findings and recommendations featuring in the Audit Report for the financial year 2002 and to verify whether they were properly addressed.

Key Issue

Distinct Cost Centre in lieu of Below-The-Line Account

No formal request to date has yet been made to the Ministry of Finance for the ITS to be recognised as a separate cost centre in the Financial Estimates for all intents and purposes. However, management control of the ITS budget allocation and financial operations has been further strengthened with the recruitment of the Chairman given executive powers at the helm of ITS organisation structure.

Control Issues

Opportunities for improvement were identified in the following areas:

- The use of a privately owned vehicle for the Department of Tourism on official duties was still not endorsed by the written approval of the Director.
- No disclaimer to any liability for damages when using privately owned vehicles for official duties has yet been specified in the authorisation by the Department of Tourism.
- Certification of log books was not being performed on a regular monthly basis

during 2004 as required by the Public Service Management Code.

- A log book for the sole privately owned vehicle used for official duties was not presented for audit examination purposes in order to verify respective trips performed.
- No official limit has been stipulated for the maximum allotment of mileage in respect of the privately owned vehicle utilised for the purposes of the Department of Tourism on official business.
- Fuel Requisitions and Issue Notes were raised after fuel had already been supplied to the vehicle indicating lack of control over fuel consumption.
- Incorrect and incomplete log book and fuel requisition details.
- Fuel distribution limit is currently applied arbitrarily by the Transport Officer-in-charge as the criteria basis for re-fuelling the different vehicles.
- Government owned vehicles committed with the Ministry, Department of Tourism as well as the ITS not returned to base at the end of the day.
- Lack of control over reservation sheets and part-time course application forms.
- Lack of segregation of duties in the procurement and data processing stages of the Departmental Accounting System (DAS).

- Mesh netting as a control measure to enhance security of the library's assets has not been installed on the windows to date.
- Officials of the Learning Resource Centre view the CCTV video-tape footage on a random basis prior to its recycling. However, no register is being maintained as an official record evidencing such monitoring.
- Inventory items not in conformity with Inventory regulations:
 - The Asset Identification Numbers (AIN) on the physical assets did not correspond with the AINs of the Inventory Database.
 - Detailed description of items is lacking in the Inventory Database and Room Inventory Lists.
 - The same Asset Identification Number was assigned to different inventory items.
 - Incorrect nominal values have been allocated to a number of assets in the Inventory Database.

Compliance Issues

Return of Fuel Cost and other Running Expenses

No statutory returns of fuel cost and other running expenses were compiled for any period during 2004.

Fiscal Receipts

Repeated instances were noted where payment vouchers had no supporting fiscal receipt. Efforts are being made by ITS to find new suppliers to replace defaulters with whom business will eventually be discontinued.

Goods and Service Purchase Orders

Purchase Orders (GSPOs) were raised subsequent to date of invoice without prior authorisation being attained. Goods received and/or services performed were not always being acknowledged by a receiving

signature of the responsible ITS officer-in-charge.

Inventory Records

Six monthly returns regarding the additions, disposals and transfers of the inventory items of the ITS Learning Resource Centre are still not being sent to the NAO.

Recommendations

Distinct Cost Centre in lieu of Below-The-Line Account

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

Appropriate Authority for the Use of Privately Owned Vehicles

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

Privately Owned Vehicles and Payment Terms

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

Log Book Certification

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

Log Books for Privately Owned Vehicles

Separate log books are to be maintained for all privately owned vehicles authorised for use on official business. The regulations

require that 'log books are to be inspected and countersigned monthly by a senior officer'.

Official Limit of Allowance for Privately Owned Vehicle

A maximum allotment of mileage for a given period should be established by the Head of Department regarding the use of any privately used car as stipulated by the Public Service Management Code. This should also be subject to periodic review.

Fuel Requisition subsequent to Issue of Petrol

Fuel requisitions should always be duly prepared and presented prior to fuel supplied. This serves as an authorisation for the service station to supply only the indicated amount and type of fuel to the vehicle stipulated thereon. Such official document is in itself a form of control on fuel consumption and its subsequent payment.

Log Book and Fuel Requisition Details

Log books are to be duly certified in order to monitor and control the use of all government expensed vehicles. Records of the exact mileage covered and details of the purpose for each journey performed by the utilised vehicle are to be recorded in the log book and signed by the officer making the journey in conformity with the pertinent section of the Public Service Management Code. Furthermore, complete details on Fuel Requisitions are to be filled in, including Service Station rubber stamp, endorsement and date.

Fuel Consumption Rate

It is more appropriate for fuel approval purposes that vehicles are individually calibrated in order that an accurate fuel consumption rate is established. Alternatively, control over fuel consumption may be based on average kilometres per litre according to vehicle engine capacity. In addition, journeys should be planned so as to minimise distances covered through efficient routing which will eventually result in reduced fuel consumption.

Use of Official Vehicles

Exclusivity of use of government owned vehicles relates to official duties and should not be extended to after-office hours. Strict enforcement of having all official vehicles returning to base at the end of a day's work is recommended.

Reservation Sheets and Part-Time Course Application Forms

Reservation Sheets for catering activities are to be allocated an internal unique reference number. Course application forms (including on line applications) submitted should also be allocated an internal unique reference number subsequent to completion. Cross-referencing between official documents raised and general receipts is necessary for audit purposes and to enhance internal control at ITS. Furthermore, a hardbound register should be maintained to record all referenced documentation.

Segregation of Duties

The DAS procurement administration, commitment stages and printing duties should be performed by different personnel as a measure to strengthen internal control.

Security at the Learning Resource Centre

To complement the three strategically located CCTV cameras in place:

- Mesh netting could be installed on the windows;
- On an ongoing basis, an officer of the Institute is to view all the CCTV videotape before it is recycled. Action should then be taken against any individuals given away by the footage. Such checking ought to be recorded in a register maintained for the purpose.

Inventory Records

Action should be taken to adjust the room inventory lists and allocate unique AINs in conformity with MF Circular 14/99. The inventory database is to be updated with the

detailed asset descriptions and correct cost or valuations.

In addition, all fixed assets recorded in the inventory database and room inventory lists should not only be recorded by the general item description but also by their model, serial number, type, dimensions and other distinct characteristics.

Return of Fuel Cost and other Running Expenses

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

Fiscal Receipts

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

Goods and Service Purchase Orders

GSPOs are to precede the purchase of any good or service. These are to be signed in evidence of satisfactory receipt of the goods or services by the Institute.

Inventory Records

In order to exercise the necessary inventory controls as well as preparing oneself in earnest for accrual based

accounting it is necessary to fully adhere to the requirements of MF Circular 14/99 and to keep the National Audit Office posted with the movement of inventory items of the ITS Learning Resource Centre.

Management Comments

Management concurred with most of the recommendations and action is being taken to comply accordingly. However, reservations were re-iterated by the ITS management in the following areas:

- Until the decision is taken by the Ministry of Education for the ITS to become either an Independent Foundation, or part of MCAST or else retain its present status *“it is not pertinent to forward a request to the Ministry of Finance for the setting up of a distinct Cost Centre.”*
- The current procedure of different colour coding for restaurant/lunch booking reservation sheets and summary sheets and subsequent filing in date order is an adequate custom of the hospitality industry. Similarly, the ITS management sees no need for the new part-time application forms and on line applications to be numbered.
- The installation of mesh netting at the Learning Resource Centre is not necessary.

Ministry for Justice and Home Affairs

Police Department - Fuel Pump Station Follow Up Audit

Background

The Fuel Pump Station supplies petrol and diesel to the entire Police car fleet that is made up of 390 vehicles situated at the headquarters and in various district stations throughout Malta. Vehicles refuelling at the pump station have a fixed weekly fuel supply limit that should not be exceeded without prior approval being granted by the Assistant Commissioner of Police.

Key Issue

Fuel Stocktaking

No stocktaking exercise is being carried out and recorded by a responsible official. This shortcoming has already been highlighted in the previous audit.

Furthermore, from the examination carried out on the three fuel tanks, several discrepancies were noted. The records shown on the ledger varied from the actual quantities in the tank and those shown by the pump reading.

Control Issues

Opportunities for improvement were identified in the following areas:

- Minimum and maximum stock levels, re-order levels and re-order quantities are non-existent. In various instances the pump attendants ordered almost the same quantity of fuel which indicates that actual levels and quantities are not being taken into account.
- In the four logbooks that were presented for examination the number

of fuel litres supplied to vehicles were not recorded. Furthermore, the testing of these logbooks revealed the following shortcomings:

- In two (2) logbooks, discrepancies were noted between the closing tachometer reading at a particular date and the opening reading of the following date.
- In two particular cases the tachometer reading of two vehicles at the beginning of the journey was omitted.
- In one logbook the tachometer reading was completely omitted as the milometer is shown to be 'not functional'.
- Over a period of eleven (11) days during the month of March 2004, the reading for each journey in one of the logbooks tested was not completed by the officer utilising the said vehicle.
- Responsibility for the fuel pump station is being taken over by untrained officers when the pump attendants are on vacation leave or sick leave.
- In four cases the balances on the 'Unleaded Petrol Ledger' were carried and brought forward incorrectly from one page to the other.
- The examination of fuel supplied to sixteen (16) vehicles assigned to various districts, revealed that four (4) vehicles exceeded the limit per week in eight (8) particular instances. Authorisations from the Assistant

Commissioner could not be examined.

- In fifty (50) per cent of the records examined, the fuel consumption per week of three (3) vehicles as shown on the records at the Accounts Section differed from those of the Fuel Pump Station ledger.

Compliance Issue

Outstanding documents

A number of logbooks requested for audit purposes were not presented.

Recommendations

Key Issue

Fuel Stocktaking

Stocktaking exercises are to be regularly performed in the presence of a superior officer. The balances are to be recorded on the respective ledgers and included in the returns which are to be submitted to NAO in terms of standing regulations.

Control Issues

- The Police Department should establish minimum and maximum stock levels to enable the pump attendants to follow guidelines on when and how fuel is to be re-ordered.
- Fuel supplied to the relevant vehicles is to be recorded without fail on the respective logbook. The Department should ensure that logbooks are regularly forwarded to an officer in charge of transport, and that all details are recorded and duly authorised. All logbooks are to be checked and certified by the same officer at the end of each month. Action should also be taken to repair the damaged milometer of vehicles.
- The Department should identify two further officers, who are to be trained on the procedures used at the Fuel Pump Station in order to replace officers on leave.

- Particular attention needs to be given when extracting balances brought and/or carried forward from one page to another. Balances are to be regularly checked against the actual quantity in the respective tank in order to identify any discrepancies.
- Department is to ensure that the limits set are enforced. Otherwise authorisations from the Assistant Commissioner are to be obtained.
- The Fuel Pump Attendant on duty is to draft a list of requisitions for fuel received at the end of each day. The list is to be reconciled against the respective ledger as per fuel type and forwarded to the Accounts Section together with the relevant copies of the requisitions attached.

Compliance Issue

Outstanding documents

Exhausted logbooks are to be forwarded to the Fuel Pump Station and stored for future reference.

Management Comments

Management has concurred with most of the recommendations and action has already been taken to address the issues relating to Release Officers, Ledger Variances and Fuel Supplies. However, management remarked the following comments on the outstanding issues:

- Although NAO's concern was appreciated, it is not considered necessary to introduce minimum and maximum stock levels and reorder quantities. Since the fuel pump operates on a 24 hour basis, seven days a week and has to cater for fuel supply in emergencies, such measures may leave the Department short of fuel.
- In view of the shortcomings encountered during the audit from the examination of logbooks and information not submitted, the Department stated that procedures to be followed were already outlined in

two circulars issued way back in 1988 and 1999.

- No remarks were outlined in view of the recommendation for fuel consumption records to be kept at the Accounts Section as this is not under the responsibility of Police Officers.

Management further remarked that the Police Department has the correct procedures to be followed but it lacks enforcement and implementation that may be attributed to the requirement/deployment of additional employees.

Ministry for Rural Affairs and the Environment

Agriculture Support Scheme Account

Background

The Agriculture Support Scheme provides compensatory measures due to the levy dismantling programme for the pig meat, egg layers, tomato processing and agriculture produce sectors. In addition, a financial aid programme is offered for the upgrading of meat processing plants in order to attain the food safety requisites according to EU standards.

Key Issues

Non-Renewal of Bank Guarantees

At time of audit in March 2005 the Ministry was still not in possession of a valid bank guarantee relating to an advance payment for financial aid in respect of the upgrading of three meat processing plants whose bank guarantee had expired on 31 January 2005.

No Audit Trail of Source Documents

The list of applicants and supporting documents of tomato growers claiming subsidy through the Gozo Extension Service Centre was not presented for audit verification.

Control Issues

Opportunities for improvement were identified in the following areas:

- Payments were effected to the wrong beneficiaries due to lack of proper checking.
- Random filing of pig meat producers licences with no sequential order.
- Pig meat reports of Civil Abattoir as well as records of egg production and sales with with no signature and date.

- No off-site back-up copy of Swine Section data files and official written back-up procedure.
- Approval from Director General not featuring on copy of layer egg producers' licences.
- No copy of bank guarantee of a meat processing plant filed by the Civil Abattoir for administrative reference.
- Audit inspection reports not updated for EU compliance of meat processing plants.
- Multiple application forms and respective registration numbers allocated by the Extension Service Centres.
- Supervisory clerks not present at the *Pitkali* market during peak hours and multiple points of sale for the same *Pitkala*.
- Performance of inspectors' monitoring duties hindered by lack of co-operation from *Pitkala*.
- Bank statement issued by the commercial bank administering the scheme does not indicate in respect of which beneficiary payment is being made.

Compliance Issues

VAT Registration Numbers omitted in Farmer Declaration Forms

Applications with no VAT registration details were processed by the respective Extension Service Centre for subsidy payments allotted to tomato growers.

Deliveries at Pitkali Markets not restricted to Registered Farmers

Any person is permitted to bring produce to the *Pitkali* Markets, whether a farmer with a Farmers Regulation Card or not, the latter being assigned a Farmers Regulation Code number by the *Pitkali* Market Centre.

Recommendations

Renewal of Bank Guarantees

Stringent follow-up should be carried out by management in order to ensure that the required renewals of the requested bank guarantees are obtained and secured accordingly.

No Audit Trail of Source Documents

Management should investigate the incomplete audit trail of application forms in respect of tomato growers and corresponding supporting documents in order to verify accuracy of subsidy paid. Copy of the list of the said registered beneficiaries is to be provided to the NAO when available.

Payments to Wrong Beneficiaries

Subsidy payments should be made strictly as per list details of applicants maintained by the respective Extension Service Centres and corresponding signed application forms. If an alteration to the original application form is required for a justified reason, this is to be substantiated by a declaration in writing and signed by both the Extension Service Centre official and applicant for verification purposes.

Filing of Documents

The licences of the pig meat producers should be filed consecutively by owner/tattoo number order or licence reference number. An appropriate index list of all pig meat producers is to be maintained as a control measure for completeness and to prevent loss of documents.

Signature and Date on Records

Reports formulated by the Civil Abattoir are to be signed and dated by the

responsible official so as to certify the validity of such documents.

The list of VAT receipts as well as records of egg production and sales presented for subsidy claims should be accepted by the Poultry Section only if duly signed and dated by layer egg producer.

Data Files Back-ups

The Officer-in-charge of the Swine Section or the I.T. Administrator is to be held responsible for off-site back-ups of data stored on the main server. A documented procedure and logbook for such back-ups should be maintained including an off-site back-up copy at the Directorate of Corporate Services or the Ministry for Rural Affairs and the Environment.

Director's Approval on Copy of Licences

All copies of the licences of layer egg producers are to be signed by the Director General for administrative and management control purposes.

Copy of Bank Guarantee

A copy of the bank guarantee should be filed by the Civil Abattoir for all meat processing plant owners who opted to receive advance money in respect of the improvement required to attain EU Certification.

Audit Inspection Reports

The Civil Abattoir should establish pre-determined dates for submission of Audit Inspection Reports to be reviewed accordingly in order to monitor progress achieved.

Application Forms and Allocated Registration Numbers

All Extension Service Centres are to operate via the same computerised network integrated with that of the co-ordinating section within the Ministry. In order to enhance internal controls, a unique reference number is to be assigned to each farmer irrespective of the number of applications submitted.

Pitkala Multiple Points of Sale and Supervision at the Market

For effective control, the Government inspector clerks should monitor all active points of sale of each *Pitkal* with no exceptions or hindrance in order to ascertain the agriculture produce quantities transacted.

Inspectors Monitoring Duties

The *Pitkali* management should make it clear to all concerned that any interfering with inspectors' duties will not be allowed.

Details on Bank Statement

An itemised bank statement indicating farmers' names, cheque numbers and values as well as the total sum of subsidy paid should be forwarded to the *Pitkali* Market Centre. This will enable the latter to maintain the necessary controls and reconciliations.

VAT Registration Numbers omitted in Farmer Declaration Forms

All applications presented by farmers must be complete with VAT registration

details in order to be accepted by an Extension Service Centre for processing.

Deliveries at Pitkali Markets not restricted to Registered Farmers

The assignment of a Farmer Regulation Code to a third party by the *Pitkali* Market Centre should be permitted only upon presentation of a Farmer Regulation Card by the individual delivering agriculture produce to the *Pitkali* market.

Management Comments

Management's reply has not fully and sufficiently addressed all issues and NAO may need to carry out a follow-up exercise.

However they concurred with the recommendations concerning tomato growers' subsidy and action is being taken to comply accordingly.

Government Experimental Farm – Livestock and Cattle Stores and Inventory

Background

The operations of the Animal Husbandry Section at the Government Experimental Farm provide various functions for the service of the animal breeding community. It performs research activities and experiments on livestock nutrition, new forages and upgraded genetic animals. Furthermore, local producers are given information on environmental monitoring of livestock health and control of hygiene.

Key Issues

Incomplete Audit Trail

No official Request Forms for the issue of livestock was in use during the period under review by the Animal Husbandry Stores. Thus, complete audit trail of items withdrawn from stock was missing.

Donations to or by Third Parties

Donations given or received of animals are not supported by an official document signed by the parties involved thereby increasing the risk of unauthorised movements of livestock.

Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of storekeeper's signature for receipt of livestock and entries in ledgers.
- No documented control of rabbitry/poultry births and deaths.

- Inaccurate periodical reports and stock records as well as discrepancies when compared to physical stock.
- No bin cards maintained to record the issue and receipt movements of Livestock and Cattle Store items and resultant stock balances.
- No cross-referencing to source documents for the receipts and issues of store items in the Ledger Stock Books.
- Lack of official written procedure for back-up of data files and no off-site back-up copy maintained.
- Inadequate details and asset quantities in the Inventory Database and Room Inventory Lists.
- Copies of the Room Inventory Lists still to be dated and signed by both the Officer-in-charge of the respective room and Officer-in-charge of Inventory.

Compliance Issues

Inventory Records

Inventory items had incomplete or duplicate Asset Identification Numbers (AINs) whilst the labels with the AINs were not affixed to all the physical inventory items. The total cost or value of assets included in Inventory Database was not updated in respect of all inventory items.

Six monthly returns regarding the additions and changes in the inventory items of the Stores are still not being sent to the NAO.

Asbestos Stores Roofing

The asbestos roofing material that had to be completely discarded because of the possible health hazard is still in place at the Poultry Section pans.

Recommendations

Incomplete Audit Trail

A pre-numbered Request Form for the issue of livestock and cattle should be duly completed with the required items/quantities and authorised by the officer-in-charge.

Donations to or by Third Parties

An official pre-numbered form should be prepared and duly completed by the Animal Husbandry Section both for donations given and received. Furthermore, the recommendation of the Head of Department and approval from the Permanent Secretary must be attained for donations to institutes or organizations in conformity with the General Financial Regulations.

Receipt of Livestock

Certification of receipt and every ledger entry by the storekeeper for each Animal Husbandry Store should be signed by the respective storekeeper, as the official primarily in charge of store and as evidence for internal control purposes.

Control of Rabbitry/Poultry Births and Deaths

A properly formulated document should indicate the relative details and quantities for livestock birth and death instances duly signed by the veterinary and storekeeper for better management control and accountability.

Inaccurate Stock Records

A stock-take is to be carried out and the discrepancies are to be analysed, reported and adjusted accordingly in the respective ledger and bin card records. These ledger transaction data must also be reconciled with the periodic reports issued. Any necessary adjustments are to be effected prior to

submission to the Directorate of Corporate Services.

Proper ledger should be maintained with complete details of GSPO commitment number and supplier's invoice for each store receipt as well as relevant issue details, to establish an audit trail in compliance with Treasury Circular 6/2004.

Bin Cards

Bin cards are to be maintained inside protective plastic covers in the stores close to the stock items to which they relate.

Cross-references

A complete audit trail is to be shown on store ledger. All movements are to be supported by reference to the respective source documents relating to GSPOs and A75 store issue forms which are to be assigned an internal unique reference number for internal control purposes.

Data Files Back-ups

Animal Husbandry Stores Officers are to be held responsible for back-ups of data stored on their personal network computer besides migration of data to main server. A documented procedure and logbook for such back-ups should be maintained including an off-site back-up copy at the Directorate of Corporate Services or the Ministry of Rural Affairs and the Environment.

Inventory Records

Action is to be taken to adjust the room inventory lists and allocate unique AINs in conformity with MF Circular 14/99, whilst labels with the AINs are to be affixed to all the physical inventory items. It is also necessary that the inventory database is updated with the detailed asset descriptions and correct cost or valuations.

All fixed assets recorded in the inventory database and room inventory lists are not only to be recorded by the general item description but also by their model, serial number, type, dimensions and other distinct characteristics. The inventory database is to be reconciled with all the room inventory lists

and physical items. Furthermore, the Room Inventory Lists are to be signed and certified correct both by the Officer-in-charge of Inventory and the person responsible for the respective room.

In order to exercise the necessary inventory controls full adherence to the requirements of MF Circular 14/99 is solicited so as to keep the National Audit Office posted with the additions and changes in the inventory items of the Livestock and Cattle Stores.

Disposal of Asbestos Roofing Material

Management is to replace the asbestos roofing from the Poultry Sections and dispose of it in accordance with EU regulations - Directive 87/217/EEC without further delay.

Management Comments

Management agreed with many of the recommendations and action is being taken to correct deficiencies. However, the issue in respect of an official procedure for back-up of data files including the maintenance of an off-site copy was not properly addressed while no comments have been received on the observation of asbestos roofing material at the Poultry Section.

Furthermore, a reservation was indicated by the management of the Government Experimental Farm that it is impractical to have rabbitry/poultry births and deaths always certified by a veterinarian since one is not attached to the Animal Husbandry Section.

Non-Central Government Organisations

Malta Communications Authority

Background

Established on 1 January 2001 by virtue of ACT XVIII of 2000, as amended by Act VII of 2004, the Malta Communications Authority (MCA) is the National Agency responsible for the regulation of telecommunications.

The MCA is also the appointed competent authority for the supervision of signature certification service providers established in Malta and for the regulation of postal services.

Control Issues

Opportunities for improvement were identified in the following areas:

Fixed Assets Register

The Authority's Fixed Assets Register was not kept up-to-date and differences were noted between amounts disclosed in the Register with the additions as per audited financial statements. The Register did not provide a link to the physical assets and evidence of physical inventory checks was not kept.

Variable Licence Fees

The variable licence fees billed to the service providers were based on estimated gross revenues. No timely reconciliation was being performed with the actual revenue as per audited financial statements.

As a result, licence fees billed may have been inaccurate and such income may have been over/under stated in the financial statements if timely adjustments were not passed.

Travel Subsistence

The Authority's policy granting Class A subsistence to all staff members travelling on overseas duties was not in line with the Public Service Management Code.

Compliance Issue

Legal Requirements

The Minister's concurrence to the terms and conditions of employment of officers and other employees of the Authority was not incorporated in the recruitment process of the Authority as required by section 9 of part III of the MCA Act.

Recommendations

Control Issues

Fixed Assets Register

It is recommended that:

- the Fixed Assets Register be updated and kept up-to-date;
- evidence of physical inventory checks be kept; and
- the implementation of the new assets software be given priority.

Variable Licence Fees

The Authority should reconcile prior periods' licence fees as soon as practicably possible. Moreover, the Authority should ensure that all the revenue billed to service providers is reconciled and adjusted on a timely basis.

Travel Subsistence

It is recommended that policy on duty travel subsistence concurs to the provisions of the Public Service Management Code.

Compliance Issue

Legal Requirements

Policies and procedures adopted by the Authority should adhere to the provisions of the MCA Act.

Management Comments

Management has concurred with all our recommendations and action has already been taken to address the issues mentioned. In particular it was pointed out that:

- The current Fixed Assets Register was being updated and adapted for

integration within the new purchased inventory control software module. The process of tagging all inventories was also being performed.

- The Authority is in the process to conclude the reconciliation of variable licences fees relating to 2003 and henceforth proceed to start the reconciliation for the year ended 2004.
- Management has also agreed to reconsider the travel subsistence policy and if necessary make changes to bring it more closely in line to the Public Service Management Code.
- The Ministry has been informed of the terms and conditions of employment of all the Authority's staff.

Malta Centre for Restoration

Background

The Malta Centre for Restoration is an autonomous institution set up in 1999 by virtue of an agreement between the Ministry for Education and the University of Malta. It is regulated by Articles 10-12 of the Cultural Heritage Act 2002. The main aims and functions of the Centre are to provide training, education and consultation in conservation and restoration and to undertake projects both locally and abroad.

The audit covered the 13 month period ended 30 September 2003.

Control Issues

Opportunities for improvement were identified in the following areas:

Petty Cash

Course registration fees and library income were at times deposited directly in petty cash and used to pay petty disbursements. No standard petty cash float was maintained and a number of payments exceeded the petty cash limit of Lm30. In particular 36 payments were made for the period under review ranging from Lm 30 to Lm 300.

Debtors

An amount of Lm22,325, which corresponds to eighty eight per cent (88%) of trade debtors, had long been outstanding as at year end, without an adequate provision for bad debts made in the financial statements.

Sales

A sample of invoices subjected to our review revealed weaknesses in sales ledger control resulting in an incomplete audit trail of invoices issued and possibly a loss of revenue for the Centre. In particular:

- A number of invoices issued were not posted to the sales ledger but directly through the bank account.
- While checking post year end debtor balances it transpired that an invoice amounting to Lm839 was omitted from the books. The amount was subsequently posted after it was highlighted during the audit.
- VAT on an invoice of Lm2,160 was miscalculated as no account was taken in consideration of the deposit paid.
- Receipts of Lm2,300 from a particular client did not correspond with the amount of Lm2,645 shown on the VAT receipt issued by the Centre.

Compliance Issues

Tangible Fixed Assets

A Fixed Assets Register disclosing individual items with cost, depreciation and net book value is not being kept giving rise to a lack of control over the safeguarding of fixed assets.

Procurement procedures, as stipulated in the Cultural Heritage Act VI of 2004, were not adhered to as a call for tenders for trenching and excavation works totalling

Lm7,668 was not issued. Obtaining three quotations was insufficient for works exceeding Lm3,000.

Expenditure

Fiscal documentation could not be traced to support an item of entertainment expenditure incurred amounting to Lm 917.

Recommendations

Control Issues

Petty cash

All cash receipts are to be deposited in the bank account and the amount deposited must be reconciled to the bank deposit slip. The petty cash account is to be kept on the imprest system and a monthly cash count should be performed. A fixed petty cash float is to be established and reimbursement policies are to be officially authorised.

Debtors

A provision for bad or doubtful debts should be provided in the financial statements and irrecoverable debts are to be written off upon obtaining the Board's approval.

Sales

All invoices and receipts should be posted through the sales ledger. A print-out of the Sales day book should be occasionally generated and invoices posted should be cross-checked to the physical invoice by another official. A formal procedures manual, clearly defining the data inputting procedures should be followed.

Compliance Issues

Tangible Fixed Assets

A Fixed Assets schedule, as stipulated in MF Circular 14/99 should be compiled incorporating the cost, depreciation charged and net book value of the assets held by the Centre.

Procurement procedures are to be complied with as stated in Clause 29 (Contracts of Supply and Works) of the Cultural Heritage Act no VI of 2002.

Expenditure

Every effort should be made to enforce the principle that official VAT invoices and receipts are obtained from suppliers for every purchase of goods and services. Moreover, all documentation should be clearly referenced and correctly filed.

Management Comments

Management accepted our recommendations regarding debtors, fixed assets, sales and expenditure.

However management did not agree that there is a lack of control over cash transactions and stated that they were doing their best to try and limit cash transactions to Lm30. However being an educational institute with urgent necessities arising daily, management commented that it is not always possible and practicable to use this system. Normally, when such occasions arise the necessary permission is obtained from the Chairman and/or Director.

Malta Resources Authority

Background

The Malta Resources Authority was established by the Malta Resources Authority Act, Chapter 423 of the Laws of Malta, on the 2 February 2001 for the exercise of regulatory functions regarding water, energy and mineral resources, and to provide for matters connected therewith.

The audit under review covered the year ended 30 September 2003.

Key Issues

Creditors - Funds received from licence fees

- The Authority lacks the adequate software to administer income from licence fees, and is unable to determine the exact amounts outstanding. Records are held on a spreadsheet and this database was found to be unreliable due to a number of incorrect entries.
- The efficient management and collection of the cash generating functions of the Authority is being hindered due to the absence of an effective enforcement mechanism.
- There is an outstanding amount of Lm 52,864 in relation to swimming pool licence fees which are being contested for various reasons.

Control Issues

Opportunities for improvement were identified in cash at bank as follows:

- Stale cheques were not reversed.
- Unaccounted income/interest at year end disclosed in the bank statement was omitted from the financial statements.
- Discrepancies were noted in the bank reconciliation statements.

Compliance Issues

Procurement procedures

From a sample of nine items of expenditure costing less than Lm 3,000 only three items of expenditure were accompanied by a duly approved requisition order. Moreover, no duly approved purchase orders were raised in respect of these items of expenditure.

The lack of implementation of a formal purchase cycle internal control system may result in unauthorised expenditure being incurred, thus having a negative impact on the Authority's results and controls.

Salaries

Out of 19 permanent employees on the Authority's payroll for 2003, employment contracts were issued to only six employees.

Furthermore, the salary structures of the management of the Authority are higher than the equivalent general civil service grades applicable to Government departments and Ministries. Upon assimilation it was noted that some senior staff members in the Authority were

awarded higher salaries within the same grade than in their previous employment. OPM Circular No 19/2002 lists out the procedures to be followed in these cases that are only granted once performance is judged satisfactory on the basis of a rigorous process of appraisal.

The Authority, as per Section 9 of the Malta Resources Authority Act, is empowered to engage staff, and to determine their terms and conditions of employment, as may be necessary for the due and efficient discharge of the functions of the Authority. However, the concurrence of the Minister to the terms and conditions of employment as established by the Authority is also required.

These salary structures have been approved by the Authority's board but no evidence has been provided that the Minister for Resources and Infrastructure has concurred with the above terms and conditions.

Recommendations

Key Issues

Creditors - Funds received from licence fees

- The Authority should strive to implement an adequate software package that supports the whole process of licence renewals resulting in a better control in the administration of such revenues.
- Furthermore, the Authority should set up an enforcement section so as to be in a better position to collect the licence fees in a timely manner.
- The Authority should also clarify the position of the swimming pool licence holders who are contesting the fees so as to avoid a build up of contested fees.

Control Issues

Stale cheques should be reversed against the respective initial allocation once the validity period lapses. All bank account

movements should be recorded in the financial statements to ensure the completeness of accounting records. Bank reconciliation statement should be reconciled on a monthly basis and any discrepancies are to be settled.

Compliance Issues

Procurement procedures

Pre-numbered purchase requisitions and purchase orders duly authorised should be introduced by the Authority to safeguard best practice and control in the procurement process. Confirmation by the Authority is to be given for receipt of goods/services, and the invoice should be checked and agreed to purchase requisitions and purchase orders prior to payment.

Salaries

- Each employee should be issued with a contract of service to regulate one's employment conditions and salary. Employment conditions should also be formally approved by the Authority's Board.
- The Authority's salary and allowance structure for all categories of staff should be officially determined and approved by the Board, with the concurrence of the Minister, and should be linked to the performance of the individual through the operation of a performance management system.

Management Comments

A software package has now been developed for the recording of licence fees and is currently being taken over from the developers. The Authority does not consider an enforcement section to be value effective when seen in the context of its core functions and its financial resources.

The Authority is also reviewing the concept, legal basis, responsibilities and implementation of the swimming pool licences schemes with the Ministry for Resources and Infrastructure (MRI). Furthermore additional steps are being taken to rectify the situation, such as:

- Revising the Legal Notice, that is not comprehensive and leaves room for contestations.
- Enhancing regular inspections.
- Taking legal action against defaulters.

The Authority has complied with our recommendation on procurement

procedures and will install a system of pre-numbered purchase requisitions and purchase orders to ensure better practices and controls.

The Authority has stated that the salaries of employees being hired at present by the Authority are tied to civil service grades. Contracts of employments were also drafted for a number of employees after the audit date.

Pension & Contingency Fund

Background

The Pension & Contingency Fund providing for the payment of superannuation allowances, pensions or gratuities or any other form of benefit (as the minister may prescribe) to port workers and to persons who have served as port workers, was established by the Port Workers Regulations, 1993 enacted under the provisions of Port Workers Ordinance, 1966.

The audit under review covered the two year period ended 31 December 2004.

Key Issues

- The financial statements of the Fund were not prepared in accordance with International Financial Reporting Standards (IFRSs), and a complete set of financial statements was not prepared in accordance with International Accounting Standards – (IAS1). As a result the Committee was not in a position to ensure comparability, completeness and consistency of the financial statements.
- The Fund was operating a modified cash based system which adversely affected the true and fair view of the financial statements.
- The Fund's system was not fully computerised with certain areas still kept manually, thus forfeiting the full benefits of the computerised accounting package.

Control Issues

Opportunities for improvement were identified in the following areas:

Organisational Structure

The Port Workers Office did not have a procedures manual, documented job descriptions and an organisational chart. Disruption of the accounting function in the event of loss of key employees/inordinate staff turnover or absence may result. Furthermore, inefficiencies in the existing processes were identified.

Accounting Practices and Procedures

The lack of adequate accounting practices and procedures exposed the books of accounts of the Fund to risks of decreased integrity, accuracy and reliability.

Income

- The lack of integrated accountability and independent checks within the procedures over the billing and credit notes systems led to a general lack of controls.
- Income totalling Lm 2,263 due from the Ministry for Tourism and Culture was not invoiced on the basis of an internal memorandum from the Deputy Executive Director (Ports) invoking the Eight Schedule of the Port Workers Regulations. The Port Workers Ordinance and Regulations however do not provide for such exemptions and income due to the Fund was thus unduly lost.

Debtors

- The Port Workers Office's debt management policy was not documented, leading to a lack of consistent application of management's

policies, standardisation of the accounting effort and clarification of accounting responsibilities.

- The increase in the balance due from one particular debtor corresponding to forty per cent (40%) of total debtors created concern over the full recoverability of the debtors' balances disclosed in the financial statements.
- An irrecoverable debt amounting to Lm 16,704 was not written off and a further provision for irrecoverable debt amounting to Lm31,555 due since 2002 was not provided for in the financial statements.

Cash at Bank

The cash held in the bank current account as at 31 December 2004 was substantial. The Fund was not securing the maximum benefit from its cash funds through better cash management.

Creditors

No creditors were disclosed in the financial statements. After year end audit testing revealed creditors amounting to circa Lm 8,287 and Lm 13,732 as at 31 December 2003 and 2004 respectively.

Annual Report

The committee was not abiding by sub regulation 34(1) whereby it was required to submit to the Minister by not later than the 31st day of May of each year, a report in respect of the transactions made and benefits paid during the year ending on the 31st day of March of that same year.

Recommendations

Key Issues

The financial statements and accounting system should shift from the current modified cash based system to an accrual accounting system in line with International Financial Reporting Standards. The accounting package should be fully utilised.

Control Issues

Organisation Structure

The Port Workers Office should document job descriptions, compile a procedures manual and draw up and document the organisational chart.

Accounting Procedures and Practices

Adequate accounting procedures and practices should be adopted by the Port Workers Office to rectify the aforementioned shortcomings.

Income

The Fund should review the procedures governing the billing and credit notes systems as to include the required adequate internal controls.

Exemptions granted by the Port Workers Office should be strictly in accordance with the provisions of the Port Workers Ordinance and Regulations.

Debtors

Debt management policy should be documented, uniformly applied and strictly adhered to. Furthermore, the Port Workers Office should increase its efforts on debt collection particularly in the case of the major debtor.

Follow up action should be immediately taken on debts which exceed the established credit period, while any amounts which are no longer recoverable should be provided for following the Board's approval.

Cash at Bank

Management should establish and monitor the cash level requirement for the operation of the Fund and ensure cash funds do not exceed such limit unnecessarily.

Creditors

The purchases ledger within the accounting package at the Port Workers Office should be utilised and creditors accounted for in full.

Annual Report

The Committee should adhere to the provisions of sub regulation 34(1) of the Port Workers Regulations and compile and submit the required report to the Minister. This can be easily performed through amalgamation of the quarterly reports currently being prepared.

Management Comments

Following a meeting held with the Chairman, the Board has concurred with our findings and stated that the necessary action will be taken accordingly.

The Capt. O.F. Gollcher Art & 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 covered the two year period ended 31 December 2004. The audit was carried out in accordance with Article 7 of the Will setting up the Gollcher Foundation, 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 being maintained on the cash basis of accounting. 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.

All the property belonging to the Foundation has not been valued or recorded in the financial statements.

As reiterated in a previous audit report Villa Brunswick and its adjacent land are rented to third parties. A document signed in 1990 stipulated that the Villa could be leased for one year and renewed automatically for a maximum period of ten years. After the expiry of the lease period,

the Villa is still being renewed automatically on an annual basis at the original rent.

Moreover an updated inventory of the items present in the Villa is not available. Considering that these antiques are being kept in the leased property this increases the risk of losses of assets.

Inventories held at the Palazzo Falson of the various collections, silverware items and library books do not have a corresponding valuation and are not included in the financial statements.

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.

The lease of Villa Brunswick is to be reviewed to reflect the current market value.

The antiques within the leased property should be removed at a very early date. 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 drawn up as a matter of priority.

Collection items at Palazzo Falson should be valued and included in the financial statements.

Management Comments

Management has accepted all recommendations. In particular:

- The Board of Trustees has appointed a firm of accountants in order to assist in the implementation of an accrual accounting system.
- The Board is exploring the most advantageous manner possible with which to establish the valuation of its investment properties without incurring crippling expenses that would be detrimental to the Foundation. The Board is seeking the advisory services of an architect for this purpose.
- A physical check of the inventory items held at Villa Brunswick will be carried out as soon as possible. Upon completion of this exercise the tenant will countersign the inventory listing.
- The Board will undertake to discuss the lease agreement of Villa Brunswick in more detail and will seek legal advice prior to finalising any renewal contract. Any change in the lease charge will also be taken into consideration.

Co-Operatives Board

Background

Established in terms of the Co-Operative Societies Act, 2001, the Co-Operatives Board registers and exercises control over co-operative societies in accordance with the provisions of the Act. The Board advises the Minister responsible for Education, Youth and Employment, on any matter relating to co-operative societies and encourages the establishment of co-operative societies in all sections of the economy. It also helps co-operative societies increase their efficiency.

Key Issue

The cash based accounting system currently in use is adversely affecting the true and fair view of the financial statements. Furthermore the general lack of planning and training on the accounting package running in parallel with the current cash based system resulted in inadequate expenditure of funds and efforts and a general lack of adequate accounting practices and procedures.

Control Issues

Opportunities for improvement were identified in the following areas:

Organisational Structure

- Job descriptions and the organisational chart are not documented.

Payments by Debit Card

- The Board hold two debit cards - one in the name of the Chairman and the other in the Secretary's name. However only that used by the

Chairman is covered by Ministerial authority. It was hence observed that officers and members of the Board travelling overseas used the Secretary's debit card for hospitality expenses they were not entitled to. Details, invoices or receipts for most of the expenditure incurred through the use of these cards were generally unavailable.

Car Lease

- The Board made use of a leased car for a number of years for which no formalised lease agreement was provided. As a result, the Board was not in a position to ensure (and enforce if necessary) that the actual service provided was in accordance with the terms and conditions agreed upon.

Board Members' Allowance

- Board members are being paid a monthly telephone allowance contravening the Co-Operatives Societies Act which stipulates that members of the Board shall be paid such remuneration as the Minister may, with the concurrence of the Minister responsible for Finance, from time to time determine.

Office Equipment

- The board approved the purchase of a Personal Digital Assistant (PDA) for use by a non-executive board member. It was also noted that another more advanced PDA was purchased to replace the former one that was written off within six months of purchase.

Travel Abroad

- Air travel tickets and hotel accommodation procured were not backed by three quotations one of which should be from Air Malta, as required by the Public Service Management Code (PSMC).
- The Board did not take advantage of a fifty per cent discount applicable on the Air Malta air ticket purchased, as the claim for refund was not submitted.
- On one occasion, the officers travelling abroad entitled to half subsistence allowance received the full allowance.

Recommendations

Key Issue

Training should be provided to the officer in charge of accounts on the new accounting package. This would enable him to implement the necessary accounting procedures and practices to change over to the accrual based accounting system and and to properly use the software package.

Control Issues

Organisational Structure

It is recommended that these documents be drawn up and kept up-to-date.

Payments by Credit Card

The Board should:

- strictly adhere to Ministerial instructions and conditions;
- ensure that expenses not related to the execution of the functions of the Board be refunded;
- implement procedures to ensure that:
 - relevant invoices/bills backing payments effected through the debit cards and the details of the

product/ service procured be kept; and

- all payments effected through the debit cards be checked to ensure that they were incurred in the execution of the normal functions of the Board.

Car Lease

It is recommended that lease agreements be formalised. The Board should duly consider alternative types of lease agreements or purchase options with a view to minimise the expenditure.

Board Members' Allowance

Board members' remuneration should be strictly in accordance with the Co-Operative Societies Act. If such allowance is to be introduced, this should be strictly in the form of a refund against presentation of the relevant receipts.

Office Equipment

It is recommended that equipment purchased be strictly necessary for the adequate execution of the Board's functions.

Travel Abroad

It is recommended that the Board ensures that officers refund over payments and implements procedures to enhance control over travel expenditure, thus ensuring adherence to the PSMC.

Management Comments

The Board agreed to the report findings in relation to the organisational structure and car lease stating that the necessary action will be taken.

Unsatisfactory management comments were received in relation to the payments by debit card, board members' allowance, office equipment and travel abroad.

