



# **Annual Audit Report**

**Public Accounts 2006**

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# Guide to using this report

This Report summarises the conclusions reached following our financial and compliance audits. We sought to spread our reviews across Government Departments or across government-wide activities and based our reviews on an audit plan. We have attempted to make this report as user friendly as possible and have tried to adopt plain common language, although this is not always possible due to the technicality of some 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. Most audit reports have 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 improving 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.

*Values displayed in Euro are based on the rate of exchange of €1=Lm 0.4293 and are for information purposes only.*

# Executive Summary

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.

The **Financial Report** statements and accounts for year 2006 were submitted by the Accountant General in terms of the Financial Administration and Audit Act, 1962. Following examination, in terms of the Auditor General and National Audit Office Act, 1997, the NAO noted that:

- detailed analysis of variations for 2006 were not provided by the Ministry of Finance in respect of certain items of expenditure and revenue;
- transactions dated 2007 were incorrectly reported in the 2006 financial year;
- debenture interests and loan repayments recorded as received from a public Corporation were effectively paid by Government;
- from the Lm11.90 (€27.70) million budgeted funds only Lm5.50 (€12.80) million were actually used towards paying Treasury Clearance Fund Advances;
- the completeness of reporting of the Statements of Investments and Abandoned Claims, Cash Losses and Stores written off could not be ensured; and
- the Public Account for the period June 1992 – December 2001 has not yet been reconciled since Treasury is of the opinion that it is not feasible considering that the exercise has to be done manually. (page 12 et seq)

A number of Ministries, Departments and Entities failed to send their annual 2006 **Return of Arrears** to the Treasury Department as stipulated in Treasury Circular 2/2007 for onward transmission to the NAO. Figures of some Departments had to be published as given. Some Departments also lacked submission of detailed breakdown of figures, hindering audit testing. A number of findings in the Courts of Justice, Ministry of Education, Ministry for Rural Affairs and the Environment are being separately reported upon. (page 32)

The automated attendance recording system at the **Electoral Office** was not being used after office hours to exercise the necessary controls on overtime. The Salaries Section lacked segregation of duties and payments for overtime were not being independently verified. Employees and other third parties were being additionally compensated for work performed during office hours in connection with elections. Certain remuneration bypassed the Final Settlement System. Arrear charge approval was not sought to cover a budget overrun. (page 46)

From a review of the audit reports and the relative management letters submitted by Local Government auditors for all **Local Councils**, a number of concerns and weaknesses are reported on page 52 Furthermore the following concerns were also noted:

- Thirty-four (34) audit reports representing fifty per cent (50%) of Local Councils were qualified;
- Ten (10) Local Councils recorded a negative working capital in the Statement of Affairs;
- Thirteen (13) Local Councils registered a Financial Situation Indicator (FSI) below the ten per cent (10%) benchmark;

- Forty-nine (49) Audit Reports were delivered by 30 June 2007 while the other nineteen (19) did not meet the deadline. The financial statements of the Pieta Local Council were not received for the second consecutive year;
- Twenty-three (23) Local Councils failed to submit a reply to the management letter by 31 October 2007.

In the majority of cases no Joint Committees' audit reports were available by the time the audit of the Local Councils was carried out. In fact up to 31 October 2007, only one Joint Committee submitted the audited financial statements for the year under review. No legislation regulating the submission of the Joint Committees' financial statements is in place.

Eight Local Councils had a change in their Executive Secretary during the year, however only one of these Councils carried out a mid-term audit as required in the Local Councils (Audit) Procedures 2006. The mid-term audit is to serve as an independent hand-over exercise whenever an Executive Secretary leaves the employment of a Local Council and another is appointed.

A number of audits carried out at the **Land Department** revealed that:

- The Account - 'Acquisition of Property for Public Purposes' has an opening balance which is being carried forward from previous years. The Department is not in a position to quantify this balance or to identify the properties to which this balance relates;
- Upon the signing of contracts, an amount equivalent to the total value of the immovable property acquired is transferred from the above stated Account to the Central Bank of Malta Account. However, a breakdown indicating to which contracts this amount relates to was not made available; (page 72)
- An exercise carried out on a sample of properties listed as vacant according to Departmental records showed that in some cases, property was found to be illegally occupied, no action was being taken to issue properties by tender, and that no proper follow up was made on cases initiated. (page 74)

An audit on the **Issue of Visas** at the Immigration Branch of the Police Department exposed that the period being taken for the processing of application for extension of stay was considered to be too long. Furthermore Immigration Officers' decision for approval or non-approval was not sufficiently documented. (page 77)

An audit of the **Inventory** at the Police Department showed that various shortcomings were noted when analysing the inventory database with regards to the valuation of motor vehicles and other assets, such as Furniture, Fixtures and Fittings. (page 80)

The **Courts of Justice** lacked control over the authorisation of allowances and benefits granted to Members of the Judiciary (MOJ). A number of allowances and benefits were approved by sources other than the Office of the Prime Minister and/or Ministry of Finance. Other benefits were not covered by any approval. Reimbursed telephone bills were sometimes excessive. There was also lack of control over benefits granted to MOJ (page 83)

Creditors in respect of Medicines and Surgical Materials at the **Government Pharmaceutical Services** increased throughout the year by Lm2.80 (€6.52) million and totalled Lm12.20 (€28.42) million as at 31 December 2006, of which thirty-one per cent (31%) were outstanding over 150 days. Furthermore, by end of July 2007 about Lm16.90 (€39.37) million were already paid in respect of Medicines and Surgical Materials. (page 100)

A number of control and compliance weaknesses were noted in an audit carried out on **Contractual and Professional Services** at the Health Division. (page 102)

The winter schedule of most Departments falling under the **Rural Affairs and Paying Agency** is fifteen (15) minutes daily short of the Public Service's official timetable and not compensated for in the summer months. Attendance sheets of previous years were not made available for audit purposes. Timely authorisation to work overtime was not obtained from the Permanent Secretary. Various other shortcomings were noted in the payment of overtime. (page 106)

A number of **Social Assistance** beneficiaries in a selected sample were receiving an incorrect rate of benefit. The Automatic Assessment for Social Assistance introduced in March 2005 was barely being used because of the very complex process of inputting data. Various weaknesses were noted with respect to medical panel reviews. (page 114)

The **Ministry of Foreign Affairs** lacked control on travel expenditure, resulting in an increase of twenty five percent (25%) over the original budget. Agendas or programme relating to visits abroad were not found in any of the advances files. Lunches and dinners paid through the Ministry's credit card were not deducted from the subsistence allowance. Documentation supporting travel abroad was at times incomplete and unclear. Approvals for hospitality expenditure as well as that for the purchase of a number of assets were only obtained after the expenditure was incurred. Very often payments were not supported by a fiscal document. (page 118)

An audit of the **Welfare Committee**, covering the year ended 31 December 2005 revealed the following weaknesses:

- The accounting treatment of capital expenditure and its release to the Income Statement in the year of completion is not always in full compliance with International Financial Reporting Standards (IFRSs);
- No formal budgeting process of a capital project was carried out prior to issuing the tender documents for initialisation of a project;
- No approval was sought or granted for variations that exceeded the 20% limit stipulated in the tender conditions in respect of numerous items in the original bills of quantity in the contract for Demolition, Construction and Finishing;
- The Committee lacks a formal plan of work schedule including proper cash flow budgeting;
- Inaccuracies were detected in the tender awarded following adjudication of the Mechanical and Electrical Engineering project. In addition, enhancements were also added to certain items following adjudication. (page 124)

NAO faced limitations on the scope of its audit in examining **Customs** procedures regarding withheld, seized and forfeited merchandise. Procedures regarding destruction of goods and valuation were lacking. Inconsistent procedures regarding import declarations and lack of security and stock control deficiencies were also noted. (pages 129)

A high level of reliance was placed on the work carried out by the outsourced company managing the Training and Employment Exposure Scheme although the onus of this scheme lied with the **Employment and Training Corporation**. Insufficient checks on invoices have been carried out though these were certified correct for payment. (page 135)

Site visits by the **Malta Tourism Authority** (MTA) were not always carried out to ensure that all the products and services, co-financed out of public funds, have been delivered on location and according to specifications, prior to the issuing of reimbursements to Final Recipients. Late verifications on location at the start of the project were also ineffective. (page 137)

Contributions and licences collected by the MTA were based on incomplete information that was received from the Malta Maritime Authority and local Police Stations respectively which previously administered the foregoing revenue. (page 140)







**Audit Opinion**

# Audit Report to the House of Representatives

## Audit Mandate

In terms of Section 108 subsection 5 of the Constitution and Section 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997 I am hereby reporting on the observations of the audits performed for the financial year under review.

## Respective Responsibilities of the Accountant General and Accounting Officers

As determined by the Financial Administration and Audit Act, 1962, the onus for the proper discharge of financial administration and the preparation of financial statements rests with the Accountant General and the Accounting Officers.

## Basis of Opinion

The International Standards of Supreme Audit Institutions (ISSAI) were used as guidelines of practices to be followed in the conduct of the audits.

Administrative and accounting organisation, as well as their internal control procedures within Ministries and Departments subjected to our audit were examined.

Where necessary we dealt with the weaknesses in the

internal control system in our audits by forwarding recommendations for consideration by the respective auditees.

This Audit Report covers only matters which have been examined on a risk and systems basis. The opinion does not cover or draw conclusions upon areas that have not been examined.

## Opinion

Proper and consistent application of internal controls and compliance with a number of rules and regulations need to be strengthened.

Except for the relevant comments contained in this report the accounts and records subjected to our audit were fairly stated.

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



# Financial Report

# Analysis of the Financial Report

## Introduction

Statements of the Consolidated Fund Account, showing the comparative positions in 2005 and 2006, and the receipts and payments of funds created by law were laid on the Table of the House of Representatives during Sitting No. 516 on 23 April 2007 after being reconciled with Treasury Books by the Auditor General in accordance with Sub-para. 1(c) of the First Schedule of the Auditor General and National Audit Office Act, 1997.

The Financial Report statements and accounts for year 2006 were submitted by the Accountant General in terms of Article 67 of the Financial Administration and Audit Act, 1962 and were examined in terms of Sub-para. 1(e) of the First Schedule of the Auditor General and National Audit Office Act, 1997. The Report was laid on the Table of the House of Representatives during Sitting No. 544 on 27 June 2007.

A comprehensive view of Government financial operations can be made by reference to both this Report and the Financial Report for 2006.

## Consolidated Fund Statement – 2006

Part 1 of the Financial Report states that the Consolidated Fund incorporates all moneys belonging to Government. All disbursements out of this Fund are authorised by means of Appropriation Acts of Parliament, which include the Supplementary Estimates.

After the House of Representatives approved the year 2006 Budget (Original Estimates) for an expenditure of Lm1,018,165,000 (€2,371,686,466) as authorised by Warrant No.1 issued on 18 November 2005, and a further Lm60,312,000 (€140,489,168) as approved by Supplementary Estimates Warrant No. 2 dated 8 November 2006, it was estimated that revenue was to exceed expenditure by Lm19,469,000 (€45,350,571). Following the closure of the 2006 Accounts, it resulted that revenue had actually exceeded expenditure by Lm17,300,000 (€40,298,160) as detailed in the Table 1.

Table 1 – Consolidated Fund 2006

		Estimated (Original & Supplementary)		Actual	
Opening Consolidated Deficit Balance as on 01/01/06	Lm 000's € 000's				(45,857) (106,819)
<i>Revenue</i>					
Ordinary (incl. Grants)	Lm 000's € 000's	951,546 2,216,506		944,720 2,200,606	
Extraordinary	Lm 000's € 000's	146,400 341,020	1,097,946 2,557,526	86,629 201,791	1,031,349 2,402,397
<i>Expenditure</i>					
Recurrent	Lm 000's € 000's	(817,639) (1,904,587)		(788,171) (1,835,945)	
Public Debt Servicing <sup>a</sup>	Lm 000's € 000's	(89,246) <sup>a1</sup> (207,887)		(88,857) <sup>a2</sup> (206,981)	
Capital	Lm 000's € 000's	(171,592) (399,702)	(1,078,477) (2,512,176)	(137,021) (319,173)	(1,014,049) (2,362,099)
Surplus 2006	Lm 000's € 000's		19,469 45,351		17,300 40,298
Closing Consolidated Deficit Balance as on 31/12/06	Lm 000's € 000's				(28,557) (66,520)

(Source: Financial Report 2006 pg xxi)

<sup>a</sup> These exclude Lm596,000 (€1,388,307) (Estimates <sup>a1</sup>)/ Lm267,112 (€622,204) (Actual <sup>a2</sup>) relating to charges on property transferred from the Church and contribution to Sinking Fund in connection with ex-Church property loan. This amount was paid out of Recurrent Vote 17 – Government Property Division.

## Revenue

Details of Revenue collected during 2006, classified by heads and subheads, as compared with the Estimates, are shown in the Financial Report. Explanatory comments regarding variations between actual and budgeted revenue, as forwarded by the Ministry of Finance, are provided in Part 1 of the Financial Report 2006.

**Table 2 – Variances in Revenue for Financial Year 2006**

Revenue		Budget Estimates	Actual	Variation	Reasons for Variation
Indirect Tax Revenue					
Customs and Excise Duties of which:					Actual receipts reflect activity under this item.
Cigarettes	Lm 000's € 000's	28,700 66,853	26,899 62,658	(1,801) (4,195)	
Petroleum	Lm 000's € 000's	29,700 69,182	28,400 66,154	(1,300) (3,028)	
Licences, Taxes and Fines of which:					During the year, activity under this item grew at a slower pace than projected, thus giving rise to this variance.
Duty on Documents	Lm 000's € 000's	42,000 97,834	38,962 90,757	(3,038) (7,077)	
<i>Extraordinary Receipts</i>					
Sale of shares/assets	Lm 000's € 000's	136,000 316,795	74,170 172,770	(61,830) (144,025)	Government's privatisation programme for 2006.
Sinking Funds of converted loans	Lm 000's € 000's	10,400 24,225	12,459 29,022	2,059 4,796	Actual proceeds from sinking funds on loans maturing during 2006.

(Source: Financial Report 2006 pgs xiv-xv)

*NAO contends that in areas indicated in Table 2, more detailed analysis of variations for 2006 was required by the Ministry of Finance.*

## Expenditure

The appropriations for expenditure during 2006 were authorised by the issue of Warrant Nos. 1 and 2 by the Minister of Finance. These were appropriated under the following Statutes:

	<b>Lm</b>	<b>€</b>
(i) Appropriation Act (Voted Services)	718,084,678	1,672,687,347
(ii) In terms of Special Laws	355,239,326	827,485,036
(iii) In terms of the Constitution	5,152,996	12,003,252

### *Analysis of Appropriations*

#### *i) Appropriation Act (Voted Services)*

	<b>Lm</b>	<b>€</b>
Appropriated by Act XV of 2005	667,644,678	1,555,193,753
Appropriated by Act XVIII of 2006 (Second Appropriation Act)	50,440,000	117,493,594

*ii) Special Laws*

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

	<b>Lm</b>	<b>€</b>
Expenses of the Electoral Commission – General Elections Act (Cap. 354)	200,000	465,875
Expenses of the Broadcasting Authority – Broadcasting Act, 1992 (Act XII of 1991 – Cap. 350)	260,000	605,637
Expenses under Re-letting of Urban Property Ordinance (Cap. 69) and Agriculture Leases (Re-letting) (Cap. 199)	3,000	6,988
Land Acquisition (Public Purposes) Ordinance (Cap. 88)	38,000	88,516
Social Security Act, 1987 (Act X of 1987 – Cap. 318)	236,040,000	549,825,297
Pensions Ordinance (Cap. 93)	31,500,000	73,375,263
Expenses of the Office of the Ombudsman (Cap. 385)	180,000	419,287
Expenses of the Permanent Commission Against Corruption (Act XXII of 1988 – Cap. 326)	25,000	58,234
Interest plus contribution to the Sinking Funds in respect of Local Government Stock – Registered Stock and Security Ordinance 1959 (Cap. 161)	75,084,326	174,899,432
Interest plus contribution to the Sinking Funds in respect of Foreign Loans (Cap. 213)	9,452,000	22,017,237
Malta Arbitration Centre (Act II of 1996 – Cap. 387)	30,000	69,881
Expenses of the National Audit Office (Act XVII of 1997 – Cap. 396)	850,000	1,979,967
Refunds under V.A.T./C.E.T. Acts	332,000	773,352
Widows' and Orphans' Pensions Act (Cap. 58)	185,000	430,934
Personal Injuries (Emergency Provisions) Ordinance (Cap. 111)	25,000	58,234
Members of Parliament (Retiring Allowances) (Act XVII of 1966), Members of Parliament Pensions Act (Act XXVI of 1979) as amended by Act VII of 1989 and Act XIII of 1981 (Cap. 280)	465,000	1,083,159
Short Term Borrowing – Treasury Bills Act (Cap. 133)	570,000	1,327,743
	<b><u>355,239,326</u></b>	<b><u>827,485,036</u></b>

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

*iii) In terms of the Constitution*

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

	<b>Lm</b>	<b>€</b>
The President of Malta	22,876	53,287
The Attorney General	17,252	40,186
Judges and Magistrates	636,082	1,481,672
The Public Service Commission	25,112	58,495
	701,322	1,633,641
In terms of Article 106 (as applied to the Public Debt)	4,451,674	10,369,611
	<b><u>5,152,996</u></b>	<b><u>12,003,252</u></b>

*Excess of Expenditure over Estimates*

Excess expenditure over revised estimates exceeding Lm 200,000 (€465,875) occurred in the instances shown in Table 3.

**Table 3 – Excess of Expenditure over Revised Estimates**

<b>Vote, Item</b>		<b>Actual 2005</b>	<b>Revised Estimates 2006</b>	<b>Actual 2006</b>	<b>Variation</b> <small>(Actual 06 less revised estimates 06)</small>
Vote 5: Office of the Prime Minister Item 6778: Industrial Projects and Services Ltd.	Lm €	- -	2,100,000 4,891,684	2,524,851 5,881,321	424,851 989,637
Vote 22: Public Debt Servicing Item 3816: Contribution to Sinking Fund	Lm €	1,370,000 3,191,242	1,370,000 3,191,242	1,585,300 3,692,756	215,300 501,514
Vote 33: Ministry for Competitiveness and Communications Item 30: Contractual Services	Lm €	43,996 102,483	40,000 93,175	274,977 640,524	234,977 547,349
Vote 37: Ministry for Resources and Infrastructure Item 22: Materials and Supplies	Lm €	1,092,320 2,544,421	115,000 267,878	368,818 859,115	253,818 591,237
Vote 39: Ministry of Health, the Elderly and Community Care Item 6029: Mount Carmel Hospital	Lm €	6,409,999 14,931,281	6,300,000 14,675,052	6,583,000 15,334,265	283,000 659,213
Vote 41: Ministry for Investment, Industry and Information Technology Item 5401: Street Lighting and Other Services	Lm €	3,828,434 8,917,852	6,187,000 14,411,833	7,011,236 16,331,787	824,236 1,919,953
Item 6777: Malta Shipyards Ltd.	Lm €	7,826,000 18,229,676	5,567,000 12,967,622	6,357,084 14,808,022	790,084 1,840,401
Vote 42: Ministry for Rural Affairs and the Environment Item 21: Utilities	Lm €	556,086 1,295,332	350,000 815,281	705,634 1,643,685	355,634 828,404
Item 5250: Public Private Partnership	Lm €	3,354,914 7,814,847	2,400,000 5,590,496	2,854,000 6,648,032	454,000 1,057,536
Vote 46: Social Security Benefits Item 5147: Old Age Pensions	Lm €	6,816,254 15,877,601	7,000,000 16,305,614	7,293,529 16,989,352	293,529 683,739
Item 5149: Social Assistance	Lm €	22,013,884 51,278,556	22,500,000 52,410,901	22,753,030 53,000,303	253,030 589,401
Capital Vote III: Ministry of Finance Item 7001: Operational I.T. (Information Technology)	Lm €	1,720,860 4,008,526	912,000 2,124,389	1,213,591 2,826,907	301,591 702,518
Capital Vote VII: Ministry for Resources and Infrastructure Item 7045: Upgrading of existing storm-water systems	Lm €	500,189 1,165,127	224,000 521,780	455,635 1,061,344	231,635 539,564
Capital Vote X: Ministry for Investment, Industry and Information Technology Item 7210: Factory Development	Lm €	- -	1 2	1,243,956 2,897,638	1,243,955 2,897,636
Capital Vote XI: Ministry for Rural Affairs and the Environment Item 7164: WasteServ Malta Ltd.	Lm €	2,887,163 6,725,281	3,200,000 7,453,995	3,685,610 8,585,162	485,610 1,131,167



*On a government wide approach, it is recommended that Departmental Heads conduct a variance analysis exercise, either on an annual basis or at different time intervals, as deemed appropriate by the respective Permanent Secretaries. The analysis is to be forwarded to the respective Permanent Secretaries, to enable effective, adequate and timely top management follow-up of resulting variances together with their cause.*

## Assets and Liabilities

Article 67 (j) of the Financial Administration and Audit Act, 1962 states that the Accountant General “shall prepare a statement of assets and liabilities of the Government at the end of the financial year”.

*This Statement may be looked upon as a statement of end-of-year balances in the Treasury books based on cash transactions in the Public Account during the year. Not all Government’s assets and liabilities are included in this statement as would be under an accruals-based accounting system.*

## Assets

Table 4 represents the Statement of Assets. (Financial Report 2006 – Appendix I - refers).

**Table 4 – Statement of Assets**

	2006		2005	
	Lm 000's	€ 000's	Lm 000's	€ 000's
<b>Public Credit</b>				
Share Holding	170,962	398,234	263,595	614,011
Other Investments	52,963	123,371	48,185	112,241
Loans	<u>2,686</u>	<u>6,257</u>	<u>3,240</u>	<u>7,547</u>
	226,611	527,862	315,020	733,799
<b>Investments held on behalf of</b>				
Sinking Funds (Local)	53,738	125,176	63,800	148,614
Sinking Funds (Foreign)	16,520	38,481	19,484	45,386
Trust Funds	434	1,011	417	971
Court & Other Deposits	<u>379</u>	<u>883</u>	<u>418</u>	<u>974</u>
	71,070	165,549	84,119	195,945
<b>Advances</b>				
Unallocated Stores	---	---	356	829
Advances	104,430	243,256	108,691	253,182
Loans	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
	104,430	243,256	109,047	254,011
<b>Bank and Cash</b>				
Banks	356	829	314	731
Cash at Treasury	---	---	---	---
C.B.M. – Public Account	<u>62,059</u>	<u>144,559</u>	<u>58,819</u>	<u>137,011</u>
	62,416	145,390	59,133	137,743
<b>TOTAL ASSETS</b>	<b><u>464,526</u></b>	<b><u>1,082,055</u></b>	<b><u>567,319</u></b>	<b><u>1,321,498</u></b>

Note: Figures in Statement may not add up due to rounding up.

## Investments

The estimated market value of direct investments as shown in the Financial Report as at 31 December 2006 was Lm242,033,000 (€563,785,232) as against Lm347,714,000 (€809,955,742) as at 31 December 2005, i.e. a difference of Lm105,681,000 (€246,170,510).

The following were the major changes in Treasury Clearance Fund/Consolidated Fund investments during the year as noted through comparison between data as per Financial Report 2006 and the preceding year:

### *Sale of Investments*

The sale that took place during the first half of 2006 was in respect of the 47,736,634 Ordinary shares of 25c (€0.58) each investment in Maltacom plc. at a price of Lm1.55 (€3.61) per share.

### *Investments Written Off*

In terms of Section 80 of the General Financial Regulations, Ministry of Finance's authority has been granted to write-off the following investments:

**Table 5 - Investments Written Off**

Investment	Shares	Value	
		Lm	€
Malta Gantry Manufacturing Ltd	165,000 A Shares of Lm 1 (€2.33) each 45,000 B Shares of Lm 1 (€2.33) each	165,000 45,000	384,347 104,822
Posta Ltd	149,999 Shares of Lm 1 (€2.33) each	149,999	349,404
Malta Wincargo Containers Ltd	1,000,000 Shares of Lm 1 (€2.33) each	1,000,000	2,329,373

### *Purchase of Investments*

499,999 Ordinary Shares of Lm1 (€2.33) each (20% paid up) were invested in Property Management Services Ltd.

### *Increase in Investments*

- Government was allotted an additional 13,981,920 fully paid up bonus shares, of a nominal value of Lm0.25 (€0.58) per share, in Bank of Valletta Ltd. Bonus shares were admitted to listing after the close of business on 18 January 2006 and became available for trading the following day.

This increase in shares compensated for the resulting subsequent substantial lower market price, from Lm7.42 (€17.28) at year end 2005 to Lm3.70 (€8.62) per share as at 31 December 2006.

- During the year, Government increased its existent investment in Mediterranean Power Electric Co. Ltd. by 8,000 'C' Ordinary Shares of Lm1 (€2.33) each.

### *Movements in Values of Existing Investments*

- During 2006, the value of the investments in:
  - Council of Europe Resettlement Fund for National Refugees and Over Population;
  - International Bank for Reconstruction and Development;
  - Malta Freeport Corporation Ltd;
  - Multilateral Investment Guarantee Agency; and
  - Mediterranean Offshore Bunkering Co Ltd

decreased due to changes in USD exchange rate.

- The market value of ordinary shares in Malta International Airport Co Ltd decreased to Lm18,536,093 (€43,177,482) as at 31 December 2006 when compared to the market value of Lm20,971,492 (€48,850,436) as at the end of 2005. This decrease was due to the depreciation of the market price of Lm0.18 (€0.42) per share.

### *Investments held on behalf of Sinking Funds*

The following is a breakdown of Investments held on behalf of Sinking Funds:

**Table 5 – Sinking Funds Investments**

Investment	Sinking Funds - Local		Sinking Funds - Foreign	
	Lm	€	Lm	€
CBM Deposit Accounts	16,858,676	39,270,151	7,184,700	16,735,849
Term Deposits with Commercial Banks	35,000,000	81,528,069	9,335,128	21,744,999
Malta Government Stocks	1,879,200	4,377,359	-	-
<b>TOTAL</b>	<b>53,737,876</b>	<b>125,175,579</b>	<b>16,519,828</b>	<b>38,480,848</b>

(Source: Financial Report 2006 pgs 172, 186)

## Other Investments

### *Investment in Industry*

A return submitted by MGI to the Accountant General showed that the total cost of investment in thirty four (34) companies amounted to Lm11,903,418 (€27,727,505) as at 31 December 2006.

MGI estimated that the net book value of these companies only amounted to Lm8,551,296 (€19,919,161) after an accumulated provisional loss of Lm3,352,122 (€7,808,344). Further details are provided in Table 6.

**Table 6 – Investments through MGI**

Investment Type	No. of Companies	Cost		Provision		Net Book Value	
		Lm	€	Lm	€	Lm	€
Subsidiary Companies	21	11,238,101	26,177,734	2,877,122	6,701,892	8,360,979	19,475,842
Associated Companies	2	665,011	1,549,059	475,000	1,106,452	190,011	442,607
Other Companies	11	306	713	-	-	306	713

The return also pointed out that four (4) of these companies were undergoing liquidation procedures, one (1) is awaiting tax clearance before it can be struck off and two (2) never commenced operations.

At the end of 2006, the total of investment in industry, as reported by Treasury, amounted to Lm11,200,093 (€26,089,199) as against Lm10,923,012 (€25,443,774) on 31 December 2005, an increase of Lm277,081 (€645,425) over the previous year. This increase is in respect of a new indirect investment in Libma International Construction Ltd. However, MGI Ltd's records as regards the same investment read Lm190,011 (€442,607). The difference of Lm87,070 (€202,819) represents a reversal entry in Treasury's books correcting an erroneous write off in 2005 when in actual fact the company was still in operation. Correction in Treasury's books, affecting 2006 figures, dated 27 March 2007, explain why MGI Ltd's records do not also reflect such adjustment.

*Prior year adjustments should only be allowed for a short period, say 1 month, after year end.*

It is to be noted that indirect investments at year end, as reported by Treasury and amounting to Lm11,200,093 (€26,089,199) do not tally with MGI Ltd's balances reported standing at Lm11,903,418 (€27,727,505). The reason being that MGI Ltd notifies Treasury late during the year, sometimes nearing the publication of the Financial Report itself.

*As recommended in previous years' Reports of the Auditor General, the Ministry of Finance should ensure that information for MGI Ltd regarding Government's indirect investments is received in time by Treasury, enabling the latter to reconcile figures and affect the necessary transactions in the Government Accounting System. Furthermore, transactions relating to a particular financial year are reported in the respective financial year's Financial Report and not a year later.*

The difference of Lm 703,325 (€1,638,307) between Treasury's and MGI Ltd's records is explained in Table 7.

**Table 7 – MGI Ltd adjustments re Indirect Investments**

Company	Balance as per MGI Ltd records		Balance as per Treasury books		Difference	
	Lm	€	Lm	€	Lm	€
Libma Int. Const. Ltd	190,011	442,607	277,081	645,425	(87,070)	(202,819)
Dairy Products Malta Ltd	-	-	150,000	349,406	(150,000)	(349,406)
Malta Freeport Corporation	-	-	1	2	(1)	(2)
Malta Government Investments	-	-	1	2	(1)	(2)
Maltacom plc	-	-	1	2	(1)	(2)
Topwear Ltd.	-	-	9,600	22,362	(9,600)	(22,362)
Malta Venture Capital plc	899,999	2,096,434	-	-	899,999	2,096,434
Malta Government Technology Investments	49,999	116,466	-	-	49,999	116,466
<b>TOTAL</b>	<b>1,140,009</b>	<b>2,655,507</b>	<b>436,684</b>	<b>1,017,200</b>	<b>703,325</b>	<b>1,638,307</b>

Reasons for the above differences were forwarded by MGI, following Treasury's request, on 13 April 2007. MGI Ltd's records reflect investments in new companies registered in 2006. Related transactions in Treasury's books will be recorded during 2007.

#### *Investments in Malta Enterprise Corporation and Central Bank of Malta*

The disclosure details relating to Central Bank of Malta and Malta Enterprise Corporation (Acts No. XXVI of 1994 and VIII of 2003 relate), were amended as recommended in the 2005 Report of the Auditor General.

#### *Dividends/Interests Received*

Treasury accounts for and reports interests payable by Enemalta Corporation and Water Services Corporation as revenue. However, not all dividends/interest received from investment in industry, are accounted for as revenue. In 2006, out of the Lm147,441 (€343,444) dividends reported in the Financial Report 2006 Appendix H1, the amount recorded as Sundry Dividends by Government, being net dividends received by MGI as agent for the Government during the year under review, amounted to Lm105,006 (€244,598).

*It is observed that debenture interest recorded as being paid by the Water Services Corporation, is only a paper transaction since public money is being used to pay such interest to Government from Vote 41 – Ministry for Investment, Industry and Information Technology - Contribution to Government Entities Item 6121, resulting in a 'nil' net effect.*

## Loans made by Government and Repayments thereof

Balances and other details of all loans issued by Government as on 31 December 2006 as reported in Appendix E of the Financial Report 2006, are summarised as follows:

	Lm	€
I. Loans under Act II of 1956	9,917	23,100
II. Other Loans	<u>2,675,909</u>	<u>6,233,191</u>
	<u>2,685,826</u>	<u>6,256,292</u>

Other Loans at II consist of the following:

Aids to Industries Scheme	1,596	3,718
Agriculture – Assistance to Co-operatives	41,600	96,902
Water Services Corporation	<u>2,632,713</u>	<u>6,132,572</u>
	<u>2,675,909</u>	<u>6,233,191</u>

### Loan Repayments

The loan to the Water Services Corporation which as at 31 December 2006 amounted to Lm2,632,713 (€6,132,572), is interest free and repayable either through any surpluses generated by Water Services Corporation or through a Transfer Voucher in the event that the Government subvention is still required. The initial amount of the loan was of Lm4,500,000 (€10,482,180).

*A loan repayment amounting to Lm300,000 (€698,812) was reported as having been made by Water Services Corporation during 2006. As reported upon in the Report of the Auditor General 2005 the transaction was a transfer of public funds from Vote 41 – Ministry for Investment, Industry and Information Technology - Grant to the WSC towards the cost of water production Item 6742 – to Revenue Item 0659 – Repayment of Loans within Public Credit – Vote 22. As detailed above, a ‘nil’ effect again results. This transaction was authorised by the Ministry of Finance during January 2007.*

### Adjustments

Total adjustments for the year under review amounted to Lm254,277 (€592,306) were written off. A breakdown of this amount is given below.

#### Other Loans:

	Lm	€
Tourism – Loans to Hotels	6,672	15,542
MGI-MDC Investment in Industry	247,605	576,765

*Ministry of Finance authority for writing off the above loans, was dated February 2007 following consultation with the Ministry for Investment, Industry and Information Technology re former loan. However, Treasury adjusted the accounting records relating to Financial Year 2006.*

- Tourism: Loans to Hotels – During February 2007, the Ministry of Finance granted authority for the write off of Lm6,672 (€15,542) being amounts still featuring in Treasury books in connection with loans to two (2) hotels. Approval for write-off also covered interests accrued.
- MGI-MDC Investment in Industry adjustments, amounting to Lm247,605 (€ 576,765) relate to writing off of:
  - a) Lm247,000 (€ 575,355) dues regarding refurbishment of Hotel Verdala actually paid during 1998 but erroneously still featured in Treasury books; and
  - b) Lm605 (€ 1,409) still due as capital repayment from another company.

*The write-off listed in (a) above highlights a risk inherent in the Departmental Accounting System. Unlike other accounting software programmes, a debit/credit entry in DAS does not prompt the user to enter the corresponding credit/debit entry.*

*In fact, revenue re loan repayment from that hotel was accounted for against the Public Credit but the Loan Account entry against the corresponding Control Account was inadvertently omitted.*

## Unallocated Stores

The following reductions in unallocated stores balances were reported in the Financial Report under review:

- Government Printing Press – As approved by the Ministry of Finance on 4 January 2007, the Department of Information issued a schedule of payment in favour of the Government Printing Press amounting to Lm21,063 (€49,064). The remaining balance was written off by means of a transfer of Lm73,118 (€170,319) residual funds from the latter's Vote from Item 2210 – Operating Materials and Supplies.
- Ministry for Resources and Infrastructure – The Ministry of Finance by letter dated 8 January 2007, approved the Lm260,610 (€607,058) virement covering the balance of the Unallocated Stores Manufacturing of Precast Concrete.

The year's opening balance of the unallocated stores, totalling Lm355,870 (€828,954), as reported in Appendix M of the Financial Report, was closed by year end 2006.

Reductions in the balances of unallocated stores accounts reported in the Financial Report 2006 do not reflect requisitions of materials made by Ministries/Departments but only accounting transactions made in order to write off these long outstanding balances.

## Advances

### *Accounting for Advances*

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

Appendix L of the Financial Report incorporates a detailed statement of balances remaining outstanding as on 31 December 2006, in respect of advances made to various Government Departments, agencies and organisations over a number of years.

Pending advances were reported as amounting to Lm104,429,513 (€243,255,330) as on 31 December 2006, as against Lm108,690,835 (€253,181,540) outstanding on 31 December 2005.

According to the Financial Report 2006, Appendix L, three (3) new advance warrants were issued during 2006, collectively amounting to Lm44,250,000 (€103,074,773) for the redemption of MGS 2006 I, II and III.

Outstanding advances apart from advances forwarded to Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd., as at 31 December 2006 were the following:

**Table 8 – Outstanding Advances**

<b>Description</b>	<b>Lm</b>	<b>€</b>
MDC on 24 July, 1984 for the purchase of Verdala Hotel	740,450	1,724,785
Ministry of Finance to the Bank of Valletta Employees Foundation, for the purchase by the Foundation of 1,385,406 ordinary shares in Bank of Valletta Ltd. in 1995	1,558,582	3,630,520
Two (2) advances made to Permanent Secretary, Ministry of Finance and Commerce, to enable him to support the operational cost of Enemalta Corporation during 1997	5,590,000	13,021,197
Commissioner of Inland Revenue, to meet loans in terms of Article 4 of the Monte Di Pieta' Act (No. XXXIX) of 1976	367,742	856,609
Accountant General, for the purchase of shares held by Sea Malta Co. Ltd. in Mediterranean Offshore Bunkering Co. Ltd. The amount so advanced should be accounted for and repaid, in the first instance, out of proceeds forthcoming from the eventual privatisation of MOBC Ltd., immediately such proceeds become available to Government. In the second instance, in the event that such funds are not sufficiently available, out of funds made available from the Consolidated Fund upon the privatisation of MOBC Ltd.	476,168	1,109,173
Permanent Secretary, Ministry of Industry, to effect payments required by the MDC for the construction of a new factory intended for Brandt International in 1991	700,000	1,630,561
Permanent Secretary, Ministry of Finance and Commerce, to be utilised as a loan facility by the Maltacom Employees Foundation to purchase ordinary shares in Maltacom p.l.c in 1998	2,461,845	5,734,556
Permanent Secretary, Ministry for Economic Services, for the purpose of settling during 1999 and further servicing costs of Malta Freeport loans	15,198,163	35,402,197
Accountant General, for the purchase of Maltapost shares from Mid-Med Bank p.l.c in 1999	337,500	786,164
Accountant General, for the purchase of Medigrain shares from Mid-Med Bank p.l.c in 1999	865,008	2,014,927
Permanent Secretary, Ministry of Finance, for the purchase of 75,000 Maltacom p.l.c shares in Maltapost p.l.c	150,000	349,406
Permanent Secretary, Ministry of Finance, for the purchase of shares held by Enemalta Corporation in Mediterranean Offshore Bunkering Co. Ltd.	4,000,000	9,317,494
Permanent Secretary, Ministry for Economic Services, to meet expenditure in connection with the privatisation process of the Malta Freeport operations	909,616	2,118,835
Permanent Secretary, Ministry for Economic Services, for the purpose of settling Malta Freeport equipment claims	4,500,000	10,482,180
Permanent Secretary, Ministry of Finance, advanced to Mid-Med Employees Foundation, for the purpose of investment, pursuant to the agreement dated 3 December 2002 and entered into between Malta Government and the Foundation in the interest of the members of the said Foundation	3,000,000	6,988,120
Permanent Secretary, Ministry of Finance and Economic Services, advanced in favour of the Malta Stock Exchange for the purpose of capital investment by Government in the Malta Stock Exchange	1,000,000	2,329,373
Permanent Secretary, Ministry for Information Technology and Investment, to enable Gozo Channel Co. Ltd. to settle urgent debts, including social security contributions and income tax (FSS) payments	437,500	1,019,101



**Observations****Enemalta Corporation 1997 – Lm5,590,000 (€13,021,197)**

This advance was to be repaid by Enemalta Corporation over a period of 2 years starting on 1 January 1998.

**Purchase of Verdala Hotel – Lm740,450 (€1,724,785)**

This advance was made to MDC on 24 July 1984 for the purchase of Verdala Hotel and is still showing in the books of Malta Enterprise Corporation Ltd as due to Government.

**Construction of New Factory Brandt International – Lm700,000 (€1,630,561)**

This advance is made up of two (2) warrants. One was issued during 1997 amounting to Lm5,000,000 (€11,646,867) of which Lm2,849,908 (€6,638,500) was utilised. The second warrant was issued during 2001 and amounted to Lm1,800,000 (€4,192,872) of which Lm1,710,092 (€3,983,443) was utilised. Both these warrants should have been settled by 31 December 2004.

*The warrant dated 1997 stated that: “.....the Advance shall be repaid (between 2000 – 2004) through direct transfers from M.D.C.’s Capital Item of Expenditure .....”. Instead, Lm500,000 (€1,164,687) was transferred from Ministry of Finance Capital Vote III, Item 7189 Contribution towards Treasury Clearance Fund Advances to the credit of the Advance Account as per Ministry of Finance’s instructions dated March 2006.*

**Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd**

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

During 2006, Lm5,000,000 (€11,646,867) repayment was effected in respect of Malta Drydocks Corporation – 1997 advance. This repayment was transferred from Ministry of Finance Capital Vote III, Item 7189 Contribution towards Treasury Clearance Fund Advances as per Ministry of Finance instructions dated March 2006.

Pending advances to the above mentioned companies to be repaid out of the Consolidated Fund are listed in the Table 9.

**Table 9 - Pending Advances to Malta Shipbuilding Co. Ltd and Malta Drydocks Corporation**

	Lm	€
Construction of ships at Malta Shipbuilding	9,291,722	21,643,890
Malta Drydocks Corporation – 1997	9,543,603	22,230,615
Malta Drydocks Corporation – 1998	11,428,404	26,621,020
Malta Drydocks Corporation – 1999	7,999,646	18,634,163
Malta Drydocks Corporation – 2000	11,000,000	25,623,107
Malta Drydocks Corporation – 2001	12,873,563	29,987,335
<b>Total</b>	<b>62,136,938</b>	<b>144,740,130</b>

*It is to be noted that the budgeted amount for the year under review, under the Ministry of Finance’s Capital Vote III (Item 7189) to be utilised towards paying Treasury Clearance Fund Advances, amounted to Lm11.90 (€27.72) million. However, only Lm5.50 (€12.81) million were utilised.*

**Gozo Channel Company Ltd – Lm 437,500 (€1,019,101)**

Originally, the advance warrant had to be repaid by “31 March 2005, in particular but not necessarily, following the finalisation of the Public Service Obligation Contract”. Ministry of Finance’s instructions further stated that: “.....



*before any disbursements may be effected, Gozo Channel Co Ltd should irrevocably and without any conditions agree to repay the advance in full by the stipulated date.”*

However, in July 2004, the Ministry of Finance, in agreement with Gozo Channel Co Ltd, established a new schedule of interest and capital repayments. In 2006, interest amounting to Lm20,000 (€46,587) was received from the company. The settlement of Lm500,000 (€1,164,687) was rescheduled to be repaid in full by 2013.

### *Manoel Island/Tigne Point Project - Nil*

The amount advanced by Government for the Manoel Island/Tigne Point Project was over repaid by 2005. Since this amount was in debit at the beginning of the year under review, the Ministry of Finance instructed Treasury in 2006, to “transfer the residual funds in 2006 to a new “Other Deposits Account” within the Treasury Clearance Fund.”

## Inspection of Securities/Investments

### *Government Securities Board*

The Board is made up of three members, namely the chairperson, a MIMCOL representative and the Accountant General. MIMCOL representative was not present for the meeting held at the Treasury Department on 25 April 2007. The purpose of the board is to verify the list of securities held by the Government as at 31 December 2006 with the relative stock certificates held by Treasury. Representatives from NAO attended the meeting in an observer capacity.

### *Observations made by NAO during Government Securities Board Meeting*

The board verified the correctness of security details against documents including, where available, official stock certificates issued by the company concerned, Malta Stock Exchange statements and other related documents maintained by Treasury.

*The completeness of the reporting of investments in Appendix H of the Financial Report is not ensured due to lack of communication between the Ministry of Finance and Treasury following new investments.*

### *Boards of Survey*

Boards of Survey were appointed in terms of Article 98 of the General Financial Regulations, 1966, in order to take account of moneys, deposits and other valuables as at 31 December 2006.

The reports by the Boards of Survey relating to moneys, deposits and other values at the Ministry for Gozo and Treasury, were received by NAO on 2 January 2007 and 15 June 2007 respectively.

The Board responsible for taking account of monies, deposits, investments and other values existing at the Ministry for Gozo found that the cash in hand agreed with balance per Cash Book. The board also reported that the bank account the Ministry for Gozo held with the Central Bank of Malta had been closed on 22 May 2006.

The Board responsible for taking account of monies, deposits, investments and other values existing at the Treasury certified the correctness of the instruments and documents provided and had no adverse remarks to make with regard to the validity, authenticity and legality of the said documents. In this regard, the Board also took cognisance of the certification reports issued by various Bodies entrusted with the custody of such valuables.

The Board however, was unable to reconcile the balance shown in the Cash Book with the statement sent by the Central Bank of Malta. The Board was informed that the Treasury was undergoing an extensive exercise in order to bring the reconciliation exercise up to date. The main problem lies with the recording of manual transactions.

*The time lag between the closure of the books and the submission of the reports by the Board (appointed to take account of moneys, deposits and other values at Treasury) was excessively long. Such report should in future be submitted earlier.*

## Bank – CBM Public Account

### *Developments regarding the Public Account Reconciliation - Electronic Bank Reconciliation (first cut)*

Electronic bank reconciliation reconciles about 75% of the total amount of all transactions. As in the previous couple of years, data uploads on the reconciliation system are regularly being carried out on a monthly basis.

Manual reconciliation is still being carried out on years 2002 to 2006. The rate of completion for these years is in most cases approximately 99%. Treasury has maintained the procedure, introduced in January 2005, whereby manual reconciliation is being conducted every month following automatic reconciliation of transactions. This has, as in past years, enabled staff carrying out the reconciliation exercise, to maintain closer liaison with Departments with the benefit of correcting and reducing any errors in transactions that may arise.

Treasury further remarked that:

- Departments who are in default as regards procedures that are to be followed regarding deposits at CBM are still closely monitored to comply with the established requirements; and
- enhancements to make the Bank Reconciliation Statement Euro compliant have been carried out by MITTS and the acceptance testing has already been carried out by Treasury staff during 2007.

### *Developments regarding the Public Account Reconciliation for the period June 1992 – December 2001*

Treasury still maintains that January 2002 should be officially recognized as the start-off date for the new reconciliation exercise. During the indicated ten-year period, there had been various changes both in the government's accounting system and that of Central Bank. During the 1992-1996, some Departments were carrying out their accounting requirements using "DAS" whilst others were still working manually.

Under the described circumstances, Treasury contents that it is not feasible to undergo such a massive exercise. Time, effort, further deployment of human resources, cost effectiveness and worthiness for carrying out such exercise have been considered and evaluated in deriving such conclusions.

Treasury has maintained the practice to forward to the National Audit Office copies of the Monthly Bank Reconciliation Statements. These statements reflect, amongst others, decreasing amounts in the figures for unreconciled items in all areas.

The Financial Report 2006 states that: "...resulting in an end-of-year Debit Book Balance of Lm62,059,418 (€144,559,557) against a Bank Balance of Lm51,152,310 (€119,152,830)." On the other hand, the December 2006 Bank Reconciliation Statement features Lm99,094,815 (€230,828,826) and Lm70,145,618 (€163,395,337) as Central Bank of Malta and Cash Book balances respectively.

*It was noted that balances, as reported in Part I of the Financial Report 2006, do not tally with the respective balances featuring in the Bank Reconciliation Statement for the month of December 2006 prepared by Treasury.*

## *Liabilities*

Table 10 features the Statement of Liabilities (Financial Report 2006 – Appendix I – refers).

Table 10 – Statement of Liabilities

	2006		2005	
	Lm 000's	€ 000's	Lm 000's	€ 000's
<b>Public Debt</b>	<b>1,205,826</b>	<b>2,808,819</b>	<b>1,215,423</b>	<b>2,831,174</b>
<b>Treasury Bills</b>	<b>156,978</b>	<b>365,660</b>	<b>187,248</b>	<b>436,171</b>
<b>Deposits</b>				
Court and Other Deposits	38,281	89,171	26,687	62,164
Other	10	23	10	23
	<b>38,291</b>	<b>89,194</b>	<b>26,697</b>	<b>62,187</b>
<b>Funds</b>				
Sinking Funds	70,258	163,657	83,284	194,000
Contingencies Fund	500	1,165	500	1,165
Trust Funds	446	1,039	427	995
	<b>71,204</b>	<b>165,861</b>	<b>84,211</b>	<b>196,159</b>
<b>Accumulated Fund</b>				
Cons. Fund at year end	(28,557)	(66,520)	(45,857)	(106,818)
Net Public Debt	<u>(979,216)</u>	<u>(2,280,960)</u>	<u>(900,403)</u>	<u>(2,097,375)</u>
	<b>(1,007,773)</b>	<b>(2,347,480)</b>	<b>(946,260)</b>	<b>(2,204,193)</b>
<b>TOTAL LIABILITIES</b>	<b><u>464,526</u></b>	<b><u>1,082,055</u></b>	<b><u>567,319</u></b>	<b><u>132,150</u></b>

Note: Figures in Statement may not add up due to rounding up.

## Public Debt

On 31 December 2006, the Public Debt as reported in Appendix F of the Financial Report amounted to Lm1,362,803,970 (€3,174,479,315). This amount represents a decrease of Lm39,866,808 (€92,864,682) over the corresponding reported figure for 2005. The closing Public Debt balance is inclusive of Treasury Bills outstanding at year end and Ex MDD, MSCL Loans with local commercial banks amounting to Lm156,977,616 (€365,659,483) and Lm24,375,497 (€56,779,634) respectively.

This decrease works out as follows:

	Lm	€
Total of New Loans	436,203,602	1,016,081,067
Total Repayment of Loan	(475,610,633)	(1,107,874,757)
Currency/Other Adjustment	<u>(459,777)</u>	<u>(1,070,992)</u>
<b>Net decrease in Public Debt</b>	<b><u>(39,866,808)</u></b>	<b><u>(92,864,682)</u></b>

### Foreign Loans: U.S.A. Government Loan

Upon examination, it was noted that the middle rate, instead of the exchange rate, applicable on 13 November 2006 was used in converting USD 94,584 capital instalment. The amount repaid should read Lm63,680 (€148,335) and the Currency / Other Adjustments Lm74,138 (€172,695). However, closing balance of this loan, as reported in Appendix F, is correct.

## Statement of Abandoned Claims, Cash Losses and Stores Written-Off

In terms of the General Financial Regulations, 1966 and Treasury Circular 1/2007, Departments are to submit to the Accountant General an annual return of abandoned claims, cash losses and stores written off.

*NAO is not in a position to ascertain the completeness of Appendix N of the Financial Report, 2006. In particular, figures quoted under 'Abandoned Claims' column amount merely to Lm510,340 (€1,188,772). This figure is highly understated considering the millions of Maltese Lira reported by various Ministries/Departments, in their respective Return of Arrears of Revenue, as amounts written off.*

Upon examination of figures reported in Appendix N of the Financial Report, it was noted that figures reported under the 'Stores Written Off' column are incorrect as they include unserviceable items collectively amounting to Lm75,034 (€174,782). Furthermore, Stores written off in respect of Ministry for Rural Affairs and the Environment should read Lm1,092 (€2,544) instead of Lm400 (€932).

*NAO satisfactorily noted the improvement in record keeping of these Statements at Treasury, greatly facilitating audit work. In addition, all related authorities and documentation relative to the Statements were available upon request at Treasury.*

## Letters of Comfort/Bank Guarantees

The position of Contingent Liabilities as at 31 December 2006, as reported in Part I of the Financial Report, 2006 is reproduced in Table 11, a breakdown of which can be found in Table 12.

**Table 11 – Contingent Liabilities – 2006**

	Lm	€
Government Guarantees:		
Local	72,271,768	168,347,934
Foreign	<u>184,524,051</u>	<u>429,825,416</u>
	256,795,819	598,173,350
Letters of Comfort	<u>10,376,935</u>	<u>24,171,756</u>
<b>TOTAL</b>	<b>267,172,754</b>	<b>622,345,106</b>

**Table 12 – Letters of Comfort/Bank Guarantees**

Beneficiary	31 Dec 04		31 Dec 05		31 Dec 06	
	Lm	€	Lm	€	Lm	€
Air Malta Co. Ltd. (Local)	8,100,000	18,867,925	8,100,000	18,867,925	8,100,000	18,867,925
Malta Export House Co. Ltd.	5,596,816	13,037,074	nil	nil	nil	nil
Enemalta Corporation	81,090,235	188,889,436	95,153,000	221,646,867	95,153,000	221,646,867
Gozo Ferries Co. Ltd.	10,070,718	23,458,463	8,182,698	19,060,559	5,484,794	12,776,133
Housing Authority	2,860,793	6,663,855	2,343,706	5,459,366	11,475	26,730
HSBC Home Loans (Malta) Ltd. <sup>(1)</sup>	30,000,000	69,881,202	30,000,000	69,881,202	nil	nil
Malta Enterprise Corporation <sup>(2)</sup>	4,279,717	9,969,059	4,867,068	11,337,219	3,842,644	8,950,953
Malpro Ltd.	600,000	1,397,624	500,000	1,164,687	400,000	931,749
Malta Government Investments Ltd.	14,091,174	32,823,606	14,210,703	33,102,034	10,385,850	24,192,523
Water Services Corporation	26,201,063	61,032,059	25,058,529	58,370,671	24,971,829	58,168,714
Malta Freeport Corporation	106,032,328	246,988,884	103,368,906	240,784,780	100,033,980	233,016,492
Malta Desalination Services Ltd.	915,196	2,131,833	911,838	2,124,011	nil	nil
Tripoli Sewage Treatment Plant	665,488	1,550,170	665,488	1,550,170	nil	nil
Malta Tourism Authority	2,598,142	6,052,043	2,142,728	4,991,214	1,671,728	3,894,079
YSSS – Jean Paul Mifsud	1,056	2,460	288	671	nil	nil
Foundation for Tomorrow's Schools	4,658,781	10,852,041	7,506,694	17,485,893	9,639,392	22,453,743
Malta Maritime Authority	2,535,000	5,904,962	1,806,323	4,207,601	3,316,892	7,726,280
Malta Industrial Parks Ltd.	nil	nil	nil	nil	1,263,395	2,942,919
Malta Shipyards Ltd.	nil	nil	nil	nil	2,897,775	6,750,000
<b>TOTAL</b>	<b>300,296,507</b>	<b>699,502,695</b>	<b>304,817,969</b>	<b>710,034,868</b>	<b>267,172,754</b>	<b>622,345,106</b>

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

<sup>2</sup> Previously shown as Malta Development Corporation.

*The above Lm267.2 (€622.3) million letters of comfort and bank guarantees may translate into dues by Government should the companies call upon the Government to make good for their debts.*

## Euro Changeover

Malta's accession to the eurozone, on 1 January 2008, signals the start of the dual circulation period. MF Circular 7/2007 entitled 'Euro Adoption – Cash Float Mechanisms during the Dual Circulation Period' lists procedures applicable to all Departments/Entities having their banking requirements handled by CBM.

*Upon request, the Accountant General verbally confirmed that Statements and Appendices in respect of Financial Report 2007 shall be prepared using solely the Maltese Lira denomination. Hence, the Euro equivalent would not feature.*

## Management Comments

- *Analysis of Appropriations – Salary and allowances of the Auditor General*

In the Financial Estimates, the salary payable to the Auditor General forms part of the whole vote which is shown as permanently appropriated.

- *Other Investments - Investment in Industry*

Whilst every effort is made by the Treasury to minimize adjustments after year end, this is on occasions technically impossible when the source of documentation is another body other than the Treasury. Such is the case for investments where the documentation source is MGI.

- *Loans made by Government and Repayments thereof - Adjustments*

Treasury takes every measure of control to minimize such occurrence of errors. Nonetheless, Treasury acknowledges this inherent risk in DAS.

As discussions are ongoing for the eventual replacement of the system, Treasury management is of the opinion that no further major enhancements (unless deemed absolutely necessary for the running of the operations) are to be undertaken.

- *Government Securities Board - Inspection of Securities/Investments*

The Accountant General, as member of the Government Securities Board, has written to the Governing Bodies, Secretariat and Protocol requesting statements of Malta's contributions and similar updated statements.

- *Government Securities Board - Boards of Survey*

Treasury verbally requested Board members to submit Reports the soonest possible. Treasury cannot take any further effort in this respect as the compilation of the Report exclusively depends on the Board members that are newly appointed every year.

- *Bank – CBM Public Account*

The discrepancy in the balances as noted by the NAO between the figures reported in the Financial Report 2006 Part 1 and the monthly bank reconciliation statement is being investigated.

- *Statement of Abandoned Claims, Cash losses and Stores written off*

Only three Departments submitted figures in respect of 'Abandoned Claims' when submitting their return as per Treasury Circular 1/2007 namely Ministry for Rural Affairs and the Environment, Customs Department and Ministry for Investment Industry and Information Technology. Treasury will endeavor to improve compliance in this regard.

Departments are much more compliant when it comes to Treasury Circular 2/2007 relating to submission of Arrears of Revenue return. As the number of submissions for the two (2) returns do not complement each other, Treasury tends to agree that NAO is not in a position to ascertain the completeness of Appendix N of the Financial Report, 2006.



**Corporate Issues**

# Arrears of Revenue

## Background

The timely collection of revenue and control over arrears of revenue is the responsibility of Accounting Officers. Treasury Circular 2/2007 states that: “.....*Since the collection of monies due to Government is a fundamental need for the execution of Government’s programme, Accounting Officers will be held accountable for any shortfalls.*”

In terms of Reg. 49 (i) of the General Financial Regulations 1966, all officers charged with the supervision of the collection or other moneys due to the Government are required to submit an annual Return of Arrears of Revenue, in duplicate, to the Accountant General, by not later than the 2 April 2007, for transmission to the Auditor General. Treasury Circular 2/2007 additionally directs that Ministries/Departments should also submit a copy of the Statement of Arrears to the Budget Office, Ministry of Finance. In terms of Reg. 49 (ii) of the General Financial Regulations 1966, the Return should show the state of arrears on 31 December but remaining unpaid up till the end of the following January.

## Returns

Not all Ministries, Departments and Entities sent their annual Return of Arrears to the Treasury. Details of arrears of revenue included in Table on page 42 have been compiled only from Returns forwarded to NAO by Treasury.

The following Ministries/Departments/Entities submitted ‘nil’ Returns:

- Office of the Prime Minister (OPM)
  - Public Service Commission
  - Electoral Office
- Ministry of Foreign Affairs
- Ministry for Competitiveness and Communications
  - Consumer and Competition Division

The List of defaulting Departments incorporated in Part I of the Financial Report includes the following defaulters who have submitted a Return to NAO following the publication of the Financial Report 2006:

- Contracts Department
- Ministry for Elderly and Community Services (Health Division)
- Department of Social Housing
- Ministry for Tourism and Culture



### *Notes and Comments on Arrears of Revenue*

#### *• Armed Forces of Malta*

The differences of Lm107 (€249) in the opening balance resulted due to its omission from the previous year's return.

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

	<b>Lm</b>	<b>€</b>
a) Patrol Craft Conveyances/Hire of Vehicles & Mach./ Expl. Ord. Depot Charges/ Fuel and Repairs	848	1,975
b) Security Duties rendered at Commercial Banks, Water Services Corporation and MIA	205,613	478,949
c) Services rendered by AFM/ Refund of wages/ Helicopter and Sundry Services	2,545	5,928

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

Arrears outstanding for 1 year or less	207,530	483,415
Arrears outstanding over 1 year but less than 2 years	501	1,167
Arrears outstanding over 2 years but less than 5 years	66	154
Arrears outstanding over 5 years but less than 10 years	253	589
Arrears outstanding over 10 years	656	1,528

#### *• Government Printing Press*

The net closing balance is in respect of:

	<b>Lm</b>	<b>€</b>
a) Jobbing	17,069	39,760
b) Revolving Fund	5,558	12,947
c) Below-the-Line (Unallocated Stores)	24	56

Lm 21,338 (€ 49,704) out of the closing balance relates to amounts outstanding for 1 year or less.

#### *• Office of the Prime Minister*

Arrears newly accrued are made up of:

	<b>Lm</b>	<b>€</b>
a) Scholarship Reimbursement	3,752	8,740
b) Breach of Contract	2,194	5,111
c) Fuel Allowance Overpaid	58	135
d) Refund of Salary	1,311	3,054
e) Rent due for the use of a room at the Auberge de Castille by a public company	5,000	11,647

#### *• Courts of Justice Division - Malta*

A detailed report is found on page 88.

- ***Courts of Justice - Gozo***

The amounts shown in the return of arrears submitted by the Department for both fees and fines due to the Gozo Courts, and which are still being published, are not considered reliable due to a number of shortcomings noted in the two (2) computerised systems in use, namely the CORTEX and the LECAM system. These problems, which are similar to those encountered by the Law Courts in Malta, have been pending for the last two (2) years and have not yet been rectified. The major variance between the gross closing balance for year 2005 and gross opening balance for year 2006 is mainly due to outstanding fines which were not published last year because of the various weaknesses noted in the LECAM system.

- ***Civil Protection***

Seven (7) claims amounting to Lm 1,990 (€ 4,635) omitted from last year's return were included in the opening balance for the year under review. These claims were fully collected during the year.

Lm 2,250 (€ 5,241) due by the Malta Environment and Planning Authority had been contested in previous years. The claims were dropped as the Department decided that processing of these applications was part of its duties.

The amounts due by the International Training Centre Malta Ltd, amounting to Lm 7,089 (€ 16,513) in respect of Water and Electricity bills refund, were contested and revised. An amount of Lm 3,844 (€ 8,954) was paid during the year, as a final settlement on the disputed amount, and the remaining balance is expected to be written off next year. As from 2005, separate electricity and water meters were installed and payments are now being effected on a regular basis.

It is to be remarked that the Department failed to forward a signed Return of Arrears of Revenue, even though numerous attempts were made by NAO.

- ***Government Property Division***

Gross balances reported for the year under review showed an increase of 12% over the closing balance of the previous year, following the 4% increase of 2004-2005 closing balances.

During 2006, the Division registered a favourable increase of 5% in the arrears collected and a decrease of 39% in the balances written off as compared with the previous year. However, during the year the Division had an increase of 23% of newly accrued balances.

The majority of arrears outstanding relate to Commercial Tenements, as detailed in the following breakdown of gross outstanding arrears as at 31 December 2006:

	<b>Lm</b>	<b>€</b>
a) Rural	90,822	211,558
b) Perpetual	65,865	153,424
c) Residential	443,988	1,034,214
d) Non-Residential	441,888	1,029,322
e) Commercial	3,695,255	8,607,629
f) Encroachments	12,996	30,273

- ***Treasury Department***

The net closing balance as reported in the Arrears of Revenue Return submitted relates to Overpayments to Pensioners. NAO noted the same observations as reported the previous year.

The balance of the Bical Bearer Account amounting to Lm 3,979 (€9,269) was again marked as 'Estimated amount considered as not collectable'. During 2007, approval for write-off was obtained from the Ministry of Finance to write off this amount.

- ***Inland Revenue Department***

- *Income Tax*

Gross arrears as categorised by the Department are reproduced below:

<i>Category</i>	<i>Grand Total for all Years</i>	
	<b>Lm</b>	<b>€</b>
Government Employees	7,558,982	17,607,692
Parastatal Employees	2,284,094	5,320,508
Drydocks Employees	318,726	742,432
Private Employees	31,778,979	74,025,108
Outside Malta Employees	349,623	814,403
Temporary Residents – Work Permit	12,113,469	28,216,792
Self-Employed	36,758,573	85,624,442
Shareholders	5,228,778	12,179,776
Rentiers / Pensioners	11,633,337	27,098,386
Temporary Residents – settlers	3,324,220	7,743,350
Temporary Residents – entertainment	116,236	270,757
Non-residents	2,148,188	5,003,932
Companies anonyme	150,805,425	351,282,145
Partners	147,122	342,702
Partnerships collectif	270	629
Partnership not registered	1,125	2,621
Companies en commandite	1,496,005	3,484,754
Companies foreign owned	195,308	454,945
Companies – overseas	838,593	1,953,396
Estates	29,403	68,491
Clubs, Associations etc.	662,388	1,542,949
Church (Commercial)	1,832,840	4,269,369
Church (Entities)	87,951	204,871
Others	4,121	9,599
<b>Total for all Categories</b>	<b><u>269,713,756</u></b>	<b><u>628,264,048</u></b>

Source: Inland Revenue Department

Furthermore, arrears denominated in foreign currencies for Years of Assessment 1998 to 2006, amounting to Lm16,855,534 (€ 39,262,832) as at year end 2006, are also due from foreign owned companies and companies overseas.

- *Capital Transfer Duty*

The Department failed to forward the Return of Arrears as per Treasury Circular 2/2007 and also an electronic version of the breakdown of arrears, even though NAO was promised that information will be sent following requests. This hindered NAO in its sample testing of arrears reported and analysis of the difference in the opening 2006 against the closing 2005 balances.

The gross closing balance can be analysed as follows:

	<b>Total</b>	<b>Malta</b>	<b>Gozo</b>
Inter Vivos	Lm 10,979,567 € 25,575,511	Lm 10,275,367 € 23,935,167	Lm 704,200 € 1,640,345
Causa Mortis	Lm 1,050,215 € 2,446,343	Lm 940,227 € 2,190,140	Lm 109,988 € 256,203

Death and Donation	Lm 2,359,911	Lm 2,267,954	Lm 91,957
	€ 5,497,114	€ 5,282,912	€ 214,202
	Lm 14,389,683	Lm 13,483,548	Lm 906,145
	€ 33,518,945	€ 31,408,218	€ 2,110,750

- **V.A.T. Department**

The following is a sub-classification of the gross closing balance of arrears as reported by the Department in its Arrears of Revenue Return ending 31 December 2006. Figures were adjusted to reflect a correction of Lm 20,443 (€47,619) resulting from a wrong addition under 'Refunds to Govt. on Stock (1997)' not rectified in the 2005 Return.

	Lm	€
a) VAT (1998)	88,467,948	206,074,885
b) CET (1997)	2,984,599	6,952,246
c) Refunds to Govt. on Stock (1997)	243,256	566,634
d) VAT (1994)	8,307,715	19,351,770

The Department failed to forward to NAO a detailed breakdown of figures reproduced in the 2006 Return, hindering further detailed examination. Furthermore, the Arrears of Revenue Return is not in compliance with Treasury Circular 2/2007.

NAO noted that the 'Net Collectible Arrears' at year end appear optimistic as the amount under contention / statute-barred / in the process of being written-off exceeds the respective gross closing balance due, in respect of Item (d) above, by Lm 1,205,084 (€ 2,807,091).

The Department stated that the substantial figures declared as written off and newly accrued, under Item (a), represent estimated assessments and interest as a result of the non-submission of VAT Returns and subsequent submission of missing VAT Returns. This issue was also raised during the 2005 Arrears of Revenue examination. The same explanation was forwarded in letter dated 26 January 2007, read and accepted at the Public Accounts Committee.

In its letter, the Department remarked that: ".....These substantial figures have resulted as a number of registered companies who had registered after Malta's Accession in the EU due to their intercommunity transactions, had declared substantial estimated annual turnover. A number of these taxpayers had failed to submit the periodical VAT returns by 31st December 2005 and estimated tax was issued by the Department which resulted to be in millions of Maltese lira. Thus increasing our Book Balance artificially."

- **Ministry of Education, Youth and Employment**

A detailed report is found on page 92.

- **Mediterranean Conference Centre**

Claims amounting to Lm 179,430 (€ 417,959) (2005 – Lm 242,190 (€ 564,151)) were in respect of the hire of the Conference Centre for conferences, gala dinners, theatre functions, meetings and hire of equipment. Furthermore, the gross balance also includes an amount of Lm 43,677 (€ 101,740), accruing prior to year 2006.

An amount of Lm 8,178 (€ 19,050) (2005 – Lm 4,865 (€ 11,332)) is estimated as not collectible. The increase in this amount, was attributed to a new claim of Lm 3,982 (€ 9,276) due by a private company, even though the same company had already disputed amounts in previous years. This company is in liquidation.

Moreover, a further claim of Lm 25,872 (€ 60,266) in respect of a conference held in 2005 was still not paid despite the fact that an agreement was reached to settle this amount by October 2006. In this case, a garnishee order with the banks was issued and the whole sum was deposited at the law courts. The liquidation is however, subject to a court case which has been filed.

Some of the major claims issued during 2006 and still outstanding as at 31 December 2006 were as follows:

- a) Three (3) balances, aggregately amounting to Lm 52,893 (€ 123,208) of which Lm 25,704 (€ 59,874) was settled in 2007. The remaining outstanding balance of Lm27,189 (€63,333) is made up of an amount of Lm22,505 (€52,423) owed by a client who is also a major supplier of MCC.
- b) A claim of Lm 7,032 (€ 16,380) which was settled in 2007.
- c) A claim of Lm 7,547 (€ 17,580) of which Lm 7,269 (€ 16,932) is still pending.

- **Commerce Division**

The following is a sub-classification of the gross closing balance of arrears as reported by the Division in its amended Arrears of Revenue Return ending 31 December 2006:

	<b>Lm</b>	<b>€</b>
a) Licences, Taxes and Fines	675,779	1,574,142
b) Miscellaneous Receipts	4,060	9,457
c) Industrial Property – Fees of Office	120	280

The 'Net Collectable Arrears' at year end are in respect of arrears due re Items (a) and (b). Arrears due re Item (c) are estimated to be 'Not Collectable'.

Trading Licence Fees renewable and written off in 2006 were not recorded in the Arrears of Revenue Return as arrears newly accrued but only reported as write-offs, thus understating the closing arrears balance. Commerce Division, though confirming this, stated that: *"Given the amount of work that this involved and the extremely limited resources that we dispose of it is not possible to recompute the past licence fee cancellations .....Neither this shall be possible for the cancellations of 2007 since we are already in the tenth month of the current year. This having been said however, your valid suggestion will be put in place as from 1st of January 2008, where the write offs will be split into two: the 'arrears' part, and the write off of that part relative to the current year."*

Checking of some payments received was hindered since some of the Licence References in the Excel 'Payments of Arrears Collected in 2006' were incorrect. Upon enquiry, MITTS Ltd informed the Division that the 'Format Cells' function in the Excel was not in the right format.

- **Civil Aviation**

The net collectable arrears, as reported by the Department, consist of:

	<b>Lm</b>	<b>€</b>
a) Miscellaneous Licences	4,375	10,191
b) Airport Tax	461,590	1,075,215
c) Miscellaneous Reimbursements	539	1,256

Following a sample verification of past arrears collected, NAO noted that in two (2) out of eight (8) items tested, amounts reported did not correspond to respective receipt. The Department was asked to forward an amended Return. Since figures were not correctly adjusted, amounts quoted are as per Department's first Return.

Furthermore, the Department was also requested to forward its comments with respect to controls ascertaining completeness of Airport Tax. The Department replied that this was a long standing issue and had no further comments to make.

- **Ministry for Resources and Infrastructure**

The difference in the opening balance, amounted to Lm 532 (€ 1,239).

Amounts reported under 'estimated as not collectible' relate mainly to:

- dues by Local Councils out of which Lm 103,650 (€ 241,440) is being dealt with in court. Agreements were entered into to recoup Lm 15,574 (€ 36,278);
- Lm 80,396 (€ 187,272) dues by KIP; and
- Lm 11,481 (€ 26,744) arrears due prior to 2004 from the Manufacturing Services Department.

Ageing of arrears can be analysed as follows:

	<b>Lm</b>	<b>€</b>
Amounts outstanding for less than 1 year	152,364	354,913
Amounts outstanding over 1 year but less than 2 years	162,968	379,613
Amounts outstanding over 2 years but less than 5 years	92,050	214,419
Amounts outstanding over 5 years but less than 10 years	39,067	91,002

- **Ministry for Gozo**

The net closing balance is sub-classified into arrears collectable by the following Departments:

	<b>Lm</b>	<b>€</b>
Public Cleansing Department – Waste Disposal	74,285	173,037
Public Cleansing Department – Local Councils	13,289	30,955
Works Department	22,524	52,467
Agricultural Department	11,892	27,701

Ageing of arrears are grouped as follows:

Amounts outstanding for less than 1 year	15,094	35,160
Amounts outstanding over 1 year but less than 2 years	18,764	43,708
Amounts outstanding over 2 years but less than 5 years	57,376	133,650
Amounts outstanding over 5 years but less than 10 years	30,756	71,642

- **Health Division**

The net closing balance is made up of:

	<b>Lm</b>	<b>€</b>
a) Licences	6,400	14,908
b) Hospital Fees (SLH)	249,420	580,992
c) Hospital Fees – EU Countries	182,321	424,694
d) Hospital Fees – SPBH	5,431	12,651
e) Hospital Tests	4,944	11,516
f) Refunds/Resignations	120,512	280,717
g) Overpayments	10,017	23,333

A difference of Lm 12,815 (€ 29,851) was noted between this year's opening balance and last year's closing balance. This was due to the inclusion of new claims for years 2004 and 2005 in respect of hospital bills of patients from EU Member States which were received or adjusted in the year under review.

The amount written off mainly relates to Hospital Fees (SLH) dating back from years 1991 to 2005 which were considered as not recoverable.

An ageing analysis of this year's gross closing balance revealed that:

- Lm 171,685 (€ 399,918) (22%) reflects newly accrued arrears;
- Lm 334,777 (€ 779,821) (43%) reflects balances which are up to five (5) years old; and
- Lm 273,322 (€ 636,669) (35%) reflects balances due more than five (5) years up to twenty (20) years old.

- ***Ministry for Competitiveness and Communications (Revenue Unit – ex Wireless Telegraphy)***

The Arrears of Revenue Return submitted by the Ministry was incomplete as regards TV Licence Fees' arrears, falling under the responsibility of the Department of Corporate Services. According to the DCS, information is still not available even though it was stated that: *"information being requested ..... is not available from computerized system taken over from PBS Ltd. Enhancements to remedy this situation are underway."* (Source: Report of Auditor General 2004 pg 51) A footnote in the 2004 Return of Arrears further stated that: *"Full report to follow shortly as soon as ad-hoc software amendments are finalised."*

Two (2) breakdown of arrears showing outstanding TV licences, as at 31 December 2006 and 31 January 2007, sub-classified into monthly aged debtors and credit balances by locality, were submitted to NAO. Totals did not reconcile with figures reported in the Arrears of Revenue Return submitted.

It is recommended that, as a matter of priority as arrears may become prescription barred, the DCS should:

- a) undertake an exercise, together with MITTS Ltd, to reasonably ascertain the amount of outstanding arrears; and
- b) establish systems and controls to ensure that future arrears are accurately recorded on a timely basis.

- ***Social Security Department***

The balance of Arrears of Revenue arising from overpayments of social security benefits amounted to Lm 3,087,106 (€7,191,023) as at 31 December 2006 which is Lm 370,021 (€ 861,917) (13%) more than the 2005 balance. Such increase was mainly attributed to the increase in current year arrears of Lm 383,106 (€ 892,397). Additionally, 32% of the total arrears reported for 2006 related to overpayments that were made in the same year arising from errors in the computation of benefits paid and inaccurate declarations or failure to report a change in circumstances by beneficiaries.

A sample of forty-three (43) arrears totalling Lm 192,812 (€ 449,131), which corresponds to 19% of the total arrears acquired during 2006, was selected. Twenty-two (22) out of the selected sample were not available. It was noted that in:

- a) 24% of the sample reviewed, the overpayments resulted from weak internal controls. The majority of the other overpayments were a result of changes in the financial and social circumstances of the claimants which were not reported to the Department;
- b) 33% of the sample, the overpayments were created after a considerable time lapse. In fact a number of individuals had a balance due of over Lm 10,000 (€ 23,294) which have been accumulating for a number of years; and
- c) 33% of the sample reviewed, no repayment programme have been agreed and no instalments are being paid.

Management remarked that the social security benefits are undergoing a number of amendments and arrears of payments often result in adjustments to benefit rates and may have been the cause of overpayments. However, efforts have been made to improve the systems in order to:

- a) avoid, as far as possible, unnecessary overpayments and incorrect benefit calculations; and
- b) strengthen the collection system and eliminate any bad debts which are regarded as uncollectable.



- **Contracts Department**

The gross closing balance is made up of:

	<b>Lm</b>	<b>€</b>
a) Penalties and Damages	204,238	475,747
b) Ex-CSS	102	238

In a letter dated 28 February 2007, sent by the Ministry of Finance to the Public Accounts Committee, in connection with the balance of arrears at year end 2005, the Permanent Secretary stated that: *“These reported balances due to the Contracts Department are old claims mostly due to the ex-Central Supplies section. Although no progress has been registered during the current year the department will be making extra efforts to collect these arrears of revenue.”* As detailed above, only 0.05% represent arrears due to the ex-CSS.

In all eight (8) cases examined, from documentation in the relevant files, it was noted that the Contracts Department lacks adequate follow-up of cases, in that:

- the last record entered in the relative file of a company in liquidation dated July 2003 by the Office of the Attorney General stating that it will be keeping track of whether a liquidator had been nominated;
- in a separate case, the last documentation recorded dated January 2001 and referred to a reply by the Department against a counter protest (Rikors) presented by the company at the Gozo Law Courts. No further developments were recorded;
- letter sent to the Ministry of Finance by the Attorney General’s Office on 2 June 2000 requesting information regarding a foreign company was followed up by the Department in March 2007; and
- a file sent to the Ministry of Finance in 1994 was being traced by the Department in 2001. The last document filed in the relative ‘for File’ was a departmental letter dated 3 May 2001 stating that the company is in liquidation.

Cases examined are long overdue and dues from cases decided in favour of Government have not to date been collected. It is to be remarked that court and legal fees of all cases examined and decided in favour of Government were not added to the arrears balance due by defaulters.

- **Customs Department**

The net closing balance, as provided by the Department, is analysed as follows:

	<b>Lm</b>	<b>€</b>
a) Import and Export Duties	8,041,654	18,732,015
b) Licences, Taxes and Fines	5,250	12,229
c) Fees of Office	1,117	2,602
d) Reimbursements	316,832	738,020

Arrears newly accrued relate mostly to arrears due from fuel operators (Lm 7,361,941 (€ 17,148,709)), duty due from imported sugar and garlic (Lm 359,680 (€ 837,829)) and unsettled payments arising from post clearance audits (Lm 102,250 (€ 238,178)).

- **Ministry for Rural Affairs and the Environment**

A detailed report is found on page 110.



- ***Ministry for Tourism and Culture***

Due to late submission of return, the necessary verifications on the arrears of revenue of the Ministry could not be carried out. Reasons explaining the difference between the opening balance for year 2006 and gross closing balance of previous year, in respect of revenue due to the Malta Tourism Authority on behalf of Government, were not forwarded to NAO.

The net closing balance as stated by the Ministry is in respect of dues to the Malta Tourism Authority (ex HCEB and Police Licences). Arrears due in respect of Ex White Rocks Complex and dues from Local Councils re beach cleaning services are considered to be 'Not Collectable'. An analysis showing the ageing of debtors was not provided.

## Ministries/Departments Arrears of Revenue 2006

Ministry/Department		Outstanding on 31/12/2005	Collected during 2006	Written off or not due 2006	Arrears 2006
Office of the President	Lm	3,097	b	b	b
	€	7,214	b	b	b
Office of the Prime Minister	Lm	0	0	0	12,315
	€	0	0	0	28,686
Armed Forces of Malta <sup>d</sup>	Lm	105,867	94,531	0	207,530
	€	246,604	220,198	0	483,415
Information Department	Lm	16	0	16	0
	€	37	0	37	0
Government Printing Press	Lm	124,924	6,606	117,005	21,338
	€	290,995	15,388	272,548	49,704
Ministry for Justice and Home Affairs: Attorney General	Lm	300	56	0	0
	€	699	130	0	0
Notary to Government	Lm	883	883	0	127
	€	2,057	2,057	0	296
Civil Registration <sup>a</sup>	Lm	16,660	11,067	0	7,673
	€	38,807	25,779	0	17,873
Courts of Justice: Malta <sup>d</sup>	Lm	7,080,241	241,597	1,592,152	364,855
	€	16,492,525	562,770	3,708,717	849,884
Gozo <sup>d</sup>	Lm	118,868	17,057	11,244	57,163
	€	276,888	39,732	26,191	133,154
Police Department	Lm	223,103	49,264	7,303	59,916
	€	519,690	114,754	17,011	139,567
Correctional Services Department	Lm	104	104	0	48
	€	242	242	0	112
Civil Protection <sup>d</sup>	Lm	15,718	3,288	205	2,332
	€	36,613	7,659	478	5,432
Government Property Division - Land Department	Lm	4,233,469	1,085,717	69,771	1,672,834
	€	9,861,330	2,529,040	162,523	3,896,655
Ministry of Finance	Lm	415	b	b	b
	€	967	b	b	b
Treasury Department	Lm	36,479	14,226	0	10,156
	€	84,973	33,138	0	23,657
Inland Revenue Department: Income Tax - Maltese Currency <sup>f</sup>	Lm	269,664,786	187,168,889	125,703,001	312,920,860
	€	628,149,979	435,986,231	292,809,227	728,909,527
Income Tax - Foreign Currency	Lm	13,454,240	c	c	c
	€	31,339,949	c	c	c
Capital Transfer Duty Department: Duty on Documents <sup>d</sup>	Lm	12,162,585	1,320,794	4,441,684	5,629,675
	€	28,331,202	3,076,622	10,346,341	13,113,615
Death and Donation Duty	Lm	2,382,737	3,135	21,229	1,538
	€	5,550,284	7,303	49,450	3,583
Customs Department <sup>d</sup>	Lm	3,323,162	2,834,838	380,445	8,259,627
	€	7,740,885	6,603,396	886,198	19,239,755
V.A.T. Department	Lm	86,244,341	49,940,603	1,538,256,931	1,601,956,711
	€	200,895,274	116,330,312	3,583,174,775	3,731,553,348
Contracts Department	Lm	204,340	0	0	0
	€	475,984	0	0	0
Ministry of Education, Youth and Employment: Examinations Department <sup>a</sup>	Lm	84,191	15,082	7,793	40,136
	€	196,112	35,132	18,153	93,492
Industrial and Employment Relations <sup>a</sup>	Lm	154,018	4,465	0	0
	€	358,765	10,401	0	0
Ministry for Tourism and Culture <sup>d</sup>	Lm	654,565	108,777	137,202	158,563
	€	1,524,726	253,382	319,595	369,352
Mediterranean Conference Centre	Lm	242,190	191,049	7,465	135,754
	€	564,151	445,024	17,389	316,222
Ministry for Competitiveness and Communications: Malta Communications Authority	Lm	331,017	b	b	b
	€	771,062	b	b	b
Revenue Department (ex-Wireless Telegraphy Department)	Lm	2,231,975	c	c	c
	€	5,199,103	c	c	c
Commerce Division	Lm	829,522	128,025	21,538	0
	€	1,932,266	298,218	50,170	0
Civil Aviation	Lm	435,124	431,975	2,370	465,725
	€	1,013,566	1,006,231	5,521	1,084,847
Ministry for Resources and Infrastructure <sup>d</sup>	Lm	759,563	190,535	11,594	152,365
	€	1,769,306	443,827	27,007	354,915
Ministry for Gozo	Lm	120,277	14,557	0	16,270
	€	280,170	33,909	0	37,899
Ministry of Health, the Elderly and Community Care: Health Division <sup>d</sup>	Lm	871,462	144,982	118,381	171,685
	€	2,029,960	337,717	275,754	399,918
Min for Investment, Industry and Information Technology	Lm	3,188,271	b	b	b
	€	7,426,674	b	b	b
Ministry for Rural Affairs and the Environment	Lm	317,134	41,589	1,945	62,193
	€	715,430	96,876	4,531	144,871
Ministry for the Family and Social Solidarity: Social Security Department: National Insurance Contributions Pre-1998 <sup>a</sup> Social Security Contributions with effect from 1998 <sup>a</sup>	Lm	b	b	b	b
	€	b	b	b	b
Overpayments of Benefits	Lm	2,717,085	600,774	43,040	1,013,835
	€	6,329,106	1,399,427	100,256	2,361,600
Department of Social Housing	Lm	5,160	157	36	423
	€	12,020	366	84	985
<b>TOTALS<sup>e</sup></b>	<b>Lm</b>	<b>412,327,889</b>	<b>224,664,622</b>	<b>1,670,952,350</b>	<b>1,933,401,647</b>
	<b>€</b>	<b>960,465,616</b>	<b>569,915,262</b>	<b>3,892,271,954</b>	<b>4,503,614,365</b>

Outstanding on 31/12/2006	Gross Variation	Amounts Est as not Collectable <sup>c</sup>	Net collectable arrears as at 31/12/2006	Net collectable arrears as at 31/12/2005	Net Variation	Due from Govt. Dept. & Para. Bodies	Individual & Private Companies
b b	b b	b b	b b	3,097 7,214	b b	b b	b b
12,315 28,686 218,866 509,821 0 0 22,651 52,763	12,315 28,686 112,999 263,217 -16 -37 -102,273 -238,232	0 0 9,860 22,968 0 0 0 0	12,315 28,686 209,006 486,853 0 0 22,651 52,763	0 0 96,944 225,819 16 37 100,980 235,220	12,315 28,686 112,062 261,034 -16 -37 -78,329 -182,457	0 0 77,703 180,999 0 0 22,651 52,763	12,315 28,686 131,303 305,854 0 0 0 0
244 568 127 296 13,266 30,901	-56 -130 -756 -1,761 -3,394 -7,906	244 568 0 0 4,035 9,399	0 0 127 296 9,231 21,502	300 699 883 2,057 c c	-300 -699 -756 -1,761 c c	0 0 122 284 0 0	0 0 5 12 9,231 21,502
5,611,347 13,070,922 147,730 344,118 226,452 527,491 48 112 14,557 33,909 4,750,815 11,066,422	-1,468,894 -3,421,603 28,862 67,230 3,349 7,801 -56 -130 -1,161 -2,704 517,346 1,205,092	6,526 15,201 0 0 0 0 0 0 9,452 22,017 0 0	5,604,821 13,055,721 147,730 344,118 226,452 527,491 48 112 5,105 11,891 4,750,815 11,066,422	5,919,398 13,788,488 52,323 121,880 223,103 519,690 104 242 4,151 9,669 4,233,469 9,861,330	-314,577 -732,767 95,407 222,239 3,349 7,801 -56 -130 954 2,222 517,346 1,205,092	c c 0 0 13,766 32,066 48 112 3,086 7,188 1,051,123 2,448,458	c c 147,730 344,118 212,686 495,425 0 0 2,019 4,703 3,699,692 8,617,964
b b 32,409 75,493	b b -4,070 -9,481	b b 3,979 9,269	b b 28,430 66,224	415 967 32,500 75,705	b b -4,070 -9,481	b b 0 0	b b 28,430 66,224
269,713,756 628,264,048 16,855,534 39,262,833	48,970 114,069 3,401,294 7,922,884	211,370,641 492,361,148 c c	58,343,115 135,902,900 c c	52,003,772 121,136,203 c c	6,339,343 14,766,697 c c	c c c c	c c c c
12,029,782 28,021,854 2,359,911 5,497,114 8,367,506 19,491,046 100,003,518 232,945,535 204,340 475,984	-132,803 -309,348 -22,826 -53,170 5,044,344 11,750,161 13,759,177 32,050,261 0 0	8,054,164 18,761,155 902,778 2,102,907 2,653 6,180 93,950,760 218,846,401 0 0	3,975,618 9,260,699 1,457,133 3,394,207 8,364,853 19,484,866 6,052,758 14,099,133 204,340 475,984	3,959,730 9,223,690 1,471,157 3,426,874 3,323,161 7,740,883 c c 204,238 475,747	15,888 37,009 -14,024 -32,667 5,041,692 11,743,983 c c 102 238	0 0 7,112,298 16,567,198 50 116	3,975,618 9,260,699 1,457,133 3,394,207 1,252,554 2,917,666 c c 204,290 475,868
101,452 236,320 149,553 348,365	17,261 40,207 -4,465 -10,401	20,919 48,728 0 0	80,533 187,591 149,553 348,365	1,452 3,382 c c	79,081 184,209 c c	0 0 0 0	80,533 187,591 149,553 348,365
567,149 1,321,102 179,430 417,959	-87,416 -203,625 -62,760 -146,191	120,653 281,046 8,178 19,050	446,496 1,040,056 171,252 398,910	452,467 1,053,965 237,325 552,819	-5,971 -13,909 -66,073 -153,909	0 0 13,023 30,335	446,496 1,040,056 158,229 368,574
b b 2,578,914 6,007,254 679,959 1,583,878 466,504 1,086,662	b b 346,939 808,150 -149,563 -348,388 31,380 73,096	b b 1,115,543 2,598,516 120 280 0 0	b b 1,463,371 3,408,737 679,839 1,583,599 466,504 1,086,662	331,017 771,062 2,231,975 5,199,103 829,402 1,931,987 434,794 1,012,798	b b -768,604 -1,790,366 -149,563 -348,388 31,710 73,864	b b c c 0 0 249,730 581,714	b b c c 679,839 1,583,599 216,774 504,948
709,799 1,653,387	-49,764 -115,919	263,350 613,440	446,449 1,039,946	584,690 1,361,961	-138,241 -322,015	362,054 843,359	84,395 196,587
121,990 284,160	1,713 3,990	245 571	121,745 283,590	120,277 280,170	1,468 3,420	75,705 176,345	46,285 107,815
779,784 1,816,408	-91,678 -213,552	200,739 467,596	579,045 1,348,812	718,821 1,674,403	-139,776 -325,590	4,944 11,516	574,101 1,337,296
b b	b b	b b	b b	3,188,271 7,426,674	b b	b b	b b
325,793 758,894	18,659 43,464	96,781 225,439	229,012 533,454	175,016 407,678	53,996 125,777	c c	c c
b b b b 3,087,106 7,191,023 5,390 12,555	b b b b 370,021 861,917 230 536	b b b b 0 0 0 0	b b b b 3,087,106 7,191,023 5,390 12,555	b b b b 2,717,085 6,329,106 5,088 11,852	b b b b 370,021 861,917 302 703	b b b b 0 0 0 0	b b b b 3,087,106 7,191,023 5,390 12,555
<b>430,337,997</b> <b>1,002,417,883</b>	<b>21,532,908</b> <b>50,158,183</b>	<b>316,141,620</b> <b>736,411,880</b>	<b>97,340,843</b> <b>226,743,170</b>	<b>83,657,421</b> <b>194,869,371</b>	<b>10,994,680</b> <b>25,610,715</b>	<b>8,986,303</b> <b>20,932,455</b>	<b>16,661,707</b> <b>38,811,337</b>

- a) Did not send Return of Arrears 2005.
- b) Return of Arrears 2006 not submitted.
- c) Information not available or incomplete.
- d) Opening Balance 2006 does not tally with Closing Balance 2005.
- e) Balance as at 01/01/06 per 2005 Return since not available in 2006 Return.
- f) Credit balances were added back to net arrears as reported in the Arrears of Revenue Return prepared by the Department.
- g) Totals are incomplete in view of a) to f) above.



**Office of the Prime Minister**

# Electoral Office - Personal Emoluments

## Background

The Electoral Office is an autonomous body set up in terms of article 60 of the Constitution of Malta. Members of the Commission managing this entity are appointed by the President acting in accordance with the advice of the Prime Minister after consultation with the Leader of the Opposition.

During the financial year 2006 there were fifty-nine (59) employees on the payroll and the actual total amount spent from Vote 10 on Personal Emoluments was Lm424,374 (€988,526).

## Key Issue

### *Lack of Control on Overtime*

- a) The automated attendance recording system introduced at the Electoral Office in November 2006 was not being used after office hours. Overtime was only being recorded manually on the attendance sheets which were not being independently verified but only certified correct by the respective Head of Section. Very often these officers, at times even of a minor grade, were also approving their own attendance for the payment of overtime work.
- b) Apart from remuneration paid to employees for services rendered during the Election period, a total amount of Lm47,639<sup>1</sup> (€110,969) was spent on overtime during 2006.

Source: - Departmental Accounting System (DAS). Figure includes Lm34,109 (€79,452) expensed on overtime from line item 5219 - Electoral Commission Activities under Programmes and Initiatives.

## *Budget Overrun*

Arrear charge approval was not sought to pay expenses amounting to over Lm75,000 (€174,703) in respect of the preceding year. These payments were made to the Police Department from the budget of the year under review.

## Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of segregation of duties was noted in the Salaries Section. Certain payments such as overtime and extra remuneration were being calculated and processed by the same officer in this section.
- Control over attendance records, including those maintained for overtime, was weak.
- Sick leave was not always supported by medical certification. Unreliable Vacation and Sick Leave records also resulted in payment for leave over and above one's entitlement.
- Employees, irrespective of their grade, as well as other third parties were additionally compensated for work performed during office hours in connection with Local Councils Elections. Moreover, the remuneration to some officers in public service was not included with their salary, bypassing the Final Settlement System.
- Services provided by ex-public officers were not covered by any Contract of Service. A fiscal receipt was neither provided for such services.

- Inconsistent internal policy was applied in respect of payment for overtime carried out by an officer performing driving duties.
- The right level of approval from the Office of the Prime Minister (OPM) was not evidenced to engage casual substitutes in replacement of officers on long leave.
- Allowance for wear and tear of clothing was given to officers when such allowance was not applicable.
- The expenditure totalling about Lm100,000 (€232,937) per annum, in respect of security duties and extra services rendered by the Police Force at the Electoral Office and Ta' Qali outside the election period, is not covered by a formal agreement with the Police Department.
- A payment of Lm20,000 (€46,587) to the Police Department was not supported by a breakdown of services given.
- Payments have been effected to cover meals served to members of the Police Force while performing duties during Elections. However, no correspondence and/or written agreement were provided in this respect.
- Proper records, supporting documents hand-delivered to the Gozo Office daily on alternate basis by two Gozitan officers employed within the Electoral Office in Malta, were not being maintained.
- Cleaning services at the Electoral Office in Gozo are being fully borne by the Gozo Ministry. A service level agreement between the two (2) entities does not exist.

## Compliance Issues

### *Temporary Return during Unpaid Study Leave*

During the election period the Electoral Office endorsed the temporary return of an officer who was on unpaid study leave while keeping in employment the casual substitute.

### *Ex-impressed Drivers*

The allowance granted to ex-impressed drivers for providing the service of their vehicle is being paid when they are on vacation leave or on sick leave. A payment in advance for such services was also effected.

### *Refund of Telephone/Mobile bills*

Full refund of telephone/mobile bills was given to Members of the Commission instead of a monthly Lm10 (€23) prepaid card approved by the OPM. A retiring member retained the mobile phone without paying the nominal charge as per standing regulations.

## Recommendations

### *Key Issue*

#### *Lack of Control over Overtime*

There should be full use of the automated system to enable maintenance of efficient records of overtime performed. It is the role of the senior officer to endorse attendance sheets and approve payment as part of his/her responsibility to monitor overtime expenditure. Overtime work is to be approved for periods not exceeding three (3) months and whenever possible this should be linked to ad hoc assignments with specific targets to be attained.

#### *Budget Overrun*

The Commission has to ensure that claims spilling over from one year to the next are kept at the absolute minimum, limited to that which is unavoidable. As stipulated in the General Financial Regulations, commitments are not to be entered into before it is ascertained that funds are available.

### *Control Issues*

- To ensure an efficient payment processing system, a review of the payroll processing procedure is to be carried out. A system where checks are performed by a separate officer is to be adopted, thus achieving a reasonable level of efficiency without compromising accuracy.
- Attendance Sheets are to be supervised on a daily basis to ensure completeness and accuracy of the reported times and duly certified by the officer in charge.
- Employees are obliged to produce a medical certificate within stipulated periods from their absence as required by the Public Service Management Code (PSMC). Days of sick leave are not to be paid for unless covered by a valid medical certificate, timely submitted to the Human Resources section, covering the number of days availed of.

- Extra remuneration in respect of duties performed by employees during office hours are not to be allowed without OPM approval. All remuneration paid to officers in the public service is to be processed solely through the payroll system. Multi-payments payable to employees should not be approved unless they are reimbursements of authorized out of pocket expenses.
- The Commission is to ensure that future employment relationships are formalized. A contract of service with clearly defined job responsibilities is to be drawn up for all individuals rendering a service. A fiscal receipt is to be provided for such services.
- In co-ordination with the OPM, the Commissioner has to establish an efficient operating procedure in order to ensure that best output is achieved in an economic and consistent manner.
- It is at the discretion of the Permanent Secretary at the OPM to decide whether an employee on long leave needs to be replaced or not, and which replacement scheme best serves the particular need.
- The Commission has the responsibility to ensure that an allowance is withheld immediately if the conditions for its payment are no longer applicable. The payment of allowances is to be reviewed on a regular and systematic basis.
- A written agreement ought to be entered into and concurred by both the Electoral Commission and the Commissioner of Police. This would also enable more transparency in benchmarking the service being offered.
- Payments are not to be affected unless supported by detailed invoices.
- Authority for the disbursement of public funds in connection with Government hospitality must be sought from the Permanent Secretary OPM, and the procedure as stipulated by the PSMC followed, before the expenditure is incurred.
- To make better use of the resources available, the Commission is to consider grouping of documents when there is no real urgency for delivery to the Office in Gozo. A register is to be maintained to record items and/or documents delivered. For better accountability officers should also be instructed to sign for an itemized list of documents delivered and return a copy of the same list endorsed by the officer in Gozo receiving the documents in question.
- The Gozo Ministry could be reimbursed by means of a Schedule of Payment for any services rendered to the Electoral Office. A service level agreement binding upon the Gozo Ministry with the Electoral Commission would enable a benchmarking position of the service being offered besides warranting value for money and quality of service.

### *Compliance Issues*

#### Temporary Return during Unpaid Study Leave

As per standing rules and regulations, at no point shall an officer and a casual substitute replacement be employed simultaneously.

#### Ex-impressed Drivers

Former impressed drivers who have opted to provide the service of their vehicle are to be paid a rate for each day they provide the service of their vehicle as is also stipulated in MF Circular 2/2000. Any overpayments are to be recouped.

#### Refund of Telephone/Mobile Bills

The issue of reimbursed telephone bills being met from public funds in an unauthorised manner is to be addressed by asking the officers concerned to refund excessive past reimbursements. Moreover, the ceiling established by the Permanent Secretary has to be observed and if additional allowance is justified, prior approval should be sought. If an officer, on termination of his appointment, wishes to retain the mobile provided, such retention is to be done in terms of MF Circular 3/2001.

### Management Comments

Most of the observations and the respective recommendations were accepted and the necessary actions will be taken to comply accordingly, however the following reservations were submitted by the Commission.

The upgrading of the current Attendance Recording System has been withheld by the OPM since a centralised approach to the procurement of such system across the Public Service will eventually be adopted.

With regards to payment to the Police, management stated that security measures, particularly those taken during elections, are usually discussed verbally and in confidentiality between the Electoral Commission and the Commissioner of Police. However subsequently, the Ministry of Finance advised that services provided by the Police on a regular basis as part of their routine functions are to be met out of the Police Recurrent Vote, while non-



routine services by the Police personnel are to be borne by the Electoral Office.

The Electoral Commission still deems it necessary to provide meals to the Police and other security bodies such as the Armed Forces of Malta to safeguard the smooth running of the General Elections although there is no written agreement. Henceforth, no meals during Local Council elections will be borne by the Electoral Office.

Whilst the Commission stated that engagements of casual substitutes are being properly endorsed at the right level of

authority, no evidence was submitted to substantiate.

Management failed to give any indication whether it will address the observations in respect of additional compensation during office hours to employees and third parties as well as overtime payment to an officer performing driving duties.

Comments have not been received in respect of the unsubstantiated payment of Lm20,000 (€46,587) to the Police Department.





**Ministry for Justice & Home Affairs**

# LOCAL COUNCILS

## Background

In accordance with the Local Councils Act of 1993, section 65 (1), the audit of the Local Councils' financial statements was carried out by seven private audit firms on behalf of the Auditor General. The respective auditors were appointed as Local Government Auditors following a call for application issued in the year 2004.

The financial statements covered the year ending 31 March 2007 during which year the Government allocated Lm10.25 (€23.87) million (2006:Lm10.20m - €23.76m) to Local Councils.

Audit reports and financial statements of each of the sixty-eight Local Councils were to be submitted by not later than 30 June 2007.

The Government allocated Lm30,000 (€69,881) to the Local Councils Association. The audit of the Association was carried out by a private audit firm appointed in terms of Part VI, Section 36 of the Local Councils (Association) (Amendment) Regulations, 1999. The audit report had to be submitted by not later than twelve weeks from the end of the financial year ending December 31, 2006. Considerable delay was noted in the submission of these financial statements and the audited financial statements were only approved by the Council on 30 October 2007.

## Key Issues

### Qualified Reports

Thirty-four audit reports representing fifty per cent (50%) of Local Councils were qualified for one or more of the following defaults:

1. Local enforcement system and failure by the Joint Committee (JC) to provide timely audited financial statements;
2. Incorrect accounting treatments/disclosures or not in compliance with International Financial Reporting Standards (IFRSs) and Local Councils' Legislation;
3. Fixed assets incorrectly accounted for, could not be verified, and register not in agreement with corresponding values in the financial statements;
4. Shortage of liquid funds/Financial Situation Indicator (FSI)<sup>a</sup> less than ten per cent/ deficit in the income and expenditure account;
5. Balance sheet amounts could not be verified or were incorrectly recorded;
6. Going concern, its dependency on the annual financial allocation by central Government or the continued support of the Council's creditors, and upon further sources of funds other than the annual financial allocation by the Central Government;

The respective qualifications are listed in Appendix A (pg64). In addition, apart from the above, the Local Councils of Attard, Zejtun and Qormi included an emphasis of matter regarding the going concern concept.

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<sup>a</sup>FSI is defined by Local Councils' Financial Regulations as the difference between the total of all current assets and the total of all current and long term liabilities for the current and subsequent financial years, excluding any long-term commitments approved by the Minister in terms of the Act, taken as a percentage of the annual allocation.

*Income and Expenditure Account*

There were sixteen Councils which registered a deficit<sup>b</sup> in the Income and Expenditure account for the year. The table hereunder presents the Councils in question, the deficit for the year under review and the corresponding figures for the previous two years:

Local Council		2006-2007	2005-2006	2004-2005
<b>Attard</b>	<b>Lm</b>	(86,230)	(606)	807
	<b>€</b>	(200,862)	(1,412)	1,880
<b>Birgu</b>	<b>Lm</b>	(19,132)	(11,064)	7,235
	<b>€</b>	(44,566)	(25,772)	16,853
<b>Bormla</b>	<b>Lm</b>	(124)	(24,423)	(13,866)
	<b>€</b>	(289)	(56,890)	(32,299)
<b>Ghaxaq</b>	<b>Lm</b>	(7,522)	(6,802)	19,752
	<b>€</b>	(17,522)	(15,844)	46,010
<b>Gzira</b>	<b>Lm</b>	(16,021)	32,187	15,578
	<b>€</b>	(37,319)	74,976	36,287
<b>Hamrun</b>	<b>Lm</b>	(11,093)	16,870	(1,392)
	<b>€</b>	(25,840)	39,297	(3,242)
<b>Kirkop</b>	<b>Lm</b>	(4,255)	(576)	12,184
	<b>€</b>	(9,911)	(1,342)	28,381
<b>Marsaxlokk</b>	<b>Lm</b>	(15,764)	1,014	7,965
	<b>€</b>	(36,720)	2,362	18,553
<b>Mdina</b>	<b>Lm</b>	(6,076)	7,253	9,599
	<b>€</b>	(14,153)	16,895	22,360
<b>Paola</b>	<b>Lm</b>	(30,237)	(3,058)	79,527
	<b>€</b>	(70,433)	(7,123)	185,248
<b>Qala</b>	<b>Lm</b>	(2,823)	11,340	24,459
	<b>€</b>	(6,576)	26,415	56,974
<b>S.Giljan</b>	<b>Lm</b>	(34,692)	964	8,262
	<b>€</b>	(80,811)	2,246	19,245
<b>S. Lawrenz</b>	<b>Lm</b>	(2,236)	7,565	12,080
	<b>€</b>	(5,208)	17,622	28,139
<b>S. Lucija</b>	<b>Lm</b>	(7,059)	3,861	(7,848)
	<b>€</b>	(16,443)	8,994	(18,281)
<b>Swieqi</b>	<b>Lm</b>	(36,342)	6,528	6,486
	<b>€</b>	(84,654)	15,206	15,108
<b>Xaghra</b>	<b>Lm</b>	(16,329)	(3,589)	22,582
	<b>€</b>	(38,036)	(8,360)	52,602

Seven Councils which registered a deficit for the last financial year rectified their financial situation and reported a surplus this year. These were Gudja, Mgarr, M'Skala, Mtarfa, Pembroke, San Gwann, and Sliema. On the contrary, Attard, Birgu, Bormla, Ghaxaq, Kirkop, Paola and Xaghra registered a deficit for the second year running.

Although a deficit in the Income and Expenditure account does not go directly against the Local Councils (Financial) Regulations, such deficit if not controlled, will eventually result in not achieving a ten per cent benchmark in the Financial Situation Indicator as per same Regulations art (4)(1)(c).

<sup>b</sup> A deficit in the income and expenditure account results when expenditure is greater than revenue.

### Working Capital

Ten Local Councils recorded a negative working capital<sup>o</sup> during the year under review, as opposed to four Local Councils in the comparative year. The following table lists these Councils, the working capital for the year under review and the corresponding figures for the previous two years:

Local Council		2006-2007	2005-2006	2004-2005
Attard	Lm	(14,910)	69,822	42,429
	€	(34,731)	162,642	98,833
Balzan	Lm	(14,544)	54,229	53,364
	€	(33,878)	126,320	124,305
B'Kara	Lm	(16,026)	37,632	122,830
	€	(37,331)	87,659	286,117
Birgu	Lm	(11,217)	3,353	11,175
	€	(26,129)	7,810	26,031
Mtarfa	Lm	(1,083)	(32,507)	24,206
	€	(2,523)	(75,721)	56,385
Mqabba	Lm	(9,889)	12,360	(8,122)
	€	(23,035)	28,791	(18,919)
Paola	Lm	(11,249)	64,965	37,737
	€	(26,203)	151,328	87,904
Swieqi	Lm	(40,178)	8,806	(2,556)
	€	(93,590)	20,512	(5,954)
Xaghra	Lm	(64,883)	9,382	(187)
	€	(151,137)	21,854	(436)
Xewkija	Lm	(6,258)	(6,528)	(15,400)
	€	(14,577)	(15,206)	(35,872)

Two Councils which recorded a negative working capital balance for the year ending 31 March 2006 improved their financial position and this year registered a positive working capital. These were Zebbug (M) and Kerzem. However, an additional eight Councils experienced a negative working capital in the current year as opposed to the positive balance in the previous year.

The working capital of Mtarfa registered a considerable improvement albeit still remaining in the negative. The significant decrease in the outstanding negative working capital balance as at year ending 31 March 2007 has been partly attributable to the decrease in total expenditure by 50% over the comparative year.

#### Balzan

The shortage of liquid funds and the consequent negative working capital experienced by Balzan was mainly brought about by capital expenditure incurred by the Council on the upgrading of the Playing Field and surrounding Public

Garden. This accumulated to Lm102,000 (€237,596) by year end which greatly exceeded the original estimate for Phase 1 and 2. Phase 3 will be carried out during the next financial year ending 31st March 2008. The budgeted costs authorised to be further spent on this project and included in its Budget for 2007/2008 fall short of the original estimate for this phase.

#### Birgu

The Council incurred expenditure that exceeded its annual allocation. In addition it failed to prepare and approve the 'Administrative Report' and the 'Three Year Business Plan' for the year as set by the Local Councils Regulations.

#### Mqabba

The negative working capital is mainly attributable to two capital projects relating to road resurfacing and the construction of an abutting wall. Total capital expenditure incurred by the Council on these two capital projects during the year under review amounted to Lm56,000 (€130,445).

<sup>o</sup> Working capital is defined as current assets less current liabilities.

*Swieqi*

The significant deterioration in the working capital is mainly attributable to massive patching works carried out during the year. Significant variations were noted between actual expenditure to budgeted costs. Expenditure for patching work in the current year amounted to around Lm59,000 (€137,433) as opposed to Lm17,000 (€39,599) originally budgeted for. Moreover, the Council failed to prepare a 'Business Financial' and 'Budget' for the year in line with the criteria laid down in the Regulations.

*Xaghra*

The negative working capital position experienced as at year end implies a weak control of the Council's financial

resources. Significant variations were noted between budgeted and actual expenditure. In particular, the Council employed the services of a consultant which had not been budgeted for by the Council. This expense exceeded Lm15,000 (€34,941).

*Financial Situation Indicator*

Thirteen Local Councils registered a Financial Situation Indicator (FSI) below the ten per cent benchmark set out in Regulation 4(c) of LN 155 of 1993 - Local Councils Financial Regulations 1993, as amended by Section 2 of LN 320 of 2003 - Local Councils (Financial) (Amendment) Regulations, 2002 and LN 135 of 2007 - Local Councils (Audit) (Amendment) Regulations, 2007. These are shown in the table hereunder:

Local Council		Government Allocation 2006-2007	Current Assets-Liabilities 2006-2007	Financial Situation Indicator 2006-2007	Financial Situation Indicator 2005-2006
				%	%
Attard	Lm €	176,774 411,773	(14,910) (34,731)	(8.43)*	39.67
B'Kara	Lm €	341,442 795,346	(16,026) (37,331)	(4.69)	9.77
Birgu	Lm €	89,092 207,529	(11,217) (26,129)	(12.59)	3.83
Balzan	Lm €	79,637 185,504	(14,544) (33,878)	(18.26)*	69.74
Isla	Lm €	81,807 190,559	537 1,251	0.66	13.09
Mosta	Lm €	319,144 743,406	13,077 30,461	4.10	5.35
Mtarfa	Lm €	84,733 197,375	(1,175) (2,737)	(1.39)*	(39.08)
Mqabba	Lm €	81,625 190,135	(9,889) (23,035)	(12.12)*	15.44
Paola	Lm €	190,245 443,152	(11,249) (26,203)	(5.91)	32.26
Siggiewi	Lm €	246,615 574,458	10,412 24,253	4.11*	5.88
Swieqi	Lm €	156,309 364,102	(40,178) (93,590)	(25.70)*	5.52
Xaghra	Lm €	160,952 374,917	(64,883) (151,137)	(40.31)*	5.95
Xewkija	Lm €	104,572 243,587	(6,258) (14,577)	(5.98)	(6.32)

\* Although these Councils are exempt by the Minister, they have been included in the list because they did not achieve an FSI of 10%.

Five councils which failed to meet the FSI requirements for last year improved their financial situation this year and registered an FSI above the threshold limit of 10 per cent. These were Zebbug (M), Kalkara, Rabat (G), San Gwann, and Marsa.

## Control Issues

Local Government Auditors identified opportunities for improving controls in a number of areas:

- a) No proper audit trail in the recording of income;
- b) Receipts not pre-printed, not pre-numbered and not in triplicate;
- c) Allowances given to councilors and executive secretaries for the use of mobile phones and personal transport;
- d) Payments issued prior to the approval by the Council;
- e) Three-Year Business plan not prepared and approved within the stipulated time period;
- f) Receipts not deposited on a timely basis;
- g) Invoices provided not properly addressed to the Council;
- h) No bye-law issued for the generation and collection of income;
- i) Donations and sponsorships given in contravention to Local Councils' Legislation;
- j) Lack of control and monitoring of expenditure with budgeted projections;
- k) Re-imburement claims not supported by the required documentation;
- l) No purchase request forms and purchase orders raised;
- m) Multiple receipt booklets used concurrently for different sources of income;

## Compliance Issues

### *Finalisation of Annual Financial Statements*

In accordance with the Local Council (Audit) Procedures 2006, extracts from P2.05:

*'The Executive Secretary is to draw up and submit to the*

*Auditor General the Financial Statements signed by the Mayor and himself by not later than 10 May 2007'.*

In addition,

*'The Financial Statements are to consist of the Statement of the Local Council Members' and Executive Secretary's responsibilities, Statement of Income and Expenditure, the Statement of Affairs, the Statement of Changes in Equity, the Cash Flow Statement, Notes to the Financial Statements and where applicable the Schedule of Special Needs Funds.'*

Only thirty-four out of the sixty-eight Local Councils submitted the respective financial statements by the stipulated date in accordance with the specimen of the financial statements set out in the Local Councils (Audit) Procedures 2006.

### *Audit Report and Financial Statements*

Forty-nine reports were delivered by 30 June 2007 while the other nineteen did not meet the deadline. All reports, with the exception of Pieta' Local Council, were eventually submitted. The audited financial statements of Pieta' Local Council have not been received since the Council did not approve these statements for the second year running. As a consequence, by 31 October 2007 these financial statements were not laid on the Table of the House of Representatives by the Minister for Justice and Home Affairs.

## Management Letters

Management letters highlighted a number of audit findings and relative recommendations. Forty-five Local Councils sent a response to the management letter as required by Section 7, sub-sections (3) and (4) of Legal Notice 156 of 1993 - Local Councils (Audit) Regulations, 2007. As at 31 October 2007, twenty-three Local Councils failed to submit a reply.

The following are the areas of concern which were encountered most frequently in the management letters:

1. Fixed Assets
2. Accounting
3. Local Enforcement System
4. Tenders/ Contracts/Quotations
5. Salaries
6. Bank/Cash
7. Creditors
8. Invoices

Appendix B (pgs65/66) lists the Councils which encountered the above mentioned weaknesses and the frequency of their occurrence.



A summary of the most material weakness noted above are listed hereunder:

## Fixed Assets

- a) No fixed asset register is kept or maintained in the Council's accounting software;
- b) Fixed assets register is incomplete and lacks necessary details to identify the existence and location of the assets;
- c) Fixed Assets not appropriately tagged;
- d) Low value items included in the register;
- e) Assets not appropriately tagged and cross-referenced to the asset register;
- f) Discrepancies between the nominal ledger and the fixed asset register;
- g) Items obsolete or beyond repair still appearing in the fixed asset register;
- h) Fixed asset register not updated with additions;
- i) Assets donated to the Council not included in the accounting records;
- j) Accumulated depreciation as per fixed asset register not in agreement to the nominal ledger;
- k) Items with a depreciation rate of one hundred per cent, not written off within the same financial year;
- l) Provision for depreciation incorrectly calculated or depreciation not calculated on a monthly basis;
- m) Incorrect postings to inappropriate depreciation accounts;
- n) Capitalisation of expenditure not in accordance with International Accounting Standard 16, relating to Property, Plant and Equipment;
- o) Incorrect classification of capital expenditure;
- p) Insurance policy not covering the cost of assets as per financial statements;
- q) Migration problems encountered with the transfer of the fixed assets register from Sage Line 50 to Sage Pastel;
- r) Items disposed of not properly accounted for;

- s) No records of yearly physical being kept;
- t) Category totals not in agreement to those of the financial statements.

## Accounting

- a) Transactions not accounted for or not accounted for correctly;
- b) Accounting not in accordance to International Financial Reporting Standards and/or Local Councils' Legislation;
- c) Incorrect cut-off of purchases and sales;
- d) Incorrect accounting of debit/credit balances in payables/receivables lists respectively;
- e) Wrong classification of income;
- f) Incorrect calculations of accruals and prepayments;
- g) Receipts not recorded separately in the accounts but in batch total when deposited;
- h) Adjustments posted by auditors at year end to reconcile/ correct balances;
- i) Discrepancies between last year's closing balances and this year's opening balances;
- j) Quarterly Financial Reports, Financial Indicator Reports, Business plan, Budget and Administrative Reports not prepared as required in Local Councils' Legislation.

## Local Enforcement System (LES)

- a) Contraventions over one year old still outstanding to the extent that some amounts risk getting statute barred. Ageing period of debts amounts to up to seven years;
- b) Debtors doubtful of recovery and/or no adequate provision for doubtful debts;
- c) Excessive delays in cash remittance from fines paid at the Licensing and Testing Department;
- d) Council not aware of contraventions that have been settled with the ADT and not remitted;
- e) Income/debtors could not be verified or incorrectly recorded;

- f) Unidentified deposits in respect of contraventions due to lack of information submitted by the banks;
- g) Income/debtors disclosed in the financial statements not reconciled with LES reports or not reconciled regularly;
- h) Council not recognizing any revenue due from LES because it could not be measured reliably;
- i) Joint Committee audit reports not available;
- j) Where available, Joint Committee audit reports did not include actual breakdown of the amounts received (income) as well as the amounts of LES Tribunal payments still due, split by Council.

### Tenders/Contracts/Quotations

- a) Council making use of expired/invalid contracts;
- b) Letter of Acceptance/Bank Guarantee not available;
- c) Contracts not available or not signed;
- d) Bid Bond not provided by contractor;
- e) Contract signed prior to the receipt of the bid bond, performance bond or bank guarantee;
- f) Performance guarantee not available or not requested;
- g) Council not in possession of the third party liability insurance;
- h) Documentation required by Local Councils' Procedures not available;
- i) Closing date for tender less than one month from date of publication;
- j) Works not certified by a contract manager;
- k) Management fee incorrectly deducted or not deducted at all;
- l) Retention money not withheld to cover the Council in the case of defective work;
- m) Expenditure made by direct order without obtaining three quotations or through the issue of a call for tender;
- n) Council being overcharged by contractor for services already covered;

- o) Invoiced rates could not be reconciled to contracted rates;
- p) No letter of acceptance sent to contractor on the awarding of tender;
- q) Schedule of tenders inappropriately prepared;

### Salaries

- a) FSS forms together with the respective payment not submitted to the Commissioner of Inland Revenue (CIR) by due date;
- b) Discrepancy between the year end settlement (FSS) forms, payroll records and financial statements;
- c) Mistakes and omissions in FSS returns;
- d) Contract of employees not available;
- e) Mayor's honoraria incorrectly declared in the FSS returns;
- f) Overtime not supported by time-sheets and not authorized by the Council Secretary and Mayor.

### Bank/Cash

- a) Cash not deposited daily or twice weekly;
- b) The cash float not kept on the Imprest System as regulated by the Regulations;
- c) Petty cash float not reconciled with the nominal ledger;
- d) Cash not receipted with an official Council receipt;
- e) Receipts deposited in batch according to their income allocation and not in sequential order;
- f) Bank reconciliation not prepared on a monthly basis or not correctly prepared;
- g) Stale cheques not written off;
- h) Amounts shown in the council's records could not be confirmed;
- i) Payments not included in schedule of payments which was presented to council.

## Creditors

- a) Supplier statements not available or not reconciled to Council's accounting records;
- b) Amounts in dispute with suppliers and amounts long overdue.

## Invoices

- a) Payments not supported by a fiscal receipt or tax invoice;
- b) Invoices lacking detail of supplies/services;
- c) Invoices for work done by contractor were not traced;
- d) Omitted invoices or invoices posted twice in the accounting records.

## Other concerns

A number of concerns warranting separate mention occurred at a number of Local Councils. The following are the concerns and the councils' comments, if any relative to each:

### Birgu

- The Council is financing the use of a mobile telephone as well as the purchase of top-up cards used by the Mayor. The bills in question are not re-imbursments but more of an allowance which is not permitted under the Local Councils Act.
- The rates charged with respect to the upkeep and maintenance of access roads and pedestrian streets were not traced in the tender document since the majority of the work carried out fell outside the tender specifications.

*Although the Council submitted a reply to the management letter, no comments were submitted with respect to the above issues.*

- Foreign travel expenses and subsistence were not clearly documented and not passed through the monthly schedule of payments.
- The bills for the collection of bulky refuse did not indicate the number of days the service was being performed and the rate charged per day.

*The Council concurred with the recommendations put forward by the auditor and agreed to take the*

*necessary actions to address the issues raised.*

### Fontana

- An amount of Lm250 (€582) was paid out as a donation for an animal race organized in Fontana. Such donations are in contravention to article 63A of the Local Councils Act 1993, whereby it is stated that donations, whether in cash or in kind, to local organizations should not exceed Lm50 (€116) (for each local organization) and 0.5% of the annual financial allocation in any one financial year.

*The Council confirmed that only Lm250 (€582) were paid out and used in aid of the animal race.*

### Kalkara

- The Council incurred Lm578 (€1,346) in respect of mobile charges as a compensation for any expense made during the course of performing one's duty. The bills in question are not re-imbursments but more of an allowance which is not permitted under the Local Councils Act.

*The Council did not concur with the auditors' point of view and continued to consider the mobile expenses as a re-imbursment of expenses incurred for the purpose of performing duties as applicable.*

- Time-sheets for customer care support services are not regularly authorized by the Council Secretary. Furthermore, on renewal of the contract on 1st March 2007, payment is being effected at Lm2.35 (€5.47) per hour despite the quotation received and minutes stating Lm2 (€4.66) per hour.

*The Council took note of the recommendation put forward in the auditors' report and the irregular practice of having timesheets not authorized on a regular basis has now been rectified. In addition, the Council further noted that the difference in rates is the VAT element, originally not included.*

### Kirkop

- The Council entered into an agreement with the Works Division to jointly finance the Project for the embellishment of St. Leonard Square. Following completion of works, the Council financed Lm12,000 (€27,952) for this Project out of a total cost of Lm30,000 (€69,881). However, the architect commissioned by the Council to supervise and certify the work billed the Council a contract management fee based on the total Project Cost. Nonetheless the Council paid a contract management fee of 2%

of Lm24,000 (€55,905). No credit note or revised request for payment was issued by the architect.

*The Council's reply was deemed inconclusive since it only denoted that the architect's fee was negotiated upon and no reference was made to the fact that total costs financed by the Council amounted to Lm12,000 (€27,952) rather than Lm30,000 (€69,881) or Lm24,000 (€55,905).*

- The Council reimbursed Lm500 (€1,165) to one of the Councillors as compensation for expenses incurred in the visit made by the local football team to Rousset. No details of the nature of the expense reimbursed were available. In addition, the payment was not included in the schedule of payments.

*The Council confirmed that the Lm500 (€1,165) represented a part payment with respect to the flight tickets incurred upon the visit made by the locality's football team to Rousset.*

### Marsascala

- Last year the Council paid Lm420 (€978) to the "Destination Marsascala" consortium in terms of an agreement, which it signed with the same consortium. The consortium consists of various commercial entities within the locality. Amongst other things, the signed agreement provides for conditions related to distribution of profits and sharing of losses.

The signing of this agreement falls in conflict with article 3(2b) of the Local Councils Act where the law states clearly that a Local Council does not have the power to enter into any form of commercial partnership in the furtherance of its functions, unless authorized to do so in writing by the Minister.

*The Council stated that no such amount was paid in the past two years and that the agreement has no longer been in place for over two years. It further explained that the agreement is a payment for a promotional nature and despite the 'profit and loss' sharing clause no such income is derived from such consortium.*

### Mosta

- The Council had amounts payable totalling Lm108,827 (€253,499) as at year end 31 March 2007, the majority of which could not be confirmed;
- Cash takings were not deposited by the Council staff on a regular basis. In fact certain receipts (deposits from contractors) were not banked at all;

- After year end, following a number of serious allegations and alleged irregularities committed by the Executive Secretary, an 'ad hoc' audit was commissioned by the Director – Department for Local Government upon the recommendation of the Auditor General. The scope of the audit was to ascertain whether or not all revenue received by the Council during a specified period has been properly accounted for and whether or not the balance of cash in hand as per accounting records agrees to the cash in hand as at 3 August 2007.

*The Council did not submit any reply.*

### Mtarfa

- The Council did not meet regularly on a monthly basis in line with Local Council Procedures and a lack of quorum frequently occurred, in which case the meeting had to be cancelled.
- The Council did not have a written agreement for accounting services for a retainer fee of Lm30 (€70) per month and legal services for a retainer fee of Lm40 (€93) per month;
- Electrical works in connection with street bulbs was being carried out by a contractor without having a signed contract with the Council. Furthermore the work invoiced was not being certified by a technical person. During the financial year in question the contractor was paid a total Lm3,025 (€7,046) in respect of charges for labour & material.

*The Council did not submit any reply.*

### Paola

- The Council had 10 full-time employees and 1 part-time employee on its payroll list registered with the Employment Training Corporation. However, as per article 53(1) of the Local Councils Act, 1993 the Council was only allowed to employ up to 1 employee for every 2,500 resident within the locality. The Council is overstaffed by six employees.

*The Council did not submit any reply.*

### Pembroke

- The Council sponsored activities relating to football and other sport and also sponsored the Pembroke Scouts group to travel abroad. A contribution of Lm300 (€699) was made which however did not cover the full cost of the overseas travel expense.

In addition, travel expenses increased by Lm7,000 (€16,306) over the previous year. Of this amount, Lm1,800 (€4,193) related to the scouts' trip and the remainder was largely incurred in respect of travel for twinning agreements with other towns.

The functions of Local Councils, as set out in the Local Councils Act, do not include the above activities.

*The Council argued that twinning agreements are approved by the Ministry. No mention was made on the nature of functions which are permitted under the Local Council's Act.*

### Qala

- The Council did not include in its accounting records, and consequently in its financial statements, an amount of Lm500 (€1,165) being sponsorship received from the Malta Tourism Authority.

*The Council did not submit any reply.*

### Qrendi

- The Council has a contracted mobile telephone, which is utilized by the Mayor. In addition, Lm10 (€23) top-up vouchers were purchased and given out to all Councilors. These expenses are not allowable under the Local Councils Financial Regulations.

*The Council argued that the Mayor utilizes the mobile telephone strictly on Council-related issues and that all the expenses are verified by the Council's Finance Committee. As regards the purchase of top-up vouchers utilized by councilors, the Council confirmed that this was decided upon unanimously in a local council's meeting to compensate for telephone calls made by the councilors who serve the Council on a voluntarily basis.*

### Rabat (M)

- The Council did not publish the results of the awarded tenders and the reason behind the council decision as required by Art 9 (2) of the Local Council (Tendering) Regulations.

*The Council did not submit any reply.*

### Siggiewi

- The Council made donations in excess of the Lm50 (€116) limit as set out in the financial procedures. Furthermore, mobile telephony expenses are still

being incurred by the Council as pre-paid cards.

*The Council did not submit any reply.*

### Santa Lucija

- The Council made use of a handyman for various electrical and plumbing maintenance works in the locality. A total of Lm2,167 (€5,048) was paid for the various works. There exists no contract of service with the Council for these works and furthermore the work was not certified by a contract manager.

*The Council has noted the auditors' report on the issue and agreed to abide by its recommendations.*

### Santa Venera

- In two particular instances, following the award of the two respective tenders, the bank guarantee was not traced. Instead of a bank guarantee two uncashed cheques payable to the Council, representing the 10% guarantee, were presented.

*The Council took note for future reference.*

### Ta' Xbiex

The Council engaged a contract manager to supervise cleaning contracts. However, in all circumstances, no supervision reports were being drawn up and bills were not being certified and authorized in writing. Moreover, the contract manager was being paid a monthly retainer fee of Lm100 (€233) per month irrespective of the value of the contracts.

*No comments have been submitted with respect to i) supervision reports not drawn up; ii) bills not certified and authorized in writing; and iii) the payment of a retainer fee irrespective of the value of the contract. The Council solely confirmed that the contract manager performs other tasks besides monitoring of contracts.*

### Valletta

The Council hires a motor vehicle for day to day operations throughout all the year. However this is not always parked near the council offices during non-office hours.

*The Council did not submit any reply. This finding has already been highlighted by the auditor for three consecutive years but the Council never reported or took any action accordingly.*



## Zebbug (G)

As per council minutes dated March 2007, it was noted that certain repairs works in conjunction to ‘Works in Qbajjar’, were carried out by a contractor, without the issuing of any tender.

*In its reply, the Council argued that the original cost was estimated not to exceed the Lm500 (€1,165) threshold. Consequently, works were carried out by resorting to a direct order.*

## Local Councils’ Association

The following lists the main weaknesses outlined in the management letter of the Association:

- The Association receives payments electronically in a bank account on behalf of Local Councils. However, Local Councils are not being reimbursed on a monthly basis. The Association failed to reimburse Local Councils for the past three months and amounts due exceeded Lm70,000 (€163,056). As at year end, no proper reconciliation was performed between the bank account and the payment lists as extracted from the LES system, resulting in unidentified differences.
- The Association receives payment from Local Councils in respect of Local Conferences’ registration fees and re-imburement of Health Insurance and Money in transit premiums. As already outlined in previous years, receipts are not issued immediately on receiving payment.
- As also denoted in previous years, the Association holds a Visa credit in the name of the President of the Local Councils’ Association. No approval has as yet been obtained from the Director of the Department in this respect.
- Three contracts are in force for the service of mobile telephone lines provided to the President, Vice President and Executive Secretary. No approval has as yet been obtained from the Director of the Department for the use of this service.

## Local Enforcement System (LES)

A number of auditors expressed their concern that Local Enforcement debtors are increasing in a number of Local Councils. Some of these relate to debts that risk getting statute barred.

An exercise was carried out to extract the figures of LES debtors and the respective provision for bad debts from the financial statements of Local Councils. This analysis

has been included in Appendix C (pgs 67- 71) and clearly shows that in most Local Councils, debtors in respect of LES are increasing.

These amounts are not exhaustive as LES debtors and the respective provision for bad debts in respect of Joint Committees are not included in the individual Local Council. In certain cases, although forming part of a Joint Committee, the pre-pooling balances were the only balances disclosed in the financial statements, since no further information was available at the time of the audit. An additional category ‘Others’, has been included, representing those Local Councils, which do not form part of a Joint Committee.

Outstanding fines should not take longer than one year to be settled as these are usually payable upon the renewal of the respective motor vehicle licence. This could potentially mean that LES debtors are inflating the net current asset situation of Local Councils when in actual fact these amounts could not be recouped. A number of Local Councils took appropriate action to reduce, by way of a provision, those outstanding debtors which recoverability is deemed remote. A decision needs to be taken by the remaining Local Councils in order to provide and eventually write off those amounts which in reality cannot be collected. Consequently, improved realistic amounts shall be included in the Local Councils’ balance sheets.

The Department for Local Government, after consulting the Local Enforcement System Committee, is to investigate the LES and take any corrective measures deemed necessary with the contractor. Moreover the system should be enhanced to ensure that no motor vehicle licence is renewed unless all respective contraventions are paid.

## Joint Committees Audits

In the majority of cases no Joint Committees’ audit reports are available by the time the audit of the Local Councils is carried out. Thus the Local Government Auditors were not in a position to express an opinion on the completeness of LES debtors and the respective income. Moreover, up to 31 October 2007, only one Joint Committee submitted the audited financial statements for the year ended 31 March 2007. Where the audited financial statements of the Joint Committee in question were presented, no breakdown of the amounts received as well as the amounts of LES Tribunal payments split by Council were provided.

Presently there is no legislation regulating the submission of the Joint Committees’ financial statements. Thus, appropriate legislation for Joint Committees should be enacted, making it compulsory for the audited financial statements to be prepared by May 31 of every year. This would reduce instances where Local Councils’ audit reports are qualified for this reason.

## Department for Local Government

### *Amendment to Local Councils Procedures and Regulations*

During the current year the Department for Local Government, on the advice of the National Audit Office, amended and published the Local Councils (Audit) Procedures (2006) and the Local Councils (Audit) (Amendment) Regulations 2007. Furthermore the Department is also in the process of amending the Local Councils (Financial) Procedures 1996 which need a major revision both as regards to the introduction of the Euro as from 1 January 2008 and also in view of the issue of budget figures.

Moreover, as reiterated in previous years the Department has still not drawn up the Performance Indicators referred to in the Procedures. These indicators are of particular importance as these would enable the NAO to carry out the Value-for-Money Audits as required by Local Councils Legislation.

A significant number of audit reports have again been qualified because the financial statements did not include the budget figures. Such a requirement is no longer applicable since Local Councils started preparing accounts on an accruals based system. As a result, these Councils were not included in the report and in Appendix A because it was deemed unfair to report them simply because an amendment to the Financial Procedures has not been effected.

### *Mid-term Audits*

Eight Local Councils had a change in their Executive Secretary during the financial year ending 31 March 2007. The Councils involved were Bormla, Siggiewi, Kercem, Msida, Sliema, Zejtun, Gharghur and Mtarfa. Out of these Councils, only the one of Siggiewi carried out a mid-term audit as required in the Local Councils (Audit) Procedures.

The Local Councils (Audit) Procedures, 2006 outlines the objective of mid-term audits as follows:

*'To serve as an independent hand-over exercise whenever an Executive Secretary leaves the employment of a Local Council and another is appointed.'*

In this respect, the Department is to ensure that a mid-term audit is carried out in order to resolve most of the difficulties that arise as a result of a change in the Executive Secretary.

Local Government Auditors, as appointed by the Auditor General, are required to confirm that the minutes of the Local Council's meetings have been drawn up, approved, signed, made available at the Local Council's premises and appropriately filed. In addition, at the end of the mid-term audit, the Local Government Auditors are to present to the Auditor General the Financial Statements covering the period April 1 to the last day of the employment of the outgoing Executive Secretary, and an Audit Report together with a management letter pointing out any weaknesses encountered.

### *Submission of Statutory Documentation*

The number of Councils that defaulted in submitting the required statutory documentation<sup>1</sup> increased during the year under review. As opposed to the comparative year, the total number of Local Councils that failed to submit a reply to the management letter increased to twenty-three. Furthermore, as already indicated, the Local Council of Pieta' did not submit the audited financial statements for the second consecutive year.

The Department is encouraged to consider enforcing the provisions of Article 55(3) of the Local Councils' Act which grants the power to retain provisionally part of the allocation until such documents are submitted.

<sup>1</sup>This refers to the submission of Audit Report and Financial Statements by 30 June 2007 and reply to the management letter by 31 October 2007.

## Appendix A- Qualified Reports

Council	1	2	3	4	5	6
Birkirkara					x	
Birzebbuga		x	x			
Birgu	x			x		
Bormla		x				
Fontana	x					
Gharghur	x					
Hamrun	x					
Isla		x			x	x
Kalkara	x					
Kercem	x					
Mdina	x					
Mosta	x				x	x
Msida	x		x		x	
Marsaxlokk				x		
Naxxar	x					
Paola	x	x	x		x	
Pembroke	x					
Qala	x					
Rabat (M)	x					
S. Giljan	x					
S. Gwann	x				x	
S. Pawl	x	x	x		x	
Siggiewi	x				x	
Sliema	x	x				
S. Venera	x					
Swieqi	x			x		
Tarxien	x					
Valletta					x	
Xaghra	x					
Xewkija	x			x		
Zebbug (G)	x					
Zebbug (M)		x			x	
Zejtun	x				x	
Zurrieq	x	x				

1. Local enforcement system and failure by the Joint Committee (JC) to provide timely audited financial statements;
2. Incorrect accounting treatments/disclosures or not in compliance with International Financial Reporting Standards (IFRSs) and Local Councils' Legislation;
3. Fixed assets incorrectly accounted for, could not be verified, and register not in agreement with corresponding values in the financial statements;
4. Shortage of liquid funds/Financial Situation Indicator (FSI)<sup>a</sup> less than ten per cent/ deficit in the income and expenditure account;
5. Balance sheet amounts could not be verified or were incorrectly recorded;
6. Going concern, its dependency on the annual financial allocation by central Government or the continued support of the Council's creditors, and upon further sources of funds other than the annual financial allocation by the Central Government;



## Appendix B- Management Letter Weaknesses

Council	1*	2*	3*	4*	5*	6*	7*	8*
Attard		x						
Balzan	x					x	x	
Birkirkara				x				
Birzebbuga	x	x		x		x		
Birgu		x	x	x	x	x		
Bormla	x	x	x			x		x
Dingli	x	x						
Fgura	x	x	x		x			
Floriana	x		x	x		x	x	
Fontana	x		x			x		
Gudja	x	x	x		x		x	
Gzira		x	x	x				
Gh Sielem	x		x	x	x			
Gharb	x							
Gharghur	x	x	x		x	x		
Ghasri	x							
Ghaxaq	x		x		x			
Hamrun	x	x	x					x
Iklin	x	x	x	x		x		
Isla	x	x	x		x			
Kalkara	x	x	x	x	x	x	x	x
Kercem	x	x		x	x			x
Kirkop	x	x	x	x		x	x	x
Lija	x		x		x			
Luqa	x	x	x					
Marsa		x			x			
Mellieha			x		x			
Mdina	x	x	x			x	x	
Mgarr	x	x						
Mosta		x	x	x		x	x	x
Mqabba	x	x	x					
Msida	x	x	x	x				
Marsaskala	x	x	x		x	x		
Munxar	x	x			x			
Marsaxlokk	x	x						
Nadur	x	x		x				
Naxxar	x	x	x					
Paola	x	x	x		x	x	x	
Pembroke	x	x	x	x		x	x	
Qala	x	x						

## Appendix B- Management Letter Weaknesses (continued)

Council	1	2	3	4	5	6	7	8
Qormi	x	x						
Qrendi	x	x	x	x		x	x	
Rabat (M)	x	x	x	x				
Rabat (G)		x		x	x			
Safi			x		x			
S. Giljan	x	x	x	x				
S. Gwann	x	x	x		x	x		
S. Lawrenz	x	x			x			
S. Pawl	x	x	x			x	x	
Sannat	x				x			
Siggiewi	x	x	x	x		x		
Sliema			x					x
S. Lucija	x	x	x	x				
S. Venera		x	x	x				
Swieqi	x	x	x		x			
Ta' Xbiex	x		x	x	x	x		
Tarxien	x	x		x				
Valletta		x		x	x	x		
Xaghra	x	x		x	x	x	x	
Xewkija	x	x	x	x				
Xghajra	x	x	x			x	x	
Zabbar		x						
Zebbug (G)	x	x		x				
Zebbug (M)	x			x	x	x		
Zejtun	x			x				
Zurrieq	x	x	x				x	x
Mtarfa	x	x		x		x		

1. Fixed Assets
2. Accounting
3. Local Enforcement System
4. Tenders/ Contracts/Quotations
5. Salaries
6. Bank/Cash
7. Creditors
8. Invoices

## Appendix C – Local Enforcement System – Receivables and Provision for Bad Debts

		<b>Balance Sheet</b>			
		<b>Receivables (Gross)</b>		<b>Provision for Bad Debts</b>	
<b><i>Birkirkara Joint Committee</i></b>		<b>2007-2006</b>	<b>2005-2006</b>	<b>2007-2006</b>	<b>2005-2006</b>
Attard	Lm	3,742	4,067	-	-
	€	8,717	9,474	-	-
Balzan	Lm	3,475	3,570	3,475	3,570
	€	8,095	8,316	8,095	8,316
Birkirkara	Lm	13,702	-	-	-
	€	31,917	-	-	-
Dingli	Lm	-	-	-	-
	€	-	-	-	-
Iklin	Lm	-	-	-	-
	€	-	-	-	-
Lija	Lm	901	941	901	941
	€	2,099	2,192	2,192	2,192
Mdina	Lm	-	-	-	-
	€	-	-	-	-
Mtarfa	Lm	-	-	-	-
	€	-	-	-	-
Rabat	Lm	5,269	5,269	-	-
	€	12,273	12,273	-	-
Santa Venera	Lm	11,392	12,558	5,968	-
	€	26,536	29,252	13,902	-
<b>Total</b>	Lm	<b>38,481</b>	<b>26,405</b>	<b>10,344</b>	<b>4,511</b>
	€	<b>89,637</b>	<b>61,508</b>	<b>24,095</b>	<b>10,508</b>

***Centre Joint Committee***

<b>Local Council</b>		<b>2007-2006</b>	<b>2005-2006</b>	<b>2007-2006</b>	<b>2005-2006</b>
Hamrun	Lm	63,443	75,489	-	-
	€	147,782	175,842	-	-
Msida	Lm	88,978	83,150	-	-
	€	207,263	193,687	-	-
Pieta'	Lm	-	-	-	-
	€	-	-	-	-
Qormi	Lm	167,609	132,802	23,518	20,132
	€	390,424	309,345	54,782	46,895
Siggiewi	Lm	4,340	4,340	-	-
	€	10,109	10,109	-	-
Zebbug	Lm	49,585	23,680	-	-
	€	115,502	55,160	-	-
<b>Total</b>	Lm	<b>373,955</b>	<b>319,461</b>	<b>23,518</b>	<b>20,132</b>
	€	<b>871,081</b>	<b>744,144</b>	<b>54,782</b>	<b>46,895</b>

		<b>Balance Sheet</b>			
		<b>Receivables (Gross)</b>		<b>Provision for Bad Debts</b>	
<b><i>Fgura Joint Committee</i></b>					
<b>Local Council</b>		<b>2007-2006</b>	<b>2005-2006</b>	<b>2007-2006</b>	<b>2005-2006</b>
Birgu	Lm	18,474	12,943	10,556	6,406
	€	43,033	30,149	24,589	14,922
Bormla	Lm	55,679	40,407	3,761	-
	€	129,697	94,123	8,761	-
Fgura	Lm	100,510	76,648	74,833	51,398
	€	234,125	178,542	174,314	119,725
Isla	Lm	21,263	16,489	8,601	5,342
	€	49,529	38,409	20,035	12,444
Kalkara	Lm	15,505	9,142	6,456	1,340
	€	36,117	21,295	15,038	3,121
Marsascalea	Lm	63,714	45,732	35,057	16,457
	€	148,414	106,527	81,661	38,334
Xghajra	Lm	2,005	1,971	750	-
	€	4,670	4,591	1,747	-
Zabbar	Lm	74,907	55,116	13,927	-
	€	174,486	128,386	32,441	-
<b>Total</b>	Lm	<b>352,057</b>	<b>258,448</b>	<b>153,941</b>	<b>80,943</b>
	€	<b>820,072</b>	<b>602,022</b>	<b>358,586</b>	<b>188,546</b>

***Mosta Joint Committee***

<b>Local Council</b>		<b>2007-2006</b>	<b>2005-2006</b>	<b>2007-2006</b>	<b>2005-2006</b>
Gharghur	Lm	3,190	3,400	-	-
	€	7,431	7,920	-	-
Mellieha	Lm	4,405	4,545	-	-
	€	10,261	10,587	-	-
Mgarr	Lm	765	3,060	-	-
	€	1,782	7,128	-	-
Mosta	Lm	20,978	21,058	16,553	11,400
	€	48,866	49,052	38,558	26,555
Naxxar	Lm	-	-	-	-
	€	-	-	-	-
S. Pawl	Lm	141,053	151,785	-	-
	€	328,565	353,564	-	-
<b>Total</b>	Lm	<b>170,391</b>	<b>183,848</b>	<b>16,553</b>	<b>11,400</b>
	€	<b>396,904</b>	<b>428,251</b>	<b>38,558</b>	<b>26,555</b>

***Valletta Joint Committee***

<b>Local Council</b>		<b>2007-2006</b>	<b>2005-2006</b>	<b>2007-2006</b>	<b>2005-2006</b>
Valletta	Lm	158,766	144,253	44,818	42,198
	€	369,825	336,019	104,398	98,295

		<b>Balance Sheet</b>			
		<b>Receivables (Gross)</b>		<b>Provision for Bad Debts</b>	
<u><i>Sliema Joint Committee</i></u>		<b>2007-2006</b>	<b>2005-2006</b>	<b>2007-2006</b>	<b>2005-2006</b>
<b>Local Council</b>					
Gzira	Lm	12,287	13,227	-	-
	€	28,621	30,811	-	-
Pembroke	Lm	-	-	-	-
	€	-	-	-	-
Saint Julians	Lm	-	18,046	-	-
	€	-	42,036	-	-
San Gwann (r)	Lm	-	1,775	-	-
	€	-	4,135	-	-
Sliema	Lm	28,305	31,280	28,305	19,283
	€	65,933	72,863	65,933	44,917
Ta' Xbiex	Lm	400	400	400	400
	€	932	932	932	932
<b>Total</b>	Lm	<b>40,992</b>	<b>62,953</b>	<b>28,705</b>	<b>19,683</b>
	€	<b>95,486</b>	<b>146,641</b>	<b>66,865</b>	<b>45,849</b>

*Zejtun Joint Committee*

<b>Local Council</b>		<b>2007-2006</b>	<b>2005-2006</b>	<b>2007-2006</b>	<b>2005-2006</b>
Ghaxaq	Lm	25,747	33,832	11,051	5,851
	€	59,974	78,807	25,742	13,629
Gudja	Lm	20,270	20,270	7,050	7,050
	€	47,216	47,216	16,422	16,422
Marsaxlokk	Lm	30,365	30,365	20,979	15,689
	€	70,731	70,731	48,868	36,546
Paola	Lm	-	-	-	-
	€	-	-	-	-
Santa Lucija	Lm	28,525	28,475	20,670	12,975
	€	66,445	66,329	48,148	30,224
Tarxien	Lm	37,376	37,376	-	-
	€	87,063	87,063	-	-
Zejtun	Lm	94,760	88,615	-	-
	€	220,731	206,417	-	-
<b>Total</b>	Lm	<b>237,043</b>	<b>238,933</b>	<b>59,750</b>	<b>41,565</b>
	€	<b>552,162</b>	<b>556,564</b>	<b>139,180</b>	<b>96,820</b>

		<b>Balance Sheet</b>			
		<b>Receivables (Gross)</b>		<b>Provision for Bad Debts</b>	
<b><u>Gozo Joint Committee</u></b>					
<b>Local Council</b>		<b>2007-2006</b>	<b>2005-2006</b>	<b>2007-2006</b>	<b>2005-2006</b>
Fontana	Lm	1,225	1,225	-	-
	€	2,853	2,853	-	-
Ghajnsielem	Lm	2,568	2,568	2,568	2,568
	€	5,982	5,982	5,982	5,982
Gharb	Lm	1,155	1,155	160	160
	€	2,690	2,690	373	373
Ghasri	Lm	120	120	20	20
	€	280	280	47	47
Kercem	Lm	500	500	-	-
	€	1,165	1,165	-	-
Munxar	Lm	2,024	2,024	774	794
	€	4,715	4,715	1,803	1,850
Nadur	Lm	1,105	1,105	1,105	1,105
	€	2,574	2,574	2,574	2,574
Qala	Lm	60	60	40	40
	€	140	140	93	93
San Lawrenz	Lm	110	110	35	35
	€	256	256	82	82
Sannat	Lm	195	195	125	160
	€	454	454	291	373
Rabat	Lm	33,987	32,969	-	-
	€	79,168	76,797	-	-
Xaghra	Lm	1,236	1,736	-	-
	€	2,879	4,044	-	-
Xewkija	Lm	-	-	-	-
	€	-	-	-	-
<b>Total</b>	Lm	<b>44,285</b>	<b>43,767</b>	<b>4,827</b>	<b>4,882</b>
	€	<b>103,156</b>	<b>101,950</b>	<b>11,244</b>	<b>11,372</b>

		<b>Balance Sheet</b>			
		<b>Receivables (Gross)</b>		<b>Provision for Bad Debts</b>	
<b>Zurrieq Joint Committee</b>					
<b>Local Council</b>		<b>2007-2006</b>	<b>2005-2006</b>	<b>2007-2006</b>	<b>2005-2006</b>
Birzebbuga	Lm	-	-	-	-
	€	-	-	-	-
Kirkop	Lm	26,688	26,688	16,690	6,710
	€	62,166	62,166	38,877	15,630
Luqa	Lm	67,515	80,081	12,136	7,876
	€	157,268	186,539	28,269	18,346
Mqabba	Lm	20,667	18,985	8,270	6,080
	€	48,141	44,223	19,264	14,163
Qrendi	Lm	12,173	12,298	9,373	7,668
	€	28,355	28,647	21,833	17,862
Safi	Lm	20,778	21,863	12,763	6,880
	€	48,400	50,927	29,730	16,026
Zurrieq	Lm	86,627	86,684	9,666	9,666
	€	201,787	201,919	22,516	22,516
<b>Total</b>	Lm	<b>234,448</b>	<b>246,599</b>	<b>68,898</b>	<b>44,880</b>
	€	<b>546,117</b>	<b>574,421</b>	<b>160,489</b>	<b>104,542</b>

**Other**

<b>Local Council</b>		<b>2007-2006</b>	<b>2005-2006</b>	<b>2007-2006</b>	<b>2005-2006</b>
Floriana	Lm	24,040	14,828	3,924	-
	€	55,998	34,540	9,140	-
Swieqi	Lm	1,000	2,084	-	-
	€	2,329	4,854	-	-
Zebbug	Lm	3,385	3,885	-	-
	€	7,885	9,050	-	-
Marsa	Lm	-	-	-	-
	€	-	-	-	-
<b>Total</b>	Lm	<b>28,425</b>	<b>20,797</b>	<b>3,924</b>	<b>-</b>
	€	<b>66,212</b>	<b>48,444</b>	<b>9,140</b>	<b>-</b>

# Acquisition of Property for Public Purposes

## Background

The role of the Land Department within the Ministry for Justice and Home Affairs is the formalisation of any disposal or acquisition of property. The acquisition of property for public purpose and the establishment of procedures to be followed are regulated by the Land Acquisition (Public Purposes) Ordinance Cap 88 of the Laws of Malta. The Commissioner of Land may acquire property for any public purpose, either by absolute purchase, by possession and use, or on public tenure.

During 2006 the actual expenditure under Item 7104, Acquisition of Property for Public Purposes totalled Lm5.45 (€12.70) million against the approved estimates of Lm1 (€2.33) million

## Key Issues

### *Absence of Documentation*

- The Special Account (Below the Line Account) 'Acquisition of Property for Public Purposes' recording the disbursement of funds when property is acquired has an opening balance which is being carried forward from previous years. The Land Department is not in a position to quantify this balance or to identify the properties to which this balance relates;
- Upon the signing of contracts, an amount equivalent to the total value of the immovable property acquired is transferred from the above stated Account to the Central Bank of Malta (CBM) Account. However,

a breakdown indicating to which contracts/acquisitions this amount relates to, is not available;

- Payments on account of expropriations initiated by Government Department/Entities in respect of immovable property required for public purposes are received by the Land Department either through the Treasury Departmental Accounting System (DAS) or by bank drafts. However, in the case of cheque receipts, evidence is not available as to which files/properties these payments relate.
- Moreover a number of receipts could not be traced from the Departmental Accounting System (DAS) to the relative property.

## Control Issues

Opportunities for improvement were identified in the following areas:

- There is no designated officer entrusted with the review of files prior to finalisation;
- The Department does not use standard procedures when dealing with similar cases;
- The specimen signature of one of the officers authorised to operate this account was not traced in file;
- The Below the Line Account meant for payments of requisitioned properties is being used to account for both income and expenditure.



## Compliance Issues

### *Bank Reconciliation*

The Land Department does not keep a cash book in which all receipts and payments are recorded for the bank account held with the CBM. As a result, a proper reconciliation between the cash book and the bank statement is not being carried out. Furthermore, bank reconciliation is not carried out on a monthly basis.

## Recommendations

### *Key Issues*

#### Absence of Documentation

- The Department is to open a new Below the Line Account and ensure that all accounting transactions in this Account can be traced to the relevant documentation. Requests for expropriations received from a date set by management are to be accounted for in this Account;
- The databases containing information regarding properties requested for expropriation and accounts with a commercial bank held on behalf of expropriated properties should be enhanced to ensure that all transactions are backed up by an independent source of information;
- A breakdown of amounts transferred to the CBM account through debit advices is to be kept to ensure a better audit trail disclosing the file numbers and relative amounts to be disbursed on finalisation of contracts. Any amounts which are transferred but not utilised due to unfinalised contracts are to be transferred back to the Below the Line Account. These are to be supported by relevant documentation indicating relative files;
- When preparing bank remittances, a breakdown of the amount deposited together with the file number is to be kept ensuring the tracing of every receipt to the respective file.

### *Control Issues*

- The files are to be verified independently by another

officer to ensure that amounts paid are correct, that all necessary procedures have been undertaken and all requirements met;

- The Department is to compile a standard set of guidelines that are to be followed by all the Contracts Section's employees;
- The Department is to obtain the necessary authorisation prior to opening any public or official account as per Section 13 of the Financial Administration and Audit Act 1962. Furthermore, all specimen signatures are to be made available to CBM;
- Income is to be posted in the appropriate income accounts and expenditure posted in the relevant expenditure accounts.

### *Compliance Issues*

#### *Bank Reconciliation*

A cash book is to be kept and its running balance is to be reconciled monthly to the bank statement as required in terms of the General Financial Regulations 1966.

## Management Comments

Management concurred with all findings and submitted the following comments:

An improvement in the records kept has been made over the past years. However, in order to comply fully with the recommendations made, further hours of work would have to be dedicated to the accounting side of the section. As a consequence output is thus expected to be reduced in view of the limited number of personnel available. Furthermore contracts are now being reviewed by more than one person before publication.

Although no written guidelines are available, all personnel are verbally briefed and the same standard guidelines are therefore adhered to in all cases.

A cash book to facilitate the reconciliation process is being kept with effect from 1 January 2007 by the Contracts Section of the Land Department.

# Land Department

## Follow-up Audit Revenue

### Background

The Land Department handles the legal aspect of government property management. The Contracts Section of the Department caters for the deeds and agreements necessary to lease or sell the property whereas the Enforcement Section is responsible for the collection of rent due on leased property.

The Revenue generated by the Department during the years 2005 and 2006 amounted to Lm 14,643,911 (€34,111,137) and Lm 28,813,767 (€67,118,022) respectively.

### Key Issues

#### *Vacant Property*

The examination of files and onsite inspections carried out on a sample of twenty (20) properties listed as vacant according to Departmental records in 2005 and 2006, revealed the following:

- In four (4) cases the property was found to be illegally occupied;
- In three (3) other cases the files showed that no action was being taken to allocate the properties by tender;
- In three (3) cases it resulted that action initiated was not being followed up;
- In one (1) case the relevant file and onsite inspection showed that the property was being used for commercial purposes by a legal tenant.

### Control Issues

Opportunities for improvement were identified in the following areas:

- From the analysis of 3,491 properties listed as vacant as submitted by the Department the following shortcomings emerged:
  - A total of 196 properties had an incomplete address and were untraceable;
  - A further 196 properties did not have a relative file and as a result no action could be carried out to allocate such land or premises;
  - 361 properties were listed with an incomplete address and no corresponding file was available.
- In four (4) out of twenty (20) cases examined for the year 2005 relating to commercial property the following weaknesses were noted:
  - In two (2) cases the documentation in the relevant files showed that the Department lacked adequate follow up action of the outstanding balances. In one case an agreement was signed between the tenant and the Department. However, no payments had been effected throughout the years 2005 and 2006, thus resulting into a breach of the contract. In the other case, a judicial letter had been issued during the year 2005 but was not served to the tenant thus delaying action to recoup the balance due.
  - In one (1) case after court action was taken it was decided that a compensation for illegally

occupying the premises had to be paid by the tenant. Notwithstanding this no payments were effected and the Department failed to take action to recoup the amount due.

- In another case an eviction order was issued but it could not be confirmed whether it was served and followed up.
- Two (2) out of twenty (20) files relating to commercial property and one (1) out of twenty (20) further files relating to vacant property requested for examination were not made available by the time the audit was completed on the premise that follow up action on the cases in question was being carried out by Department's officials.

## Compliance Issues

### *Deposits of revenue collected by Local Councils*

An examination of revenue being collected by Local Councils on three selected dates showed that in 32 out of 87 transactions the revenue was deposited in bank more than 5 days after its' collection. In 7 particular cases the deposit in bank was effected after more than 40 days from its' collection. Late deposits contravene MF Circular 8/2002.

## Recommendations

### *Key Issues*

#### Vacant Property

Necessary action is to be taken to adequately inspect and monitor vacant properties since illegal occupation may exist. Furthermore, sites and properties that have been vacant for a long period of time are to be offered by tender.

On site inspections are to be carried out by Enforcement Officers to ensure that properties are not being illegally occupied.

### *Control Issues*

- The Department should strive to obtain all the possible information regarding properties with incomplete records being listed as vacant. Furthermore, such premises are to be offered by tender in order to allocate them and collect relevant revenue.
- The Department should ensure that each case is followed up and monitored to take the necessary

action in a timely manner. Immediate action is to be initiated in cases where the amounts may soon become statute barred. Furthermore, on site inspections are to be carried out to trace the current occupiers of the property and recoup the amounts due. In cases where the property was returned to Government, the Department is to offer the property for lease to the public.

- The Department is to ensure that all requested documentation is made available for examination.

### *Compliance Issues*

#### Deposits of revenue collected by Local Councils

The Department is to instruct all Local Councils collecting rents to carry out deposits of amounts collected at the end of each day. This would invariably facilitate the reconciliation carried out by Department's officials and ensure that all money collected is deposited to bank without any further risks of loss and/or misplacement.

## Management Comments

The Department stated that there may be several reasons why a property appears as vacant in the database:

- Property may have been registered in the database in anticipation of a future lease but then this never materialised;
- Property may have been registered during computerisation since it appeared in old manual ledgers;
- Property may be the subject of an application under the Agricultural Land Scheme (2001) under which 1,000 applications were received. The Government Property Division (GPD) has been assigned responsibility for the mammoth task involved in processing these applications but no ad hoc resources were provided;
- Property may have been registered as a tenement just for record purposes, rather than for leasing – e.g. a wasteland;
- Certain entries in the database may not have been updated. For instance, a property may have been re-registered under a different number without being noted. The problem here is that such cases are not readily apparent. This means that identifying them for updating involves an examination of all entries that appear vacant including actual examination of files and inspections.

Whereas management acknowledges that there are properties with an incomplete address, it was stated that some of these properties may be traced via Government Property Division's maps. When human and financial resources are made available the Department will also consider the development and implementation of GIS Software that would help to identify properties adequately. Moreover, it was stated that some omissions of details may date back decades and further research of old manual ledgers may be required for possible identification.

Where adequate follow up action failed to be taken, the Department stated that action is tightly limited by the

scarce resources available to chase balances due and carry out onsite inspections. Otherwise, where possible, adequate action was being taken. Moreover, where other entities are involved, this may restrict the timeliness of the procedures.

In case of late deposits of revenue collected by Local Councils, management stated that the breach is being made by the Local Councils and that such shortcoming falls under the responsibility of the Department for Local Government.

# Police Department

## Issue of Visas

### Background

The Immigration Branch of the Police Department is regulated by the Immigration Act – Chapter 217 of the Laws of Malta. It is composed of the following sections:

- The Central Immigration Office (CIO)
- The Immigration Section of the Malta International Airport (MIA)
- The Seaport visa
- The Police Yacht Marina
- Visa Section

The revenue collected during the year under review from fees on visas amounted to Lm420,776 (€980,144).

### Key Issues

#### *Processing of VISA Extensions*

The period being taken for the processing of applications for extension of stay by the different sections of the Department is considered to be too long. It was observed that, on average, 32 working days were required to process each application.

Furthermore, in a number of cases, the application was not passed to the relevant sections involved in the process but was directly passed to Police Officials for validation and approval. This resulted in lack of proper investigation on the particular subject.

#### *Decisions by Immigration Officers*

The review of files showed that Immigration Officers' decision for approval or non-approval was not sufficiently

documented. It was observed that no background information was documented in the relevant file when deciding on whether to approve or not an extension. This lack of documentation hindered the continuity of the processing of each case, especially where a Police official is transferred to other duties within the Department.

### Control Issues

Opportunities for improvement were identified in the following areas:

- The data submitted for analysis showed that the nationality codes for immigrants were sometimes incorrectly stated or omitted.
- Applications received are processed in duplicate copy in the same file concurrently by the relevant Police Sections of the Department thus resulting in duplication of work. Moreover, the details of each application are subsequently inputted manually to the computer system and to other manual records kept by the Central Immigration Office (CIO). Receipts issued against payments are also generated manually and recorded in the relevant cashbook at the end of each day.
- The current computer system has very limited reporting facilities. Queries raised by the user would produce a number of records which will need to be examined and printed prior to analysis. No reports can be generated according to a particular criteria at one time. The system has no inbuilt facilities to list extensions that will expire or have expired in a given time.

- A number of inconsistencies emerged from the checking of records as per relevant file against the PISCES<sup>1</sup> system at the Visa Section.
- It was noted that there was no standard procedure among the the four different shifts of the Immigration Section of the Malta International Airport, on the issue and recording of visa, in respect of personal details, receipt number and the amount collected.

## Compliance Issues

### *Receipts issued by the CIO*

There is a lack of a standardised procedure for the recording of receipt details in the relevant files. Out of a total of 119 applications analysed it was noted that in 49 cases (41 per cent) no consistency was applied in recording the receipt number. Furthermore, the following variables were also noted:

- In 39 cases (33 per cent) no receipt details were found in the relevant file, thus not permitting the examination of such receipt and the verification of the amount collected against the Cashbook and deposit to bank.
- In 31 cases (26 per cent) no CIO stamp was given or the extension was issued free of charge. Therefore, no payment has been effected by the applicant.

## Recommendations

### *Key Issues*

#### Processing of VISA Extensions

Efforts should be made to reduce the processing time required by each individual section. A standardised procedure should be identified to ensure that processing is carried out in a timely manner to permit extension of stay to the applicant only for a duration as allowed by Immigration Officers.

Processing by all sections of the CIO should be carried out of every individual case with the exception of applicants requesting few days of extension and those presenting a flight confirmation ticket on application.

#### Decisions by Immigration Officers

Decisions of Immigration Officers are to be supported by complete documentation to enable an adequate audit trail

<sup>1</sup>PISCES is a system containing personal details of immigrants together with entry and departure information on each subject.

and the possibility to outline the conformity of the decision with the relevant Immigration Act. Although it is understood that each case is to be treated with strict confidentiality, it is not felt that such documentation would disrupt confidential and security matters especially since records are internally processed by the various Police Sections.

### *Control Issues*

- Records kept by the Computer System of the CIO are to be verified to ensure that a unique code exists for each individual country. The inputting of new records is to be checked for an established unique code as per nationality of the applicant.
- Efforts should be made to decide on the feasibility of keeping both manual and electronic records. The CIO is to be equipped with systems that enable officers to have instant access to records while dealing with the general public. Such system is to support the current generation of revenue records.
- The current computer system at the CIO is to be enhanced to include all the necessary details and reporting facilities enabling complete and accurate data to be available instantly on each case. Computer equipment is to be provided to facilitate the safekeeping and recording of information relating to the Office's duties.
- Further control is to be exercised to ensure that visitors do not overstay the period granted by the CIO. The PISCES system is to include records relating to all immigrants entering or departing Malta, that fully support records within the relevant files at the CIO.
- A standard procedure in recording both visas supplied by the Police Headquarters and their subsequent issue to passengers is to be identified and applied to all the shifts at the Immigration Section of the MIA. Each shift is to record visas issued with the following details onto an official register:
  - Name and surname of passenger
  - Passport number
  - Nationality
  - Date of issue of Visa
  - Type of visa
  - Approval number
  - Period of stay granted

## *Compliance Issues*

### Receipts issued by the CIO

A standardised system is to be introduced to record payment. Preferably, details are to be entered on each application in the relevant file.

## Management Comments

Management concurred with the findings. However, the following comments/reservations were made:

The current system for processing of applications has been in place since the setting up of the CIO. The applications that are not vetted by all sections involved in the processing are those where a short period of time is requested and a confirmation ticket is presented. Other cases which are not vetted are those where applications are immediately refused by the Department. Applicants are vetted upon entry in Malta and even if any remarks are added at a later stage, the applicant is vetted by the Immigration Police and action taken accordingly.

The Immigration Act lays the responsibility on the Principle Immigration Officer to decide on whether to accept or refuse an application for permits of entry or stay. The officer uses his discretion in deciding according to law, policies and guidelines that may be issued from time to time. The only documentation he can add is a statement as to why he decided in such a manner.

Management also concluded that manual records are kept since, in the event of need, it is the initial manual record that proves to be more reliable and contains the full information.

As from year 2007 the Department for Citizenship and Expatriate Affairs became the sole responsible body that issues residence permits in lieu of the extensions of stay. The Immigration Office is now only temporarily responsible to issue extensions of stay to refugees and students. Other applicants who wish to extend their stay beyond two months are referred to the stated Department.



# Police Department Inventory

## Background

The Police Department has under its responsibility, two main stores; the Quartermaster Stores (QMS) and the Motor Transport (MT) Garage Stores. The QMS Stores caters for the purchase, storage, recording and issue of all consumables and inventory items required by Police Stations and/or sections. On the other hand, the MT Garage Stores is entrusted with the responsibility for the storage, recording and keeping of all vehicle related items.

## Key Issues

### *Weapons*

The inventory database contained a number of weapons located in various stations and sections. In addition to the database, there are other lists containing various weapons belonging to the Department. However, it could not be ascertained whether these latter weapons were included in the inventory database and as a consequence no audit testing or reconciliation with the inventory database could be carried out.

### *Motor Vehicles*

The inventory database contained 383 vehicles corresponding to a total value of Lm912,371 (€2,125,253) of which, 144 vehicles (38 per cent) did not have a value assigned under the cost value column. Furthermore, 53 vehicles were featuring on the inventory database without a registration number and without an adequate description. The location of the vehicles was grouped under the 'Department Description' - 'Garage'.

A reconciliation was also carried out between the vehicles as listed in the inventory database and the 'Police Fleet Master List' held by the Police Garage as at February 2007. Some vehicles were found listed twice with the same registration number but with different vehicle's make. A number of vehicles on the 'Police Fleet Master List' remained un-reconciled against inventory database.

### *Valuation of other assets*

An analysis carried out on the valuation of assets included within the inventory database revealed that 8,441 (71 per cent) out of 11,961 assets were listed without valuation. In particular, 1,537 valuations under Asset Class 3 (Fixtures and Fittings) and 1,724 valuations under Asset Class 5 (Office Furniture) were omitted from the database.

## Control Issues

Opportunities for improvement were identified in the following areas:

- The stores use a cumbersome manual system to record movements of both stock and inventory items. Updates for inventory items were also carried out on the electronic database held by the QMS. Furthermore, forms used by the QMS, relating to issues and receipts of both stores and inventory items, were neither pre-printed nor pre-numbered.
- A number of shortcomings resulted from an examination carried out on the location of assets:
  - Sites and rooms where assets were located could not be identified as directed in MF Circular 14/99;



- The entrance doors of the various sections and rooms of the Police Department were not numbered;
- Assets were not adequately labelled, rendering difficult their identification against the inventory database;
- No copies of room inventory lists were being kept in the various sections/stations as per MF Circular 14/99.

## Compliance Issues

### *Analysis of Database*

The following shortcomings were noted:

- A total of more than 8,000 fields within the database were left blank.
- An amount of 55 items were listed as duplicates. Such items pertain to the same station or section and have the same Asset ID Number and Asset Type.
- Various items were shown with a NIL value and marked as obsolete. However, no action was taken to write off such unserviceable assets.
- Items of a personal nature purchased by officers' funds were also listed in the database.

### *Submission of Records to NAO*

The Department does not comply with the provision of MF Circular 14/99. Records related to motor vehicles were forwarded only after verbal requests were made by NAO. Assets transferred or donated by or to the Department were last reported in October 2004.

## Recommendations

### *Key Issues*

#### *Weapons*

The Department is to have adequate and complete records of the full range of weapons belonging to the Police Force. The importance of monitoring and control of these weapons needs not be emphasised considering the nature of these assets. Furthermore, all weapons should be included within the inventory database.

#### *Motor Vehicles*

The value of each and every vehicle of the Police car fleet is to be entered in the inventory database. Where vehicles have been transferred, donated, or the original value is not known, valuation is to be made according to the current market value. Furthermore, vehicles are to be listed under the respective Police Station/Section where they are actually being used to give accurate location of the vehicle.

#### *Valuation of other assets*

All assets are to be valued as directed by MF Circular 14/99: Inventory Control Regulations: Appendix A Para 9 – Total Cost or Value of Asset.

### *Control Issues*

- The installation of STORIT, widely used by Government in maintaining stores records electronically, is to be introduced. Records relating to Inventory items are to be maintained in terms of MF Circular 14/99.
- Sites and rooms are to be correctly identified. Codes are to be established as per Appendix A - No. 4 of the mentioned Circular. Each room within the Department is to be numbered to identify the different locations within a section or station. Assets are to be permanently marked with a consecutive identification number matching the relative record listed in the database. Furthermore, inventory lists are to be kept regularly updated and retained within each room. Copies of such lists are also to be kept by the QMS Stores.

### *Compliance Issues*

#### *Analysis of Database*

The Department is to properly identify all assets located in the various sections and stations to create a reliable and complete database as stipulated in the relevant Circular. Each section and station is to be identified with a unique 'Department Description' reference. Furthermore, all assets should also have a unique 'Asset Identification Number' as described in 'Appendix A' of MF Circular 14/99. Obsolete items are to be written off both physically and from the Inventory Database. Assets purchased from officers' funds are to be shown separately from the Database since these are not Government owned items.

#### *Submission of Records to NAO*

Copies of Inventory database are to be submitted on a regular basis to NAO as the Circular directs.

## Management Comments

Management has agreed with the recommendations made and action is being taken to comply accordingly. However, the following remarks were also made:

QMS is currently inputting all weapons on a single database.

The QMS data was not the official list and more accurate documentation can be obtained from the MT Garage. However, the QMS in liaison with the MT Garage took action to update the data of the Police Fleet.

Valuation will be inputted gradually in respect of all inventory items while action will be taken to introduce STORIT within QMS.

# Courts of Justice - Salaries, Allowances and Benefits of Members of the Judiciary

## Background

The Judiciary is currently made up of eighteen (18) Judges and eighteen (18) Magistrates, headed by the Chief Justice. Judges and Magistrates, known as Members of the Judiciary (MOJ), are appointed by the President of Malta and are constitutionally independent of the Executive. Their salaries are a recurrent charge on the Consolidated Fund and do not require annual approval by the House of Representatives. Hence, the Constitution of Malta provides for their independence through its various provisions<sup>1</sup>. The findings hereunder relate to MOJ, unless otherwise indicated.

## Key Issues

### *Lack of Control over the Authorisation of Allowances and Benefits*

Written authorisation approving payment of certain allowances was not made available. A number of other allowances and benefits were approved by sources other than the Office of the Prime Minister (OPM) and/or Ministry of Finance (MOF).

## Control Issues

Opportunities for improvement were identified in the following areas:

### *Fixed Line and Mobile Telephone Bills*

- A number of fixed telephone line bills were on the

<sup>1</sup> Source: <http://mjha.gov.mt/justice/judiciary.html>

high side. These mainly related to calls from fixed lines at residences to mobile lines.

- Fixed and mobile line bills included charges other than rent and calls. Only few requests for refunds of such charges were made.
- Requests for reimbursement relating to international mobile calls were generally not heeded.
- Requests for reimbursements covering donations in telephone bills were often not complied with.
- Reimbursements of charges relating to more than one (1) fixed residence line were not requested by the Courts of Justice Division (CJD) in respect of the extra line(s).
- CJD did not adhere to MOF instructions allowing maximum daily expense of Lm10 (€23) for overseas calls made from abroad when on official business.

### *Expense Allowance*

- Lack of guidelines by CJD relating to allowable 'office expense allowance'.
- Lack of audit trail in respect of expenses reimbursed by multi payments.
- Expenditure classified as 'office expense' in line with current practice was borne by the CJD rather than being deducted from expense allowances.
- In a couple of cases, documentation covering the reimbursement of 'office expenses' was not made available for audit purposes.

- A number of entitlements of expense allowance would have been exceeded had all expenditure incurred been properly accounted for.
- In a number of instances where fuel limit was exceeded, excess was charged to the expense allowance, thereby bypassing controls in respect of fuel allowance.
- The lack of definition of ‘office expense allowance’ impedes proper control by CJD over this allowance and may jeopardise title of ownership by CJD when assets are purchased.

### *Inventory Items*

- Record of government-owned inventory items located at private residences was not being maintained.
- Inventory records were not being kept in accordance with standing regulations.
- Record of consumables obtained for equipment at private residences was not available.

### *Procurement of Taxi Service*

- Alternative transport, namely taxi service, was sought when MOJ’s driver was on vacation leave. Two (2) leased/hired cars were concurrently being paid for.
- A contract of service with taxi service supplier was not provided and the agreed chargeable rates were not made available.
- Certain trips were not recorded on the list compiled by the CJD, intended to be used for verification of relative invoices.
- Transport vouchers raised to record trips performed were not always properly supported by relevant documents.

### *Procurement of Newspapers*

- A standard policy regarding the acquisition (including postage, handling and delivery charges) of newspapers by MOJ was not in place.
- Complete records of the newspapers acquired were not made available during the audit. Receipts presented for reimbursement were also not itemised, thus limiting control.

### *Other Matters*

- An overpayment in salary to a retired MOJ was still not fully recouped up to November 2007. Furthermore, up to that date, there was still an outstanding amount in respect of damages to a leased car by the same member.
- Bills were received by CJD in June 2007, following the termination of contract with the service provider of leased cars. These covered damages to vehicles. However, relative police accident reports and/or insurance claims were never filed.

### *Compliance Issues*

#### *Inadequate Authorisation for the Exemption from Fringe Benefits Tax*

Tax on the fringe benefits in the form of leased vehicles and fuel allowance provided by the CJD was not being deducted.

#### *Traffic Fines*

A number of contraventions amounting to Lm490 (€1,141) were borne by the CJD and paid out of public funds.

#### *Maximum Expenditure on Mobile Phone Bills exceeded*

A number of mobile phone bills exceeded the maximum annual expenditure stipulated in MF 4/2002.

#### *Remunerations paid as Multi-Payments to Employees included in Payroll*

Employees on the CJD payroll were remunerated in the form of multi payments, thus bypassing the Final Settlement System (FSS) regulating the tax to be paid on income from employment.

#### *Notification to the Auditor General*

A certified hard copy of the inventory database that should be received by the Auditor General at least once a year has not been submitted since the issue of MF Circular 14/99. Furthermore, NAO has only been notified in one (1) instance of the new tangible fixed assets added to the Department’s inventory database.

### *Unreconciled Salary Accounts*

An attempt to reconcile MOJ salary wages account electronic data records ('DAS') with Payee Statements of Earnings (FS3s) gave rise to a discrepancy of Lm2,893 (€6,739), which remained unreconciled up to November 2007.

## Recommendations

### *Key Issues*

#### Lack of Control over the Authorisation of Allowances and Benefits

Allowances are to be regularized and adequate authorizations are to be obtained from the OPM and/or MOF as appropriate. A standard procedure for the approval of allowances is to be established wherein all parties, including the CJD, are to be notified accordingly.

### *Control Issues*

#### Fixed Line and Mobile Telephone Bills

- To administer control over telephone facilities extended under whatever form of contract or authority, it is advisable that this benefit is regulated by a ceiling as is already established for other allowances. Moreover, considering that public funds are involved, the use of the most cost-efficient means of telecommunication should be encouraged, in particular calling to a landline when this is available instead of to a mobile phone.
- Adequate checks are to be carried out by the CJD prior to processing bills for payment, ensuring that only allowable services are paid out of public funds. Payments in respect of non-allowable services are to be reimbursed to CJD.
- Letters issued by the CJD requesting reimbursement should be followed up periodically and prompt action is to be taken to collect amounts due.
- CJD is to take a more rigid approach with respect to donations and not accept bills unless they are accompanied by a payment made by the donor covering the amount donated.
- Additional fixed lines invoices are not to be reimbursed by CJD. Amounts that had been reimbursed are to be refunded. A standard procedure is to be adopted for the approval and processing of bills. An accounting officer responsible for this task could be identified.

- If still applicable, the CJD should adhere to the letter issued by the MOF with respect to international calls by MOJ while abroad. Refund for mobile originated calls while roaming on official business should then be requested when the ceiling of Lm10 (€23) per day is exceeded.

#### Expense Allowance

- CJD is to determine the nature of expenses that may be classified under this allowance. These are to be officially recorded and communicated to those benefiting from the allowance.
- The petty cash/multi-payment voucher number relating to the expense being reimbursed should be recorded on the relative register. This allows expenses to be identified while reference to the actual means of payments is enhanced.
- More control is to be exercised to make the system more efficient and ensure that the CJD does not bear additional costs that can be charged to expense allowances.
- Updated records are to be kept for 'office expenses' and made available for checks upon request.
- An updated electronic record is to be kept of all reimbursements effected in connection with expense allowances. The officer in charge of this database is to keep track of all payments relating to office expense allowances made to beneficiaries. The officer authorising payments should be informed whenever any of the beneficiaries reaches the maximum entitlement so that no further invoices are accepted/approved.
- The expense allowance is to be utilized only to cover expenditure it was intended for. CJD is to ensure that adequate controls are in place so that regulations in respect of other benefits/allowances are adhered to.
- The definition of 'expense allowance' should clearly establish ownership of assets when purchased out of this entitlement. Should procurement of a personal nature be allowed, such items are to be noted in the official inventory records and marked as personal.

#### Inventory Items

- The CJD is to update its records of equipment kept at personal residences. A new procedure is to be adopted where an agreement is signed with the individuals concerned for every item to be used at their residence. The agreement should state the

terms and conditions under which such item is being provided.

- A unique Asset Identification Number (AIN) should be assigned to each asset in the inventory database and is to be used throughout the process. This would facilitate identification of assets for internal control and audit purposes.
- When consumables are requested for home use, these should be recorded by the CJD for control purposes.

#### Procurement of Taxi Service

- When drivers are on vacation leave, when possible, CJD is to make use of available internal resources as external assistance will have to be provided at additional cost.
- A formal agreement covering taxi service is to be duly entered into following the tender/quotations or direct order procedure as necessary. Invoices are to be processed for payment only after rates being charged are checked with the foregoing agreement for accuracy and certified accordingly.
- The request for taxi service is to be recorded by an other security officer when the Chief Security Officer is on vacation or sick leave. Invoices are to be certified correct only when trips claimed on invoices duly feature on the compiled list.
- Transport vouchers are to be endorsed by the individual requesting the trip after being properly verified for accuracy of details. Payment is to be processed only if claims are properly supported with certified documentation.

#### Procurement of Newspapers

- A standard procurement procedure is to be adopted enabling CJD to exercise more control over such expenditure. The adopted procurement procedure should be one which allows the CJD to provide newspapers in an efficient and economic way without incurring additional costs to the Department.
- Updated records are to be kept by CJD enabling management to monitor expenditure and take immediate action should the stipulated limit be exceeded.

#### Other Matters

- Follow ups by the CJD requesting amounts due are to be made in writing.

- Those concerned are to immediately report any damages incurred on the leased vehicles under their responsibility and take timely action to notify CJD in order to relay the information to the service provider.

#### Compliance Issues

##### Inadequate Authorisation for the Exemption from Fringe Benefits

Unless specific approval by the Commissioner of Inland Revenue is given for the exemption of tax on leased cars and fuel allowance, defaulters are to be urged to regularise their position with the Inland Revenue.

##### Traffic Fines

Traffic infringement fines are to be paid by the individuals concerned.

##### Maximum Expenditure on Mobile Phone Bills exceeded

The CJD is to obtain specific covering approval from the Permanent Secretary for excessive expenditure on mobile phones. Otherwise, excess on mobile phone bills is to be refunded by those concerned. Controls should also be established to ensure that in future, action is taken immediately to recoup excess expenditure when this is not approved.

##### Remunerations paid as Multi-Payments to Employees included in Payroll

Multi-payments are not to be used to remunerate employees on the public service payroll. The CJD is to review the tax position of the individuals concerned and quantify any resulting tax due.

##### Notification to Auditor General

The Auditor General is to be furnished with the required returns comprising of a certified hard copy of the inventory database and a six (6) monthly report listing items added to the inventory database, as stipulated in MF Circular 14/99.

##### Unreconciled Salary Accounts

Reconciliation of salary records with tax forms is to be regularly performed.

#### Management Comments

Corrective action has already been taken by the CJD on a number of issues and the necessary controls have been

implemented. Most of the remaining recommendations will be implemented in due course.

Although those involved in traffic contraventions were asked to reimburse amounts paid by CJD on their behalf, amounts due have not yet been settled.



# Courts of Justice Division

## Arrears of Revenue

### Background

Revenue at the Courts of Justice Division (CJD) is generated from criminal court fines and civil fees.

In 2004, the Ministry for Justice and Home Affairs directed that all pending fines that go back up to the year 1996 are to be transferred to the electronic program known as LECAM Fines Management system. A task force was set up for the purpose and the exercise was completed in June 2005. The inputting of fines on the LECAM system was intended to facilitate the collection of fines. Court accountants were to have readily available data enabling them to prepare an annual return of arrears in respect of dues from fines imposed by the Courts.

A computerised application known as CORTEX Software records information and generates reports regarding the civil fees.

### Key Issue

#### *Judges' Court Fines*

Out of the Lm5,613,188 (€13,075,211) gross arrears outstanding, the amount of Lm633,170 (€1,474,889) refer to fines due for over ten (10) years. Out of this amount, Lm150,056 (€349,536) have been outstanding for over twenty (20) years.

#### *Magistrates' Court Fines*

Records supporting the return of arrears illustrate the global

outstanding amount per Hall. However this is not supported by the list of debtors and the respective amount due.

A number of fines imposed by the Magistrates, which are being paid by installments, were not transferred to the LECAM system.

#### *Civil Court Fees*

Information regarding Court Fees could not be submitted up to the time of audit. The CJD unsuccessfully tried to reconcile the opening balance of fees due as at January 2006 with the return for 2005. Cortex Software relating to the issue of arrears of revenue was considered by CJD to be unreliable.

Action to rectify the problem is taking longer than anticipated.

### Control Issues

Opportunities for improvement were identified in the following areas:

#### *Judges' Court Fines*

- Difference of an understated amount of Lm492,084 (€1,146,247) in opening balance for 2006 as against the closing balance reported for year end 2005, was due to:
  - pending fines inadvertently omitted from previous return;



- outstanding fines amounts erroneously recorded;
  - fines which were actually collected in 2005 were still shown as outstanding; and
  - a pending fine was erroneously stated as collected in last year's return.
- Fines that were actually collected prior to 2006 or after end of January 2007 were wrongly stated as collected during 2006. Also an incorrect balance of past arrears collected was transferred from the electronic system.
  - Fines due from deceased defaulters are not inherited and are considered as not collectable. A number of defaulters have been marked in pencil as "deceased". However, no evidence could be traced in support of this state of affairs.
- Similarly, comments next to the debtors' name, such as "living abroad", "left the island" or "evidence destroyed" were noted in the fines' register without any supporting evidence. No provision for bad debts was taken for the respective amounts in terms of standing regulations.
- Whilst sixteen (16) fines inflicted during January 2007 were included as arrears 'Newly Accrued', thirteen (13) fines inflicted during 2006 and still outstanding at end January 2007, were not included under this title.
  - The respective ID card numbers of defaulters are not recorded in the manual register, risking that dues become untraceable.
  - A few pages of the manual registers were glued together with the potential risk of hiding important information regarding fines.
  - The amount of additional expenses incurred by the courts and which should be borne by the respective defaulters, referred to as "spejjez perizja", was left out and was not accounted for in the return of arrears.

### *Magistrates' Court Fines*

- CJD does not have any records available for fines inflicted prior to 1971.
- During 2006, an amount was collected in respect of pending fines due from 1954 till 1969. However, the closing balance of arrears for 2005 did not include such fines. The respective amounts were even omitted from the Past Arrears collected in the return.

- Fines paid and entered in the manual cashbook for the period 1971 till 1995 did not tally with supporting documentation. The difference is an amount stated as collected. However, it is neither entered in the manual cashbook nor covered by receipts.
- In the manual cashbook there were payments pertaining to fines inflicted between 1996 and 2003. These fines should be traceable in the LECAM Fine Management System. It was however noted that:
  - not all the fines inflicted as from 1996 and/or their respective payment were entered in the LECAM Fine Management system;
  - another fine was entered in the LECAM Fine Management System and eventually marked as a "Cancelled Fine". Notwithstanding, several payments and supporting receipts were traced to the Cash by Installments (CBI) register in respect of this fine.
- Uncollectible amounts, such as overdue fines which have been converted into imprisonment, or fines due from deceased defaulters are being shown as 'nil' balances in the computerised system. In such circumstances, the impression may be given that the amounts have been collected. Furthermore, no attempt appears to have been made to compile this information from the manual registers for fines pertaining to pre-1996, which information was not transferred to the LECAM system.

## Recommendations

### *Key Issue*

#### Judges' Court Fines

CJD is to demonstrate more discipline in collecting outstanding amounts and follow the procedures related to the proactive management of debtors outlined in MF Circular 8/2002.

#### Magistrates' Court Fines

Priority should be given to compile a comprehensive database containing information regarding every debtor's position. This database should reflect all the information needed to be able to compile the return, as required by Treasury Circular 2/2007.

A revision of all the data inputted in the system is also recommended to detect and include any omitted pending fines.

### Civil Court Fees

The CJD is to urge its contractor to rectify the problem without further delay as this is hindering government from timely collecting revenue due. An electronic record is to be kept of all pending fees enabling full audit trail. An accurate Return of Arrears of Revenue is to be submitted showing the gross opening balance of arrears outstanding, the performance during the year and the gross closing balance outstanding as at year end. A breakdown showing all debtors and the amounts due in each case should also be prepared.

### Control Issues

#### Judges' Court Fines

CJD is to update its records taking into consideration the above observations. More attention is to be given when compiling the database, reflecting the arrears position. It is also advisable to perform reconciliations.

Regulation 49 of the General Financial Regulations 1966 is to be followed. This states that *“the return of arrears shall include all the amounts due for collection on 31st December but remaining unpaid up to the end of January of the following year.”*

Evidence, such as death certificates, is to be obtained before declaring fines pertaining to deceased defaulters, as ‘not due’.

The ID card number is to be recorded as reference to the individual. Both manual and electronic Registers containing important data should be kept in a secured place and their access is to be given only to authorised personnel.

#### Magistrates' Court Fines

CJD is to compile a complete and accurate list of Arrears of Revenue.

Fines that are unrecoverable are to be traced. Evidence proving why the fines are estimated as not collectable should also be presented.

### Management Comments

Observations were upheld by Management and action will be taken to comply with a number of recommendations.

Meetings are being held between CJD and the contractor of the computerised system with the aim to amalgamate the “CORTEX” and the “LECAM” system and also include the recording of Arrears of Revenue in the new system.

A physical exercise of the manual registers by the CJD revealed that over a period of twenty (20) years or more only on three (3) occasions two (2) pages were glued together. This was resorted to when a group of erroneous entries were immediately crossed out. These cases were checked against the relevant judgement where it transpired that no single entry was missing.

Management stated that the process to collect fines imposed by Judges is very laborious. Complex legal advice is at times required to obtain successful authorisation from the Court to convert the fine into a term of imprisonment. Besides the absence of ID card numbers of the individuals, another difficulty encountered by the CJD to collect old fines is that these are not always supported with the required documentation.

CJD also claimed that due to lack of staff certain recommendations could not be implemented. Representations to this effect were made with the Ministry.



**Ministry of Education, Youth and  
Employment**

# Arrears of Revenue

## Background

The Ministry is responsible for the collection of the return of Arrears of Revenue relating to the Ministry, as well as that of the Education Division and the Libraries and Archives Department. Arrears due to government falling under the responsibility of the Education Division mainly arise from overpaid salaries. Payroll service for the Education Division for the last five (5) years has been outsourced to one (1) of the Salaries Section in Gozo.

From the audit carried out in year 2006 it transpired that the Gozo Section lacks autonomy in processing salaries and is not self-sufficient in providing and controlling the information required for accuracy and efficiency in processing payroll adjustments. Untimely instructions given by the Malta Education Division is resulting in overpaid salaries that the latter are finding difficult to recoup.

Last year's audit also revealed that there was an average of ten (10) new cases of overpayments every month and only seven percent (7%) of the amount the Division overpaid in salaries in respect of one hundred sixty-two (162) individuals, were effectively being recovered.

## Key Issue

### *Ministry of Education*

For the last four (4) consecutive years, the Ministry of Education failed to submit the annual statutory return of arrears of revenue. The last return submitted by the

Ministry was that as at end financial year 2002 showing a closing balance of Lm20,223 (€47,107).

### *Education Division*

Figures submitted by the Education Division in the Return of Arrears of Revenue as at end 2006 had various shortcomings and proved unreliable.

### *Overpaid Salaries*

The outstanding overpaid salaries as at end 2005 stood at Lm53,370 (€124,319) while the balance for end 2006 amounted to Lm76,019 (€177,077). The problem appears to be aggravating and the indications are that the figure by end September 2007 has further increased to around Lm90,000 (€209,644).

## Control Issues

Opportunities for improvement were identified in the following areas:

### *Education Division*

- The opening balance of the return submitted could not be verified for accuracy once no return was received in respect of arrears of revenue as at end 2005.
- The amounts indicated under "Past Arrears Collected", from overpayment in salaries, could not be traced to their respective receipts and could not be confirmed as having been collected.

- Two (2) amounts, included in the opening balance as still outstanding, were traced to the respective receipts.
- Seven (7) out of a total of sixty (60) individuals included with the 'arrears newly accrued' featured as debtors as at end 2006. On examining receipts, the respective amounts were found to have been settled. Further amounts indicated as having been collected in respect of four (4) other persons were overstated.
- Evidence for amounts said to have been collected during 2006 with respect to overpaid salaries, mostly to nineteen (19) employees who terminated their service with government, was not provided thus understating the closing balance.
- Although the shortcomings were communicated to the Division, a revised statement was not submitted.

### *Libraries and Archives Department*

- Validity of the 'nil' return submitted by the Libraries and Archives Department could not be verified since the latter failed to submit the respective return for the previous year.

## Recommendations

### *Key Issue*

#### Ministry of Education

The Ministry should take more control over amounts due to government. A return of arrears of revenue is to be compiled retrospectively for the missing years. If the official returns are already available, a copy is to be filed with the NAO. Reporting of debtors is to be in accordance with the General Financial Regulations.

#### Education Division

The Head of Department is expected to ensure accuracy of the return and the timely submission of statement to the Treasury.

#### Overpaid Salaries

A revision of the operating procedures at the Education Office Salaries Section that would aim at the elimination of salary overpayments is recommended. The Education Division is to issue forthwith an official request for earliest settlement of all amounts due by way of overpaid

salaries which are still collectable. Agreements reached on settlement terms, other than by one lump sum within stipulated deadlines, are to be backed up by formal agreements/memoranda of understanding. These are to be drawn up and signed for each individual case, stipulating the period in which all payment(s) are to be made, possibly including penalty clauses.

Failing satisfactory response from the debtor within a given time limit, the Ministry or Department under its responsibility, should proceed with legal action.

### *Control Issues*

#### Education Division

- To ensure completeness of figures, a return is to be compiled for each year retrospectively tallying the closing balance of one year to the opening balance of the subsequent year.
- Evidence of payment is to be provided for the amounts indicated under "Past Arrears Collected".
- Any amounts paid are to be deducted from the outstanding balances.
- Closing balance of debtors should be correctly compiled by ensuring accuracy of balances of unpaid amounts.
- As stipulated in the General Financial Regulations, the closing balance should "include all amounts due for collection on 31 December of that financial year but remaining unpaid up to the end of the following January".
- A revised return is to be submitted comprising of amended figures taking into account the observations and respective recommendations highlighted in this report.

#### Libraries and Archives Department

- If not already prepared, the statement of arrears of revenue as at end 2005 is to be compiled and copied to the NAO.

## Management Comments

Observations were upheld by Management. The Ministry is now taking necessary action to create a database, to be regularly maintained, in order to give a clear indication of amounts due to Government. A report will be submitted to NAO as soon as the database is updated.

A meeting was to be set up between the Education Division and the Director responsible for the Salaries Section within the Ministry for Gozo with a view to address the current problem of overpayment of salaries of Education Division employees. Furthermore, action was being taken to recoup the amounts due either by deduction from salaries or by means of communications with the individuals concerned to agree on a schedule of payments.



**Ministry for Resources and  
Infrastructure**

# Recurrent Expenditure

## Background

The Ministry for Resources and Infrastructure's (MRI) budget allocation in respect of Operational and Maintenance Expenses for financial year 2006 stood at Lm1,485,000 (€3,459,120) covering a total of eight (8) Cost Centres. The actual expenditure for the year amounted to Lm1,742,315 (€4,058,502) with the largest increase being in the item of utilities; sixteen percent (16%) over the original budget.

## Control Issues

Opportunities for improvement were identified in the following areas:

- Fixed assets such as photocopiers, air conditioning units, machinery, etc., purchased during the year were erroneously charged to different expenditure accounts and excluded from inventory records. Various other expenses from the Recurrent Vote were also wrongly posted.
- Invoices presented by one (1) of the contractors for cleaning services were not always backed by supporting documentation as the respective job sheets were at times unavailable.
- Adequate verifications are not always being carried out on the invoices before payment is effected, resulting in overpayments.
- The delivery notes confirming the dates and times during which equipment was hired were not made available to the accounting officers effecting such payments but kept at one of the Central Stores.
- The original tenders submitted for the hiring of excavators, backhoe loaders and skid steer loaders for the Works Division (2005) were not provided for audit purposes as the file containing this documentation was misplaced.
- Excessive expenditure incurred on mobile calls from fixed lines within a Department falling under the Ministry for Resources and Infrastructure was overlooked. Expenses of approximately Lm55,000 (€128,116) by this Department amounted to sixty-two percent (62%) of telephone bills disbursed under its Cost Centre. All employees within this Department had access to mobile calls from their phone sets, in contravention of standing regulations.
- High consumption on mobile calls of certain District Offices within the Construction and Maintenance Department, as well as free telephone facilities enjoyed by officers, were also noted.
- Certain officers entitled to the use of a mobile phone are exceeding the set limit of Lm350 (€815) per annum. Bills for 2006 pertaining to a particular officer was more than three (3) times the established capping.
- The majority of invoices reviewed were not supported by fiscal receipts. Furthermore, a number of the tax invoices presented for payment were not compliant with VAT regulations.
- None of the defaulters in the audit sample not complying with fiscal obligations was reported to the VAT Department. A 'nil' return was submitted in 2007 covering both 2005 and 2006.



- Four (4) television sets benefited from the 'Family Package'. Authorisation to take up such service at public expense was not provided.
- The rates at which MRI was charged for its waste disposal during 2006 was neither indicated on invoices nor known by the officer in charge of verifying such invoices. Other findings also indicated that adequate checking is not being performed on these invoices.

## Compliance Issues

### *Adjudication of Tender*

The bidder who was awarded a tender for the hire of an equipment failed to fill in the table describing the technical specifications of the plant in question, as the conditions of the departmental tender required. On recommendation of the Adjudication Board the bidder was requested to submit the necessary technical information. However the original tender document, as well as the respective correspondence, could not be traced.

## Recommendations

### *Control Issues*

- Assets purchased are to be charged to the proper account. Information regarding such purchases is to be timely forwarded to the officer in charge and included in the inventory records. More attention is to be given when posting expenditure items to the various accounts.
- Daily cleaning services are to be backed by a job sheet duly signed by an officer at the MRI. The Ministry is also to retain a copy of this sheet or, if this is not feasible, the contractor is to be requested to present all job sheets duly signed by MRI with the respective invoices.
- MRI is expected to perform proper verifications on all invoices before settling payments.
- Supporting documentation is to be attached to the respective invoices.
- All tenders submitted are to be appropriately filed and kept for future reference.
- To exercise better control over telephone expenditure, MRI is to follow standing directives and bar calls to mobile phones within its various

departments and sections. Access to mobile calls from fixed lines should only be allowed to authorised personnel. Any business calls which are absolutely necessary are to be made either from these particular lines or from authorised mobile phones.

- Telephone calls to mobile phones expensed from public funds are to be kept at a minimum.
- The use of the most cost-efficient means of telecommunication and the use of Internet telephony (VOIP) for overseas calls from a landline should be encouraged. Where the expenditure covered by the Government established ceilings is exceeded, a statement is to be requested from the beneficiary, clearly indicating such justification for approval by the respective Permanent Secretary.
- Officers are to ensure that they are invariably issued with a fiscal receipt by their suppliers. Since MRI is VAT registered, a tax invoice can be provided in lieu of a fiscal receipt, as long as the VAT number is quoted on the respective invoice. VAT receipts are to be attached to the relative original payment voucher, as per Treasury Circular 7/2007.
- While defaulters should be made fully aware of government rules, these are to be reported to the VAT authorities on a quarterly basis. Business with persistent defaulters is to discontinue until the matter is rectified.
- Unless the provision of the current cable service is absolutely necessary, MRI is to consider reducing the current packages and install only a reception service.
- Thorough verifications are to be carried out on invoices received from the company entrusted with waste management. It is to be ensured that the tare weights of vehicles are correct and that all tickets for trips performed are forwarded to MRI.

### *Compliance Issues*

#### *Adjudication of Tender*

If the original tender submitted does not meet all the necessary requirements and/or has not been compiled as requested by the tender specifications and conditions, the same procedure adopted by the Department of Contracts should be applied and the tender is to be disregarded from the outset.

## Management Comments

The observations were upheld and most of the recommendations accepted. However the concern on lack of proper fiscal receipts and assets not included in inventory records were not properly addressed. MRI neither stated whether the recommendation, to retain supporting documentation attached to the respective invoices, will be taken on board.

MRI also conceded the fact that, prima facie, mobile phone facility from landlines in offices appears to be on the high side and instructions have been given to register a marked reduction.

The Cable Service “Family Pack” is considered necessary since it includes BBC World and Sky News channels which

are useful to keep track of international oil prices for which the Ministry, on the local scene, is ultimately responsible.

The Contracts Procurement Section (CPS) within MRI confirmed that a file containing original tender documents was mislaid since June 2005. However, management contended that as long as the relevant work is not halted altogether, and provided that continuation of the subject matter is carried out in a transparent and correct manner, the opening of a ‘for File’ is an acceptable alternative until the original file surfaces.

CPS also contested that it is not irregular to ask for additional information regarding a tendered offer.



**Ministry of Health, the Elderly and  
Community Care**

# Government Pharmaceutical Services Medicines and Surgical Materials

## Background

The Government Pharmaceutical Services (GPS) is responsible for the purchase and distribution of all medicines, pharmaceutical preparations and medical devices within the public health care network, Hospitals, Health Care Centres and other state funded institutions.

During the year, approximately Lm23.60 (€54.97) million were voted in favour of GPS of which Lm21.30 (€49.62) million related to Medicines and Surgical Materials. Purchases made by GPS totalled approximately Lm27 (€62.89) million whilst payments amounted to Lm24.20 (€56.37) million. Out of this amount, Lm22.90 (€53.34) million were spent on Medicines and Surgical Materials, whilst a further Lm0.70 (€1.63) million out of another Lm2 (€4.66) million voted were used specifically for the Influenza Combating Programme.

## Key Issues

Total creditors as at year ending 31 December 2005 amounted to approximately Lm9.40 (€21.90) million of which twenty six per cent (26%) were outstanding over 150 days. Creditors increased throughout the year by Lm2.80 (€6.52) million and totalled Lm12.20 (€28.42) million as at 31st December 2006, of which thirty one per cent (31%) were outstanding over 150 days.

Furthermore, by end of July 2007 approximately Lm16.90 (€39.37) million were already paid in respect of Medicines and Surgical Materials. This amounts to seventy nine per cent (79%) of the total vote of Lm21.50 (€50.08) million for year 2007.

This situation puts GPS in a delicate position that may

result in shortages in medical supplies, higher prices being charged and insufficient funds allocated to pay outstanding balances.

## Control Issues

Opportunities for improvement were identified in the following areas:

### *Supplier Statements*

Suppliers' statements were not available from all local and foreign suppliers. The only suppliers' statements being received consist of a list of outstanding invoices rather than a statement of account inclusive of payments effected. No reconciliations with suppliers' statements are performed or evidenced in the respective files and statements are used to select which outstanding invoices to settle, rather than to perform reconciliations.

The reconciliation of a sample of three of the available suppliers' statements as at 31 December 2006, revealed a difference of Lm0.20 (€0.47) million out of a total balance due as per their accounting system of Lm1.90 (€4.43) million. The difference was due to timing differences, penalties and interest not accounted for.

### *Monthly Reports*

A number of monthly management reports are generated through the GPS accounting and reporting systems. However, no evidence is noted on such reports of any checking to verify that the aggregated totals as per each report tally and of any differences reconciled accordingly.

## Recommendations

### *Key Issues*

Long outstanding balances should be reviewed against suppliers' statements and GPS files, and appropriate action taken on each respective invoice.

Preference should continue to be given to long outstanding balances. However, this should be in the light of current invoices ensuring that current contractual obligations regarding payment within 150 days are not infringed and interests charged thereon are avoided. This will improve suppliers' relations in terms of continuous supplies and reasonable prices.

Following submission of yearly budgets, coordination between GPS and the Ministry of Finance should be improved. Sufficient funds are to be provided to GPS to meet both current demands and to settle old outstanding creditors.

### *Control Issues*

#### Supplier Statements

Suppliers' statements are to be requested at regular intervals from all suppliers and reconciliations of these statements should be performed prior to affecting any payments. Arising differences are to be identified on a timely basis, avoiding interests being accrued on undetected and unsolved outstanding balances.

#### Monthly Reports

Any form of checks is to be evidenced on the respective reports, including signatures of responsible officers and the date when such checks have been performed.

## Management Comments

Management concurred with most of the observations made. However the following additional comments were submitted:

The increase in aged creditors is attributed to a rise in consumption, with funds allocated not sufficient to reflect actual requirements. As a result funds are being exhausted half way through the year. It was also confirmed that the same pattern is being experienced during 2007. The present situation is expected to continue to deteriorate once requests for additional funds have not been allocated.

Other factors attributing to the increased cost for medical supplies include:

- a. imports being sourced mainly from EU member states;
- b. main suppliers reluctant to register medicines locally, resulting in lack of choice and higher prices for the same products.

A situation report has been prepared and is being discussed by MHEC and MFIN.

Management also agreed that supplier statements are not regularly available and concurred with the nature of some of differences identified in the report. Moreover, it was stated that suppliers are not willing to accept and update their statements to reflect any variances reported by GPS as regards disputed invoices, penalties withheld and interest claimed.

Finally, it has been indicated that the recommendation regarding the issue of Monthly Reports has been implemented in the format suggested.

# Health - Contractual and Professional Services

## Background

The actual expenditure on Contractual and Professional Services under the operational and maintenance allocation for the Ministry of Health during 2006 amounted to Lm1,478,648 (€3,444,323) on Contractual Services, and Lm692,947 (€1,614,132) on Professional Services against the budgeted figures of Lm1,544,000 (€3,596,553) and Lm800,000 (€1,863,499) respectively.

## Control Issues

Opportunities for improvement were identified in the following areas:

- Lack of controls and evidence of costs as a basis for reimbursement of travelling expenses incurred by foreign medical professionals;
- Remuneration for services by Health Department employees in relation to a specific project were accounted for as a multi payment rather than a one time allowance in addition to the salary. Furthermore, approval with respect to the payment to one of these officers was not available;
- The computation of salary reimbursements made to the Foundation for Medical Services (FMS), in respect of a seconded officer with the Ministry of Health, with respect to February 2006, could not be verified since no supporting documentation was available. In addition, the reimbursement of mobile phones bills for November and December 2005, paid in January 2006, were not covered by the applicable contract of service;

- No information was available supporting payments made with respect to 'viral load tests'. Furthermore no confirmation was obtained whether the selection process has been made through a call for tenders, and whether the provision of these services exists at a local level;
- No bank guarantee was provided by either two of suppliers of services to cover their contractual obligations;
- Documents supporting the basis of computation of a particular payment for repairs and maintenance of AC units and the provision of legal services were not traced.

## Compliance Issues

- Expenditure for the provision of research assistance and survey work exceeded Lm4,000 (€9,317) in respect of each of the two financial years 2005 and 2006. However, the service was neither procured by a call for applications nor by a call for tenders.
- Expenditure for the services of ophthalmic clinics in health centres over a six month period amounted to Lm12,400 (€28,884) following a request for quotations from a number of applicable service providers instead of a public call for tenders.
- No documentation supporting the basis of appointment for the provision of legal services abroad was made available.
- Annual expenditure incurred in renting specialized equipment for specific patients exceeded Lm2,500

(€5,823) in certain cases. No calls for tenders were made for the procurement of this service.

- Hiring of oxygen cylinders was procured following a request for quotations in 2001. Average annual expenditure amounted to approximately Lm3,600 (€8,386) between the years 2004 to 2006. No confirmation was provided as to whether or not a tender is in place or has been issued.
- In certain instances, the payment vouchers were backed up by invoices which did not qualify as tax invoices since the VAT Registration number of the Health Division was not being included.
- VAT receipts were not always attached to the original payment voucher and as a result it was not possible to ascertain VAT compliance.

## Recommendations

### Control Issues

- The reimbursement of travelling expenses incurred by foreign medical professionals is to be made against evidence of the actual airfares to the country of residence and the type of fare. Alternative documentation is to be requested when tickets do not include the cost incurred. Any over reimbursements are to be recovered.
- Allowances to existing government employees are to be effected through the payroll system to ensure that all income is declared for tax purposes. In addition prior written approval by the responsible officer is to be sought before effecting such payments.
- Applicable documentation supporting the composition of the salaries reimbursed to FMS during 2006 is to be obtained to confirm accuracy. Furthermore, refund of mobile phone bills reimbursed in respect of 2005 should be claimed back once recipients were not entitled to that benefit.
- Authorisation to carry out 'viral load tests' is to be made by a senior medical officer who should subsequently certify correct the invoice before payment. In addition, proper evaluation is to be performed in order to determine whether the present use of such laboratories represents a 'fair and reasonable' cost of service.
- The provision of bank guarantees is to be enforced since it provides a right to redress and charge penalties in case of failure by contractors to deliver.

Such a clause is also to be included in maintenance agreements.

- All documents are to be filed and kept secure. The missing documents are to be traced and accounted for.

### Compliance Issues

- The Health Division is to identify whether it requires the provision of these services or the service of a full time scientific officer. Thereafter a public call for the provision of the services of research assistance or a call for applications for the employment of a scientific officer should be issued.
- Procurement regulations and other related legislation should be strictly adhered to. The Health Division is to consider issuing a call for tenders for the provision of ophthalmic services.
- Public Procurement Regulations are to be adhered to in order to obtain fair and reasonable prices.
- The Health Division is to analyze the expenditure to rent specialized equipment over an average period of five years. If average annual expenditure exceeds the stipulated thresholds of the Public Service Procurement Regulations, the Division should issue a tender rather than acquire the service by a direct order.
- Standard procurement terms and regulations should be followed in cases similar to the hiring of oxygen cylinders for domiciliary use. Furthermore any documentation requested during the audit should always be provided in terms of the Auditor General and National Audit Office Act.
- A valid tax invoice is to include the VAT registration numbers of both the supplier and the Health Division.
- VAT receipts are to be attached to the original payment vouchers. Responsibility for the collection and filing of VAT receipts is to be clearly identified.

## Management Comments

Management concurred with the majority of findings and will be taking remedial action in most cases. However, the following comments were also made:

- Temporary MFIN approval has been obtained in July 2007 to continue to use the service of



- ophthalmic clinics in health centres, whilst further action is to be taken to regularise the matter.
- The reimbursement of the salary to FMS employee is being investigated with the entity concerned.
  - Reasons justifying the present use of foreign laboratories to carry '*viral load tests*' also representing a 'fair and reasonable' cost of service, were given. However, the issue of supporting documentation for these payments was not commented upon.
  - Although it is normal practice to request and insist on the submission of a 'Bank Guarantee' management outlined the possible instances of default. However, it was stated that penalties due in respect of such contracts are retained and deducted from any payment due to the contractor.
- The missing documentation refers to the engagement of Solicitors in the U.K. This firm was recommended by the Malta High Commission in London who utilise the services of this law firm.
  - It was argued that the amount of payments effected annually by the Health Division and receipts received entail that an employee be detailed full time for proper filing of fiscal receipts. However, it is planned to comply with the recommendation once enough staff is made available.
  - Following a reallocation of the Supplies and Accounts section of the Health Division to another office, it was necessary to move a large quantity of files, some of which were regrettably mislaid. As soon as these are available these will be made accessible for examination.





**Ministry for Rural Affairs and the  
Environment**

# Personal Emoluments

## Background

The budget allocation for financial year 2006 in respect of Personal Emoluments for the entire Ministry stood at Lm6,457,000 (€15,040,764), with the Rural Affairs and Paying Agency (RAPA) absorbing more than sixty percent (60%) of this budget (i.e. Lm3,906,200) (€9,098,998). The average number of employees during the same period was in the region of four hundred (400), resulting in an average wage allocation (including overtime and allowances) of almost Lm9,000 (€20,964) per RAPA employee.

## Key Issues

### *Working Hours of RAPA*

The winter schedule of most Departments falling under RAPA (at the Government Farm) is fifteen (15) minutes daily short of the Public Service's official timetable, and not compensated for in the summer months. Approval from the Management and Personnel Office (MPO) authorising such divergence was not evidenced.

### *Excessive Overtime*

An employee reported late for work almost daily during both 2005 and 2006, then worked for excessive hours and was compensated in payment at overtime rate or accumulated time-off in lieu (TOIL).

During 2006, the same employee was paid over Lm1,400 (€3,261) in respect of overtime worked in the first six (6) months of the year, amounting to more than thirty percent (30%) of his gross salary, while at the same time availed

himself of over six hundred and eighty (680) hours of TOIL and vacation leave.

## Control Issues

Opportunities for improvement were identified in the following areas:

### *Late Attendance and Attendance Sheets*

- No deductions were made in either salaries or accumulated TOIL for a number of employees who reported late for work during 2006. Other officers seem to have a standing verbal agreement to compensate late arrival by deducting the amount of hours from accumulated TOIL.
- At times, attendance sheets of Integrated Administration and Control System (IACS) officers reporting late for work indicated that the respective employees were on outside duties. However, no log books recording such movement were maintained by the Department.
- Attendance sheets of various Departments were sometimes inadequately filled in, time-out not always indicated, or persons noting the time-out of other officers.

### *Overtime and Allowances*

- Authorisation for IACS officers to work after normal working hours and convert these hours in TOIL (at overtime rates) was not sought from the Permanent Secretary.

- The covering approval by the Permanent Secretary for overtime by both IACS and the Paying Agency (PA) was at times raised after the overtime work had already been performed.
- Conditions set out in standing regulations for the payment of overtime were not always met, whilst various errors were noted both in calculating the overtime payable, as well as in overtime returns.
- IACS and the PA did not compile the overtime return on a four (4) week basis to match with the current established pay periods.
- Attendance sheets evidencing the extra hours worked did not always support overtime returns, whilst allowances paid were at times not backed up by the necessary documentation.
- Although the respective returns were certified correct, various errors were made in calculating allowances paid to certain employees, giving rise to incorrect payments.

#### *Time-Off In Lieu (TOIL)*

- Occasionally, TOIL registers reported negative balances since officers still availed themselves of time-off even though not enough working hours had been accumulated.
- The balances of accumulated TOIL entitlement for 2006 were sometimes overstated as either no deductions were made for late attendance or the weekly time-off availed of was recorded incorrectly.

#### *Sick and Vacation Leave*

- Medical certificates covering sick leave availed of by officers were not always evidenced. Documentation in support of quarantine leave taken was unavailable.
- Various vacation leave requests filled in by IACS and PA officers lacked the signature of the respective timekeeper confirming the availability of such leave.
- Adequate authorisation to carry forward vacation leave from one year to the next by a particular section was not evidenced.

#### *Retention of Documentation*

- Attendance sheets for previous years for IACS and the PA were not made available. Similarly, requests for TOIL and vacation leave for IACS and PA officers were not filed.
- The list of officers employed within the RAPA that was submitted for audit purposes was inaccurate.

#### *Other Matters*

- Permits authorising officers to leave the work place during working hours to carry out outside duties could not always be traced. Furthermore, inconsistencies were noted in the sample of permits reviewed, for example, permits were at times authorised by an officer at a relatively low grade, while on a number of permits, reasons for leaving the premises was not clearly indicated.
- Measures regarding weekly late attendance reports, temporary absence sheets, procedures in the case of outside duties, etc. supposedly implemented during 2005 to enforce discipline at RAPA were not followed-up.
- The maximum annual allowance for mobile phone telephony expenditure was granted to officers irrespective of when their entitlement to this benefit commenced. Although payment was still effected, no justification for exceeding the maximum allocation (calculated on a pro-rata basis) was indicated on the respective mobile telephony bills of certain officers.
- No official authorisation was sought in respect of the full use of a hired vehicle, with fringe benefits being deducted accordingly, by an officer not entitled to a fully expensed vehicle.

### **Recommendations**

#### *Key Issues*

#### *Working Hours of RAPA*

Employees are obliged to input daily (or weekly) hours stipulated by the Public Service Management Code (PSMC). Changes in the normal timetable should only be adopted after the necessary consultations with MPO have taken place.

### Excessive Overtime

Approval of vacation leave is to be withheld if the respective officer has outstanding excessive accumulation of work. Overtime should be resorted to only in exceptional circumstances.

### Control Issues

#### Late Attendance and Attendance Sheets

- Whilst immediate action is to be taken in cases of late attendance, all employees have to compensate their lateness by working after normal working hours or salary deductions effected accordingly.
- Timekeepers are to be informed in advance of officers required to perform outside duties. Details of such duties are also to be indicated on a log book.
- Prior to certifying attendance sheets, officers are to ensure that these have been adequately filled in. Unclear markings are to be looked into and, if necessary, an explanation provided in the remarks column.

#### Overtime and Allowances

- The Permanent Secretary's authority is to be sought in accordance with the provisions of the PSMC to perform overtime.
- Requests are to be raised and duly approved prior to overtime work is carried out. Overtime can only be approved for periods not exceeding three months and whenever possible this should be linked to ad hoc assignments with specific targets to be attained.
- All conditions for payment of overtime work are to be adhered to. Payments are not to be made in respect of overtime work unless the necessary verifications are carried out both by the officers certifying the overtime returns and those approving the actual payments. A full exercise is to be carried out by all Departments to rectify the situation.
- A standard return is to be adopted by all Departments across the Ministry, compiled on a four (4) week basis.
- Overtime pay claimed is to be accompanied by a certified extract of the attendance book. In addition, any documentation justifying the allowances payable is to be presented with the respective returns.

- Prior to endorsing returns, officers are to ensure that the information presented is correct. Independent checks are to be performed before payments are effected.

#### Time-Off In Lieu (TOIL)

- Unless enough authorised hours have been accumulated, time-off is not to be availed of.
- An exercise is to be carried out (as a minimum with effect from 2004) to review the position of all officers within the respective Departments and accurately quantify balances of TOIL.

#### Sick and Vacation Leave

- Medical certificates supporting sick leave taken are to be submitted by the respective officers. Quarantine leave is to be granted only if supported by medical certificates.
- Once availability of leave is confirmed, the requests are to be signed and dated by the responsible timekeeper.
- Vacation leave is to be carried forward according to the procedures set out in the PSMC.

#### Retention of Documentation

- All documentation is to be appropriately filed and kept for future reference. Requests for time-off and vacation leave are to be filed by employee's name and date order for ease of reference and retained by the officer in charge.
- A list comprising all officers on the payroll is to be diligently compiled and kept updated indicating any new recruitments, resignations and promotions.

#### Other Matters

- Unless permission is obtained from their respective Director, or in his absence, an even higher authority, officers are to refrain from leaving the Government Farm during working hours.
- The established procedures, most of which are covered by the PSMC, are to be adhered to, and corrective action taken in cases of non-compliance.
- In exceptional circumstances, where the expenditure established ceiling of expenditure is exceeded, a statement is to be requested from the beneficiary justifying the excess for approval by the Permanent Secretary. The use of the most cost-efficient

means of telecommunication should however be encouraged.

- Authorisation is to be sought from the Ministry of Finance before allowing officers to make exclusive use of government owned vehicles.

## Management Comments

Whilst most recommendations outlined in the report were accepted, management claimed that excessive overtime paid to an IACS officer cannot be considered out of place since it was undertaken so as to better accommodate farmers applying for EU Aid.

However, it is NAO's opinion that working overtime whilst availing of vacation leave and time-off to reduce accumulation of these balances is not considered always justified.

# Arrears of Revenue

## Background

Arrears of revenue due to government as at end December 2006 as indicated in the return submitted by the Ministry for Rural Affairs and the Environment (MRAE) stood at Lm336,590 (€784,044) out of which Lm136,817 (€318,698) i.e. forty-one percent (41%) has been outstanding for over ten (10) years while another Lm94,562 (€220,270) i.e. twenty-eight percent (28%) has been outstanding between five (5) to ten (10) years. At the end of 2006 Lm107,578 (€250,589) was estimated as not collectable.

## Key Issue

### *Pitkali Markets*

The files of three (3) cases of arrears of revenue pertaining to the Pitkali Markets could not be traced within the Ministry for audit purposes. The aggregate balance of these three (3) cases amounts to Lm50,778 (€118,281) due to government and is now considered as not collectable. One (1) of these cases goes back around ten (10) years and is equivalent to fifty-two percent (52%) of the foregoing amount. The other two (2) cases amounting to Lm24,526 (€57,130) initiated in 1979.

Another amount of Lm10,000 (€23,294) owed from a 'Pitkal' has been due since 1995. Although a legal letter was sent to the defaulter in 1997, no further action has been taken since then. Legal procedures were not initiated and the amount is currently also considered as not collectable.

## Control Issues

Opportunities for improvement were identified in the following areas:

### *Arrears from the Fish Marketing Scheme*

- From a sample of six (6) balances of amounts due from fish hawkers listed under the Fish Marketing Scheme, a 'nil' balance was indicated in respect of one (1) of the hawkers when according to the hawker's personal ledger sheet a balance of Lm1,358 (€3,163) was still pending as at December 2006.
- The "past arrears collected" from the Fish Marketing Scheme, as indicated in the return submitted by the Department, was arrived at by calculating the difference between the opening balance as at the beginning of the year, and the closing balance for that same year. As a result, amounts featuring under the foregoing title as "past arrears collected" could not be verified.

## Recommendations

### *Key Issue*

### *Pitkali Markets*

Tracing of the respective files is recommended in order to evaluate the possibility of recovering the outstanding balances. Files are to be securely stored and timely legal

action taken and followed up before any outstanding amounts become statute barred.

### *Control Issues*

- Reconciliation of figures from source documentation is to be carried out when compiling statutory returns. Submission of information is to be accurate in order to render the figures reliable.
- Records shown as “past arrears collected” should only comprise amounts actually collected during the year in respect of balances due from previous year. Sufficient audit trail is to be maintained of the amounts collected to enable external verification to be performed.

### **Management Comments**

Observations have been upheld by Management. Subsequent to NAO’s review, one (1) missing file was traced by MRAE and found at the Office of the Attorney General although legal action was never initiated. Various attempts to trace the separate file covering the other two (2) cases proved futile.

The recommendation on the accountability of file movement has been accepted. However, Management failed to state whether the remaining recommendations will be taken on board.





**Ministry for the Family and Social  
Solidarity**

# Social Security Department

## Social Assistance

### Background

Social Assistance is regulated by Section 30 of the Social Security Act. A total of Lm22.80 (€53.11) million was disbursed to 10,505 beneficiaries during 2006. This represents approximately ten per cent (10%) of total spending on Social Security Benefits.

Social assistance is provided in the following cases:

- Social Assistance (SA)
- Social Assistance Carers (SAF)
- Single Unmarried Parents (SUP)
- Drug Addicts Dependents (DAD)

The higher number of benefits is awarded in respect of Social Assistance, amounting to 7,841 beneficiaries. This assistance is granted to heads of households incapable to work due to serious diseases, bodily or mental impairment.

### Key Issues

#### *Over and Underpayments*

Forty-five per cent (45%) of the selected sample of Social Assistance beneficiaries; corresponding to 44 beneficiaries; were receiving an incorrect rate of benefit. These inaccuracies arose due to the following:

- the employment of other members of household and changes in household composition;
- incorrect Cost of Living Increase inputted in SABS;

- SA not revised to cater for increased rates in other Social Security benefits received;
- an incorrect rate of alimony deducted;
- rent allowance not given;
- income received from capital incorrectly deducted.

#### *Automatic Assessment*

The Department introduced the Automatic Assessment for Social Assistance in March 2005 with the aim to facilitate the process of assessing claimants by reducing the need of manual intervention. Staff was requested to input the details of the application on SABS and thereafter the benefit would be automatically calculated by the Automated System.

However, this system is barely being used as the process of inputting data is very complex and time consuming. Furthermore, the automatic assessment also created problems to other sections which were having their data erroneously altered when SA applications were being processed.

#### *Medical Panel*

Weaknesses encountered with respect to medical panel reviews involved claimants who were never examined by the medical panel, claimants who were not examined on time and claimants who stopped being followed up by the medical board.

## Control Issues

Opportunities for improvement were identified in the following areas:

- Notwithstanding the fact that the Department may obtain information regarding claimants' income tax declaration, the number of cars and any property owned, such information is not always being requested;
- The Department does not have a system to ensure that all files are periodically reviewed. Reviews are only done when the claimants report a change or following anonymous reports.

## Compliance Issues

### *Application of Policies and Procedures*

A number of inconsistencies were encountered during the examination on a sample of claimants' files. These are highlighted below:

- In one instance, a member of household was never asked how much he earns even though in employment. Such information is requested to check whether any deductions to the SA rate need to be effected;
- An SA claimant receives only Lm1 (€2.33) monthly as maintenance from her husband who, is employed. It resulted that the separation agreement was not queried by the Department;
- Progress regarding a separation court case was not requested since January 2006. Such progress is necessary to monitor whether any maintenance is due and to effect relative changes to the SA rate;
- A claimant did not attend the Medical Panel because he was abroad. However, no deductions were effected. The Department failed to query the dates during which claimant was abroad, the purpose and the source of funds for the journey.

## Recommendations

### *Key Issues*

#### Over and Underpayments

The internal control system is to be enhanced to cater for the timely detection and continuous prevention of errors.

#### Automatic Assessment

The Department should analyse the problems encountered with the Automatic Assessment and evaluate possible solutions to the mentioned difficulties and thus make full use of the software already available.

#### Medical Panel

The Department is to ensure that all claimants who are entitled to Social Assistance on medical grounds are invariably examined by the medical panel in terms of Section 106 as soon as possible. Furthermore, all such claimants are to be reviewed on time as recommended by the medical panel.

### *Control Issues*

- The Department should consider refusing claims until every source of information available is used to confirm the validity of each application. This will reduce the possibility of errors and the necessity to create adjustments to correct over or underpayments;
- The Department should ensure that all files are reviewed from time to time. During this review, all sources of information available both from within and outside the Department should be accessed to check for any possible changes in circumstances. The benefit would then be amended accordingly.

### *Compliance Issues*

#### Application of Policies and Procedures

A manual of policies and procedures is to be drawn up and brought to the attention of staff through periodical training to ensure uniformity in application. This manual is to be updated as necessary to cater for changes in legislation or whenever management feels that the administration of Social Assistance cases would be improved.

## Management Comments

Management has concurred with most of the findings. However the following comments were noted in their reply:

- In most social cases the urgency to issue the much needed assistance to often destitute families going through various social problems is of paramount importance and the assessor and checker of the claim can award benefit before the finalisation of certain investigations.

- Changes in circumstances of all members of the household will effect entitlement. Such changes, when identified or reported, are retroactive and hence will pre-empt a back-dated review of the benefit with consequential changes to entitlement leading to underpayment or overpayments.
- Management is also having meetings with the non-contributory benefit staff to update and adopt the much needed procedures manuals, so that all members of staff will work in a standardised manner. Upon completion, these manuals will be placed on the Intranet system of the Ministry.
- Management agrees that the system itself may be complex. In fact, in collaboration with MITTS, a review is currently underway. It is however, important to underline that the system is designed not only to facilitate the assessment and verification of the benefit claim but, also to reduce the possibility of errors. The system is also designed to streamline the application of policies and procedures in order to ensure uniformity in application of the interpretation of the legislation on such benefit.
- In order to ensure that the difficulties encountered by the staff are addressed, without relinquishing the need to ensure a system that limits errors and provides uniformity of application across board, a plan identifying the required changes to the automated system is being drawn up. This would enable the system to cater for staff needs, and render the software more user friendly.
- The medical panel system for social assistance cases is essentially a manual system whereby reviews and follow-ups depend largely on the ‘bring-up’ filing system. Following the introduction of the automated social assistance system, the medical panel system was partially automated in order to cater for the automated call-up for reviews. Given however, that such a system was introduced during 2005, the follow-up of the older cases are still dependant upon the bring-up system.
- Once the system is fully automated all essential records will be held on-line thereby giving the Directorate adequate control and safeguards against the misplacement of related records.
- Furthermore, with respect to cases of investigations there is continuous communication between the Benefit Fraud and Investigations Directorate and the Benefit Fraud Board set-up internally in the Directorate General – Social Security. This Board deals specifically with reports of investigations forwarded to the Directorate General for a decision on whether to suspend/stop benefit etc. Following the setting-up of the Benefit Fraud Board in January 2007, the system of communication between both directorates has improved substantially.
- Review of claims has mainly been triggered by reported changes in circumstances. It is this Directorate’s objective to improve upon this practice with the regular review of all benefit claims. In line with this objective, two new officers have been recently assigned duties with the section that deals with social assistance.



**Ministry of Foreign Affairs**

# Recurrent Expenditure

## Background

The budget allocation in respect of Operational and Maintenance Expenses for financial year 2006, covering both the Head Office and the twenty-four (24) Malta Embassies, stood at Lm3,304,000 (€7,696,250).

## Key Issues

### *Revised Budget Lines*

The Ministry's travel budget line item was increased by twenty-five percent (25%) over the original allocated amount for financial year 2006. Moreover, expenditure on hospitality by the Head Office also exceeded the budgeted amount by over forty percent (40%) and additional funds had to be requested.

### *Travel – Ministerial Delegations*

Officers forming part of Ministerial Delegations were granted half subsistence allowance notwithstanding that besides hotel accommodation, lunches and at times dinners were paid through the Ministry's credit card. Furthermore, only one statement covering expenses for the whole visit was compiled that included a number of officers. Moreover, receipts did not indicate on whose behalf the expenditure was incurred.

### *Travel – Submission of Agendas*

Agendas or programmes pertaining to the visits abroad were not found in any of the advances file.

## Control Issues

Opportunities for improvement were identified in the following areas:

### *Travel*

- The amount expended on a Ministerial Delegation costing over Lm24,000 (€55,905) was understated by approximately Lm5,000 (€11,647) being costs relating to transport and media. The additional costs were charged against funds allocated to the Malta Embassy of the destination.
- Tips and gratuities of over Lm650 (€1,514) in one (1) visit during 2006 were not supported by a proper statement justifying such payments.
- Office of the Prime Minister (OPM) approval for the chartering of an executive jet for a Ministerial Delegation may not have been granted rationally, due to the request submitted by the Ministry of Foreign Affairs (MFA) on the eve of departure.
- Hotel details and indicative accommodation rates were not presented by officers prior to travelling abroad. In some instances, advances for hotel expenses were granted to officers unnecessarily.
- Officers at times claimed for reimbursement for 'incidentals' without any indication supporting the nature of such expenses.
- The subsistence allowance granted to officers travelling abroad was calculated incorrectly in

various instances, sometimes leading to officers being advanced funds in excess of entitlement.

- Documentation relating to Ministerial Delegations was at times incomplete and unclear. The exact trip dates, persons forming part of the Delegation and the subsistence allowance granted were not always correctly indicated on the forms compiled in drawing up the estimated cost of the visit.
- From the sample of visits abroad reviewed, three (3) statements of expenses pertaining to 2006 were still outstanding as at the first quarter of 2007. Notwithstanding the pending amounts, the arrears of revenue return for 2006 submitted by MFA reported 'nil' outstanding balances. Furthermore, against standing regulations, two (2) of the officers in default still travelled both during 2006 and 2007.

### *Purchasing Process and Fiscal Receipts*

- For all the invoices reviewed pertaining to hospitality expenditure, as well as for a number of assets purchased during the year, the covering approval to carry out the expense was obtained after it had been incurred. In some cases, requisition forms were either not raised or were raised after the goods were procured. Payments made to suppliers for catering expenses were at times effected against quotations.
- Twelve (12) out of twenty-four (24) payments reviewed in respect of assets purchased and hospitality were not supported by a fiscal document.

### *Hospitality - Entertainment*

- A sample test on hospitality expenditure revealed two (2) cases of double payments, for a total overpaid amount of approximately Lm300 (€699).
- The largest hospitality expense during 2006 was the contribution for a seasonal box at the National Theatre, equivalent to nearly ten percent (10%) of the budgeted expenditure under this line item. The original document granting approval towards such expense was not made available.
- No adequate explanation was obtained for the holding of two (2) receptions for 'Consuls New Year's Greetings', one (1) week apart from each other.
- Hospitality expenditure during the year also

included that incurred on finger-food consumed during staff meetings held at MFA, in defiance to Circular 38/2004 issued by the OPM.

- Various payments for catering were effected on re-printed invoices.

### *International Memberships*

- During 2006, over Lm570,000 (€1,327,743) was paid in respect of international memberships. No formal agreements were evidenced to support these contributions which are forecasted to significantly increase further in 2007.
- A list of claims for a number of contributions during the year and the period covered by each payment, was not retained.
- Receipts for contributions paid were not always traced to the respective files.

### *Purchase of Fixed Assets*

- Approval from the Ministry of Finance (MFIN/MF) to purchase two (2) vehicles was requested and obtained by MFA after the purchase.
- Lm15,824 (€34,940) and Lm10,000 (€23,294) were expensed for the purchase of two (2) vehicles to be utilised by an Ambassador and a Consul General respectively. Such designations are not directly regulated by MF Circular 5/98, which sets different ceilings for retail prices of vehicles purchased for public officers. However, capping of cost of vehicles similar to that for officers in analogous grades were not applied.
- Comparable quotations were not obtained before requesting approval from MFIN to purchase the motor vehicle for the cost of Lm15,824 (€36,860) (mentioned above) by direct order from Malta and delivered in country of residence of Malta's representative.
- Payment for the purchase of the foregoing vehicle was effected against a pro forma invoice which lacked necessary details. A fiscal receipt was neither provided in support of this purchase.

### *Inventory Records*

- Up to the second quarter of 2007, the inventory records of one of the Malta Embassies were not yet compiled.
- Asset descriptions in inventory records of a number

of items purchased during the year lacked important details.

### *Vehicles and Fuel Consumption*

- Ten (10) vehicles representing one third ( $\frac{1}{3}$ ) of the fleet were considered to be practically beyond economic repair. Furthermore, vehicles which have been replaced over a number of years are still in the possession of MFA, against standing regulations.
- Although no licences have been paid on the vehicles identified as beyond economical repair and intended to be scrapped, the respective number plates have not been returned to the Malta Transport Authority.
- Log books intended to control fuel consumption were not made available for review.
- Fuel requisition notes did not always serve the purposes they are intended to. A number of requisitions were raised after fuel was actually purchased, while in other cases, fuel was purchased long after requisition notes were raised. Other requisition notes lacked the necessary details.

### *Petty Cash*

- Verifications, if any, made by senior officers on the actual petty cash balance and on the type of expenses being recorded on the petty cash book were not evidenced.
- A large number of the receipts reimbursed from petty cash were not certified correct by any officer.
- The total amount of petty cash restored was not always in agreement with total of receipts of petty expenditure. Similarly, the total receipts attached to the petty cash vouchers at times differed from the amounts reimbursed to the officers.

## Compliance Issues

### *Reporting VAT Defaulters*

Only one (1) out of the eleven (11) defaulters in the audit sample was reported to the VAT Department as not complying with fiscal obligations. Furthermore, the return of defaulters is not being submitted on quarterly basis as required by standing regulations.

### *Submission of Return*

The return of the running cost of government-owned vehicles was not compiled as required by the pertinent circular issued from MFIN.

### *Petty Cash Warrant*

The petty cash warrant stating the authorised amount of imprest, as well as the services for which such imprest may be utilised as per the 'Financial Administration and Audit Act', was not presented for verification.

## Recommendations

### *Key Issues*

#### *Revised Budget Lines*

Both travel and hospitality budget lines as initially approved are to be respected and possibly never encroached. Finance authorisation for virements is to be sought before and not after budget allocations are exceeded.

#### *Travel – Ministerial Delegations*

Whereas subsistence allowance is to be calculated according to standing regulations, MFA is to recoup any extra funds granted. Each and every officer is to present a statement of expenses relating to personal expenditure only, accounting for the funds advanced.

#### *Travel – Submission of Agendas*

A detailed programme of the work expected to be performed by the delegation abroad is to be made available prior to seeking authority for the advance.

### *Control Issues*

#### *Travel*

- Information compiled is to comprise all relevant costs.
- Only reasonable petty cash gratuities in respect of heavy portage handling is to be conceded from the contingency travel advance, supported by a detailed statement signed by the traveller of amounts so paid on official trips.
- Quotations are to be timely sought so that OPM will be in a position to justify approval for the expense being incurred.



- Money is not to be advanced for hotel expenditure unless the hotel, number of nights and the rates applicable are clearly indicated beforehand. No advance is to be granted if such expenditure is to be paid directly by the Ministry.
- Only justified incidental expenses supported by the respective receipts are to be reimbursed.
- Calculations of subsistence allowance are to be exact and in compliance with standing regulations.
- All documentation relating to visits abroad is to be legible and complete, with the correct subsistence allowance indicated on the request form.
- Officers who persistently fail to settle accounts within the stipulated deadlines are to be precluded from going abroad. The return of arrears of revenue should invariably include all outstanding amounts due to government, including travel refunds.

#### Purchasing Process and Fiscal Receipts

- Prior to purchasing goods or services, the initial requisition form approved at the right level of authority is to be raised and a purchase order issued.
- Officers are to ensure that, without exception, a fiscal receipt is issued by suppliers.

#### Hospitality - Entertainment

- Effective control is to be exercised to ensure that no double payments are made. Any extra payments made to suppliers are to be recouped.
- In view of the materiality of the expense, MFA is to consider whether it is making sufficient use of the theatre box to justify this annual cost.
- Unless both receptions are justifiable, such hospitality expenditure is to be kept at a minimum.
- As outlined in the pertinent circulars, no staff parties and other hospitality events are to be organised at public expense.
- MFA is to refrain from effecting payments on invoices unless these are originals.

#### International Memberships

- An exercise is to be carried out to evaluate the current situation and, if certain contributions are

not mandatory, assess the necessity of having the existing amount of memberships.

- A list of all yearly contribution costs is to be compiled, aimed at identifying amounts due at a given financial period whilst also ensuring that no double payments are effected.
- Receipts are to be requested from international institutions in respect of membership fees paid, and filed with relative documentation.

#### Purchase of Fixed Assets

- Adequate approval is to be sought from MFIN prior to any commitment for the purchase of vehicles.
- Payments for items purchased are to be effected only upon the presentation of a proper invoice. In the absence of tax invoices, fiscal receipts are to be requested.
- Guidance is to be sought from MFIN and OPM to apply capping for the purchase of motor vehicles for use by Ambassadors and Consul General.

#### Inventory Records

- The inventory for the Malta Embassy in question is to be compiled as early as possible.
- All necessary details including brand, model, serial number, etc. are to be noted under the Asset Description column in the inventory database.

#### Vehicles and Fuel Consumption

- Unserviceable vehicles are to be disposed of as recommended by the Board of Survey appointed in terms of standing practice.
- Number plates of unserviceable vehicles are to be immediately removed and returned to the Malta Transport Authority.
- Log books are to be regularly updated and readily available for inspections.
- Although control over the issuing of fuel requisition notes should improve once the Fleet Management System is fully functional, independent monitoring is still to be carried out to ensure that entries of fuel intake are being correctly recorded.

#### Petty Cash

- Independent and regular reconciliation of the

balance as per petty cash book and the physical cash balance, as well as checks on entries in the petty cash book, are to be performed and evidenced.

- Receipts presented for reimbursement are to be certified correct by a senior officer independent from the claimant.
- Accuracy is expected when computing petty cash totals and requesting funds from Treasury. Reimbursements are to be backed up by receipts and properly recorded in the petty cash book.

### *Compliance Issues*

#### Reporting VAT Defaulters

While defaulters should be made fully aware of government rules, these are to be reported to the VAT authorities on a quarterly basis. Business with persistent defaulters is to discontinue until the matter is rectified.

#### Submission of Return

A return of the running cost of government-owned vehicles is to be compiled on a yearly basis as per MF Circular 8/90.

#### Petty Cash Warrant

A copy of the original warrant reflecting the current float being retained by MFA is to be obtained if the original warrant has been misplaced.

### Management Comments

Management has agreed with most of the recommendations made by NAO and action has already been taken to comply accordingly by issuing a number of circulars to staff in this regard.

However, management claimed that while every effort is made to keep within the allocated budget, the country's international commitments, further increased by EU Membership, have imposed a substantial increase in travel. Inward bound visits by foreign dignitaries have also increased, putting additional pressures on the Ministry's hospitality vote.

Notwithstanding that it is a requirement of the law, MFA also stated that following contact with the Treasury, the latter confirmed that the petty cash imprest warrant is no longer being issued.



**Other Audits**

# Welfare Committee

## Background

The Welfare Committee is established in terms of Section 130 of the Social Security Act. Its functions are to administer funds entrusted by Government for the benefit of inmates and residents of homes for the elderly and recipients of home help services. It has also capital commitments consisting of various refurbishment projects at St. Vincent de Paule Residence (SVPR) and other Homes for the Elderly.

The audit covered the year 2005, and at that time the Committee was in receipt of about Lm1 (€2.33) million, being money retained from inmates pensions by the Social Security Department. Additional funds accrue in respect of payments made direct by residents who do not contribute under the Social Security pension scheme.

Subsequently as from year 2006, Government approved an estimate of Lm2 (€4.66) million and all money accruing from inmates were paid directly to the Government.

## Key Issues

### *Strategy of the Welfare Committee*

The functions of the Welfare Committee as stipulated in the Social Security Act state that the Committee is entrusted with the welfare of the elderly and shall utilize funds entrusted to it for the care, welfare and benefit of the categories of persons referred to in the above stated section. However no specific tasks or assignments are allocated to the Committee.

Instances were observed where funds earmarked for the Committee were used by the Elderly Department due to

insufficient liquidity. These amounts were disclosed as 'Other Debtors' in the financial statements of the Welfare Committee.

### *Organisation Structure, Job Descriptions and Procedures Manual*

An organisational chart, documented job descriptions and a procedures manual are not available.

### *Treatment of Capital Projects*

The accounting treatment of capital expenditure and its release to the Income and Expenditure Statement in the year of completion is not always in full compliance with International Financial Reporting Standards (IFRSs).

### *Tangible Non Current Assets*

Expenditure incurred on capital projects, initially capitalised, was transferred to the Income and Expenditure statement during the year under review before the project was completed.

### *Capital Project - Estimates*

There does not appear that any formal budgeting process of a capital project was carried out prior to issuing the tender documents for initialisation of a project.

Variances exceeded the 20% limit stipulated in the tender conditions in respect of numerous items in the original bills of quantity, in the contract for Demolition, Construction and Finishing. Moreover no approval was sought or granted for these variations.

Requests by the contractor for increases in the price of material and for materials utilised over and above those contracted in respect of the same project are currently being discussed.

### *Capital Project - Plans of Work Schedules*

The Committee lacks a formal plan of work schedule including cash flow budgeting. Contractors were ordered at times to temporarily stop work due to insufficient funds.

### *Capital Project - Amendments and Inaccuracies following Adjudication*

Significant inaccuracies were detected in the awarded tender following adjudication of the Mechanical and Electrical Engineering project. In addition, enhancements were also added to certain items following adjudication.

### *Capital Project - Advance Payments*

A substantial amount of advance payments were forwarded to the contractors prior to the initialisation of both projects to procure materials to be used throughout the projects. Contracts approval was requested and granted.

## Control Issues

Opportunities for improvement were identified in the following areas:

- Testing carried out on sample debtor balances amounting to Lm16,846 (€39,241) out of a total of Lm49,371 (€115,004) revealed that these were understated by nine per cent (9%). Moreover, balances due from deceased clients were omitted from the recognised debtors' value notwithstanding that effective procedures are in place to ensure their recoverability;
- Creditors amounting to Lm94,771 (€220,757) as per financial statements ending December 2005 were overstated by eighteen per cent (18%);
- Five per cent (5%) of 'Other income' received directly from inmates, amounting to Lm10,103 (€23,534) represented receipts from deceased debtors. These were recognised as income during the year as no debtor balances existed at year end.

No segregation of duties exists in the collection of cash, receipting and depositing process. Cash and cheques collected take a significant period of time to be deposited in the bank.

Additionally, cash books and sales ledgers are maintained manually, making it prone to errors and difficult to back-up.

- From the ten (10) employees listed on the Committee's payroll, only two (2) are directly employed by the Committee. The other eight (8) are gainfully employed with elderly homes or residences.
- Overpayments made to suppliers were mostly due to adjustments in VAT rate, additional charge of VAT over and above amounts already inclusive of VAT charge, and misinterpretation and application of contracted rate/s.
- The professional services of two consultants for various capital projects were both engaged through direct orders.

No call for tenders was issued for the procurement of services, namely:

- Alterations of curtains at SVPR for Lm5,850 (€13,627). The single quotation obtained only specified the applicable rate but no quantities indicating that no prior valuation of works was carried out.
- Sealing of apertures at SVPR at a final cost of Lm5,455 (€12,707). The cheapest quotation selected was for Lm1,625 (€3,785) which shows that no proper bills of quantities were drawn up prior to obtaining the quotations.
- Aluminum aperture work, part of refurbishment works at SVPR certified for Lm2,978 (€6,937).

Public calls for tenders were not issued for the procurement of the following services:

- Finishing works at SVPR and Msida home. Certified invoices examined for the period amounted to Lm32,108 (€74,792) and Lm49,946 (€116,343) respectively. Invoices for each home were issued within a six month period or less. Three departmental tenders had been issued for these works. No quantities were included in the Bill of Quantities.
- Manufacture of various woodworks for SVPR. Total certified invoices for these works, including approved variations, for the period under review amounted to Lm30,541 (€71,141). All invoices were issued in April 2005. It is not understood why these works were split into three departmental tenders instead of a comprehensive one.

- A tender for sanitary hospital consumables was awarded in part to two contractors. However it was noted that additional items were procured from contractors other than those specified in the letter of acceptance.

It was also observed that the supplier invoices occasionally included additional ‘unstuffing charges’ in spite of the fact that contracted rates were for the supply and delivery of items, inclusive of all charges. These additional charges were settled in full.

- Instances were encountered where invoices for goods procured for homes/residences were not accompanied by the relevant delivery note, duly signed by a representative of the home/residence.
- Fiscal documentation supporting receipts for settled invoices was not always available. Moreover, the VAT Department is not being informed of defaulting suppliers.

## Recommendations

### *Key Issues*

#### Strategy of the Welfare Committee

Discussions are to be held with the Ministry of Finance to establish long term strategic plans for the Committee so as to pre define and plan all financial commitments.

#### Organisation Structure, Job Descriptions and Procedures Manual

The Committee needs to document job descriptions, compile a procedures manual and draw up and document the organisational chart.

#### Treatment of Capital Projects

The Committee needs to adopt either the International Financial Reporting Standards or the Malta Government Accounting Standards when drawing up the annual financial report to the Minister.

#### Tangible Non Current Assets

All projects still in progress are to be disclosed and accounted for in accordance with the relevant reporting standards and with the Committee’s policy on capitalisation of uncompleted contracts.

#### Capital Project - Estimates

Formal estimates of quantities should be prepared to be utilised during the course of the project. Benchmarks for specific quantities could also be prepared. Standards may be based on past experience and could be referred to during the budgeting process.

Bills of quantities (BOQs) should be prepared in conjunction with the Committee’s professional advisors and the architect in charge.

Where variations in BOQs exceed 20%, new rates should be negotiated either by the Welfare Committee or by the Central Contracts Committee.

#### Capital Project - Plans of Work Schedules

Detailed works schedule and cash flow projections should be prepared under the supervision of the Committee’s consultants to eliminate the risk of temporarily halting works and consequent cost overruns and excessive delays in completion. Contractor delays will then be subject to the penalties stipulated in the tender.

#### Capital Project - Amendments and Inaccuracies following Adjudication

The Committee is to determine the specific needs of the home/residence at the budgeting stage so as to disallow highly priced options recommended by the contractors. The adjudication board is to scrutinise the selected tender to detect errors or omissions in the final tendered price.

#### Capital Project - Advance Payments

Payments to contractors should be forwarded only upon certification of works completed by the Committee’s quantity surveyors.

### *Control Issues*

- Debtor balances are to be scrutinised at year end to ensure their correctness. Full use of the accounting software is to be made to ensure that debtors’ records are electronically maintained. Backing up of the debtors’ ledger is carried out to eliminate the risk of loss of vital data.

A provision for doubtful debtors should also be considered in each financial period.

- Individual creditor balances should be reconciled periodically to the suppliers’ statements. Any discrepancies are to be investigated immediately and corrected.



- All debtor balances are to be accounted for at year end. Payments received in the following periods are to be posted against the related balance in the system to maintain an updated and correct balance of debtors.

The Committee should be suitably equipped with DAS (Departmental Accounting System) terminals so that remittance advices are prepared in a timely manner and deposits effected immediately.

Income is to be receipted via the accounting system while cashbooks and ledgers are to be retained electronically to facilitate backup procedures.

- Payroll cost disclosed in the financial statements is to represent truly and fairly the actual labour cost.
- Immediate action should be taken to enforce collection of overpayments made. More appropriate procedures for the control of supplier invoices should be introduced.
- Procurements should be strictly in adherence to standing regulations and related legislation. Proper valuations of works (bills of quantities) are to be prepared as a procedure prior to commencing projects.
- The Committee should carry out a comprehensive exercise to determine the exact items, specifications and quantities required before issuing such contracts. Any additional charges over and above the contracted rates are to be scrutinised against the contract prior to being settled.
- Procedures are to be introduced to ensure that endorsed confirmation of satisfactory delivery of items procured is obtained prior to these being paid for.
- Adherence to tax law requirements is to be ensured through appropriate supporting documentation for all transactions. Guidelines stipulated in Treasury Circular 9/99 relating to submission of fiscal receipts should be followed in the case of defaulting suppliers.

## Management Comments

Management concurred with most of the recommendations and the following comments were received:

### Strategy of the Welfare Committee

The amount included under 'Other Debtors' was in respect

of nursing uniforms paid on behalf of the Department. The amount was then reimbursed on 21 June 2006.

### Organisation Structure, Job Descriptions and Procedures Manual

The organisation structure, job descriptions and a procedure manual will be completed by the second quarter of year 2007.

### Treatment of Capital Projects

A decision has been taken to adopt in full the International Financial Reporting Standards. The Committee abides by IFRSs in respect to the recognition and measurement of its transactions but to date it still has to come in line with IFRSs in respect of their presentation and disclosure. A substantial change to the form and content of its annual report is thus required due to the extensive revised/new standards applicable as from 2005 onwards.

### Tangible Non Current Assets

The Committee splits up projects in distinct phases for instance; it split the construction of San Vincenz de Paule Residence Wards 1-4 in separate phases. When each phase is completed, the relevant cost of that ward is actually passed over to the management of the home and that cost is released from assets under construction to the income statement.

### Control Issues

The Welfare Committee has difficulty to control debtors who pay directly to the Social Security Department as timely information is not available. The Committee will consider ways how to improve its coordination with the Social Security Department.

Although a detailed debtors' ledger is not maintained on the accounting software, the income is still reported under accrual accounting principles since the amount received is adjusted with the movement between the opening and closing balance of debtors. Furthermore the Committee will surely consider the implementation of the sales ledger on the computerised accounting package.

Segregation of duties vis-à-vis cash collection, receipting and depositing is to be established. All cash and cheques collected will be deposited within one working day.

The Committee will invoice the Department for the Elderly and Community Care for the reimbursement of salaries in respect of employees performing duties in the various Elderly homes.

Invoices will be thoroughly checked by the Accounting Officer at the Department for the Elderly and Community Care in St. Venera before these are issued. Moreover overpayments have either been fully recouped or will be deducted from the current outstanding invoices.

In future, procurement regulations will be adhered to when procuring any goods and services, departmental call for tenders will be issued for works whose value exceed Lm 2,500 and tenders whose value exceed Lm 20,000 will be issued through the Department of Contracts.

#### Capital Project

In two reports commissioned by the Committee, the Architect and the Engineering Consultant in charge of the project highlighted a number of difficulties encountered during the execution of this project. In particular:

Managing major projects of this kind and magnitude is not an easy task. Design preparation, MEPA permit, the detailed design and tender preparation/adjudication, and the implementation of the actual works are very complex and highly dependent processes in themselves and one

cannot simply focus on one stage or aspect without giving due considerations to the other stages.

It is appropriate to have estimates, plans and work schedules and it is also correct that these documents should be as accurate as possible when they are drawn up. However it is not correct to interpret such documents without taking into consideration the various technical issues and constraints encountered in the course of the works and without emphasising whether the project goals have been reached.

As far as price fluctuations are concerned the contractor has made no such request during the execution of Phase 1 of the project, even though this extended beyond the 32 weeks and payments have been affected according to the contract rates. Due to reasons beyond the control of the contractor, and which the Welfare Committee were fully aware of, the contract has been substantially prolonged. Unfortunately the Contractor could not continue to sustain financial losses due to the change in VAT legislation and drastic market fluctuations in the price of raw material. Various claims were held in abeyance awaiting direction from the Department of Contracts.



# Ministry Of Finance Customs Department 'Goods Withheld' Process

## Background

The Department of Customs (Customs) is a service Department falling under the Ministry of Finance. As stated in the Department's Mission Statement, Customs aims to combine facilitation to trade with the appropriate enforcement measures in line with Malta's responsibilities as a member of the European Union (EU).

Customs has also responsibilities with regards to goods which are withheld, seized and forfeited, as stipulated in the Customs Ordinance and the Community Customs Code.

The objective of the audit was to examine Customs procedures regarding withheld/seized/forfeited merchandise for the years 2005/2006.

## Key Issues

### *Limitations on Scope of Audit*

- The report was compiled solely on information obtained through meetings held with Customs Officials, spot checks carried out and limited Customs files reviews. Testing of systems, procedures and controls supporting assertions made during meetings could not be performed as there was insufficient documentation and lack of audit trail in respect of the goods withheld.
- The National Audit Office (NAO) was stopped from executing spot checks of warehouses falling under the responsibility of the Enforcement Unit on the

plea that no officers were available and that the Unit was not notified beforehand about the visit.

- During a spot check at Newport warehouses, the taking of photographs necessary for audit evidence purposes was not allowed.
- Not all documentation formally requested during meetings was provided by Customs. Comments and further clarifications submitted by Customs Officials, substantially altering the original meeting discussion points, were not backed up by supporting documentation, even when requested.

### *No Written Policies and Procedures*

During the audit, it was generally noted that Customs did not have written policies and procedures of the roles and responsibilities of all Sections involved in processes covered by the audit. Practices adopted were based on and developed through experience.

Customs have since submitted written procedures compiled by its various Sections. Whilst acknowledging Customs effort to set up formal policies and procedures, there is still room for improvement. It was noted that:

- written procedures were not submitted by all Sections audited;
- many Sections gave an overview of operations carried out without clearly specifying detailed roles and responsibilities, decision making processes, decision thresholds and embedded controls to ensure compliance by Customs personnel; and

- interlinked operations among different Customs Sections were not always clear.

### *Lack of Formal Procedures regarding Destruction of Goods*

#### *Location*

Instructions are absent as to where different categories of withheld goods are to be destroyed. Whilst some Sections claimed that they could execute destructions themselves, others specified that any goods would have to be sent to Newport Bonded Stores to be destroyed.

#### *Method of Destruction*

During a spot check carried out at Newport Bonded Stores, it was noted that items, originating from another Section, were being destroyed one by one manually in a warehouse containing items to be auctioned. Boxes with destroyed items were left outside the warehouse.

#### *Evidence*

There was no formal policy regarding evidence of destruction of goods. Customs claimed that photographic evidence of the items being destroyed may be taken by Customs officials as evidence, depending on the volume/value of the goods being destroyed.

### *Inconsistent Procedures regarding Irregularities in Import Declarations*

#### *Lack of Written Policies and Procedures*

There were no formal written guidelines specifying which cases involving incorrect and false declarations should be referred at Director level for further instructions, or otherwise dealt with by Heads of Sections. Decisions on whether superiors should be consulted or not, rested with the latter, based on their experience. However, it was claimed that procedures to be adopted in cases of incorrect classifications and declarations were discussed with officers concerned every one or two months.

#### *Inconsistent Practices regarding the Collection of Fine Deposits*

Sections falling under the Compliance Unit were not adopting a standard percentage of endangered Government revenue in calculating the amounts of fine deposits from defaulters upon the discovery of an irregularity in an import declaration. It was claimed that there could be written guidelines with respect to the structure of fines but no copy of such instructions was provided to NAO.

### *Acceptance of Blank Cheques*

Some Sections within the Compliance Unit were accepting blank cheques on the understanding that Customs Head Office could consequently calculate any fines due, if any, contrary to instructions given by the Director in charge.

### *Incoherent Use of Customs Forms*

The Customs Pending Investigations Form was introduced following consultation with the Attorney General. However, no Section in particular is responsible for reviewing the form to establish whether any revision is due following legal and operational changes.

### *Unclear Definitions of Roles and Responsibilities of the Legal Section*

The Legal Section had no written memos or guidelines indicating roles and responsibilities in the decision making process, as well as decision thresholds, regarding out-of-court settlements.

### *Unclear Treatment of Duty Allocations*

Customs lacked formal guidelines regarding the treatment of post-EU membership duty allocations. As a temporary solution, cash settlement amounts were being allocated to the Miscellaneous Deposits Account.

### *No Standard Valuation Procedures*

#### *The Role of the Valuation Section*

- Valuations and reviews of values declared on importation documents are carried out only when specifically requested by other Sections.
- In the procedure guidelines prepared by the Valuation Section following the audit, no reference was made to:
  - when and how the Valuation Section should be involved by other Customs Sections;
  - the necessity of documenting the manner in which particular valuations were achieved and accompanying reason why a particular valuation method was chosen; and
  - periodical reviews to assess whether valuation adjustments were necessary.

No training regarding valuations was provided to Customs officers and Maltapost employees charged with processing importation documents.

*Auction Sales Minimum Values/Estimates*

- There were no standard valuation procedures for items to be auctioned. It was observed that sometimes operators in the business of items being auctioned were requested to provide valuation guidelines.
- It was noted that estimated and minimum values included in auction sales case files, for approval by the Director, were not substantiated by calculations and details which justify assigned values and provide an audit trail of research and work done.

*Lack of Security**General*

It was noted that not all Customs stations had adequate security measures, particularly after office hours.

*Accounts Section Safe*

Persons opening the safe were not required to sign a log book nor were cash counts performed even though other Sections besides that of the Accounts were making use thereof.

*Stock Control Deficiencies*

- In general, Customs Sections recorded movements of withheld and seized goods in manual ledgers, referred to as baggage books. Baggage books maintained by some Sections were not directly linked to particular storage rooms.
- Regular stock takes of withheld goods were not being performed by a number of Customs Sections, on the premise that this would be time consuming as it would require detailed scrutiny of baggage books in order to identify outstanding stock items.
- The Customs Accounts Section did not have details of goods withheld, seized or forfeited by Customs and their respective valuations.

*Observations following Site Visits to Customs Stores*

The following deficiencies were noted:

- Difficulties in identifying items for auction, destruction, respective duration of storage etc. once items of merchandise are not separately stored.
- Weak security features in Customs Area at the

entrance to stores and the storing of 'sensitive' withheld goods in cabinets.

*Control Issues**Lack of Adequate Databases*

In several instances, Customs lacked databases for quick retrieval and use of essential data. Certain databases being maintained were inadequate and outdated resulting in unreliable returns.

Furthermore, there was no centralised database containing statistics and information on confiscated merchandise.

*Incomplete Information re Donations*

In a reply to one of the confirmation letters sent to Departments/Organisations in receipt of donations consisting of seized goods by Customs, it was noted that, apart from cigarettes, several other items of clothing and related accessories were donated in 2005. However, the recipient of these goods confirmed to NAO that no delivery statement in relation to these items was forwarded by Customs. Evidence of donated clothes and related accessories was not provided to NAO by Customs.

*Lack of Adequate Documentation*

Guidelines stipulating documentation necessary to substantiate actions and decisions made by Customs employees were missing. It was noted that:

- calculations and workings made by certain Sections were not always recorded in Customs files; and
- not all information received by the Enforcement Unit from various sources was logged in a register. Moreover, neither telephone calls were recorded except for drug related reports, at Customs MIA Station.

*Lack of Proper Control Environment in Auction Sales*

- Auction Sales authorisation levels were not clearly stipulated and formally documented.
- There were no standard procedures indicating which cases warranted the involvement of Customs Head Office or the Ministry of Finance.
- Whilst reviewing two (2) Auction Sales files, NAO noted that amendments to tendered amounts were made in pencil and were not always endorsed.

## Recommendations

### *Key Issues*

#### No Written Policies and Procedures

Formal written policies and procedures should be compiled by all Sections. Where relevant, existing procedures should be revised to indicate:

- legal requirements, procedures and controls being adopted by the various Sections to ensure full compliance by Customs personnel; and
- the decision making process and decision thresholds.

#### Lack of Formal Procedures regarding Destruction of Goods

Customs should issue detailed guidelines regarding different types of goods, methods of destruction, as well as destruction locations.

#### Inconsistent Procedures regarding Irregularities in Import Declarations

- Formal written policies and procedures regulating the discovery of import declaration irregularities should be set up.
- Any follow up action should be documented.

#### Incoherent Use of Customs Forms

Customs should ascertain which Section is responsible for the monitoring and revision of Customs forms.

#### Unclear Definitions of Roles and Responsibilities of the Legal Section

Roles and responsibilities of employees within the Legal Section should be specified in the Section's written guidelines. Guidelines should also indicate necessary internal controls to ensure that stipulated procedures are actually being abided by.

#### Unclear Treatment of Duty Allocations

Formal guidelines, in line with relevant standing regulations, should be formulated to ensure proper treatment of withheld/seized/forfeited goods as well as correct categorisation and allocation of funds into different revenue categories. Guidelines should also specify levels of responsibilities and embedded controls.

#### No Standard Valuation Procedures

- Procedures should clearly stipulate in which circumstances valuations can be made by the respective Sections or referred to the Valuation Section.
- Training regarding evaluations and valuation techniques to be adopted should be provided to all Customs officers concerned.
- Customs needs to identify a Section whose responsibility would be that of reviewing withheld items valuations on a periodical basis and adjusting valuation amounts accordingly. Additionally, stock lists are to be compiled indicating all items which were withheld by Customs, sub-classified into categories. Such lists would become particularly useful following the eventual introduction of Government accrual accounting.

#### Lack of Security

Customs should formulate minimum security features which must be present in all its various offices and outstations.

#### Stock Control Deficiencies

- Customs should set up an electronic detailed stock recording system for recording all withheld items' movements and their respective stock values. Such information is to be centralised, enabling management to generate and analyse various stock reports.
- The Department should issue formal written policies and procedures requesting all Customs Sections to regularly perform stock takes of items withheld and stored by them, including guidelines on necessary action on resulting discrepancies. Reconciliations and action taken should be clearly documented for future reference.

#### Observations following Site Visits to Customs Stores

Customs should set standard parameters with respect to:

- minimum security features at storage rooms;
- coding/tagging of items being stored;
- organisation of items in the stores;
- personnel authorised to administer the stores; and
- maintenance and hygiene of stores.

## Control Issues

### Lack of Adequate Databases

- Customs should establish general and specialised databases that are to be updated regularly. Whilst speeding up operations, this would also ensure diligent execution of operations.
- Customs should set up and maintain a database containing all the necessary information relating to the donations of seized goods to third parties, cross referenced to relative Customs files.

### Lack of Adequate Documentation

- All information received by Customs from any source should be logged into an information database and every case updated with relative follow up procedures and results or reasons why no further action was taken.
- Customs should ensure that all Sections maintain the detailed documentation necessary to justify decisions made.
- Standard electronic documents should substitute manual documents, thus ensuring better time management and more economical and proficient use of resources.

### Lack of Proper Control Environment in Auction Sales

- Decision making levels should be clearly established and formally written so that every activity relating to sale of seized items is always authorised and approved by Top Management.
- Auction Sales policies and procedures should clearly spell out the circumstances when tendered amounts can be amended, the necessary approvals and relative documentation requirements.

## Management Comments

Management noted that some suggestions have been taken on board, such as:

- the need for increased application of electronic databases to replace manual record keeping (including stock lists);
- providing the Accounts Section with a smaller safe for its own use; and
- installing security equipment, where practicable.

The following additional comments were made:

- An annual training plan and programme is organized by the Department.
- Action has been taken to ensure that all sections compile procedures manuals which are continually updated with new procedures introduced by management. New procedures are disseminated through circulars and office memos. Many Customs procedures are explained in a 'Q and A' format.
- Management's approval is always required to decide on the location and method of destruction of goods. The latter being dependent on the nature and quantity of the goods. *'The important thing is that goods are rendered unsaleable and cannot be put on the market.....The destruction of goods always takes place under Customs supervision..... Written confirmation of destruction is recorded by the officials in the relative file.'*
- *'The Director (Compliance) liaises closely with Heads of Sections under his charge by means of several meetings regarding procedures in general.'*
- The different percentages of deposits arise when the merits of the case are evaluated at the time of raising the deposit, particularly where the amounts involved are relatively high.
- As a policy, blank cheques are never accepted. Collection of cheques, addressed to the Comptroller of Customs, are accepted when amounts cannot be physically deposited at Cash Office after office hours. Collection of blank cheques is a measure of last resort.
- *'The Director Enforcement is responsible for establishment, monitoring and revision of Customs forms used by staff in his Directorate.'*
- Staff was instructed that, even in trivial cases, out-of-court settlements are to be effected solely if authorised by the Director General.
- The Department is awaiting clear instructions from the EU Commission regarding how goods seized inland are to be considered for import duty purposes. i.e. whether duty should be paid to the EU or not.
- All Customs Sections should follow the World Trade Organisation Agreement on Customs Value (ACV).
- *'The Valuation Office retains all data in the form of documents relevant to each individual case. A data*



*base is actually updated regularly. It was remarked that 'invoice values are never revised downwards'.*

- With regards to deficiencies noted during site visits to Customs stores, the following comments were made by Customs:

- *'All old luggages are going to be destroyed without being examined.....luggages are opened and examined in the presence of two officials.'*

- *'Stores are opened by Customs officials and only authorised persons are allowed entry under Customs Supervision.'*

- Warehouse items are not stored systematically because of limited space.

- The warehouse infested with mice has been cleaned.

- Open boxes are to be sealed and contents thereof recorded.

- All boxes which had been lying at the Airfreight security shed *'for substantial periods of time have been either destroyed under Customs supervision or sent to Newport Bonded Stores.'*

- Boxes at Customs Airfreight Shed are identified through shippers' marks and numbers.

- A new shelving system has been installed at the Airfreight shed to solve the storage space problem.

# Employment and Training Corporation Training and Employment Exposure Scheme

## Background

The Training and Employment Exposure Scheme (TEES) is intended to assist unemployed persons over the age of forty (40) and who have been registering for work for at least six (6) months, to enter the labour market. This is achieved through training sessions and work exposure with employers. The scheme is divided into three (3) phases, with training taking place in the first two (2) phases, while during phase three (3) the participants are engaged with an employer.

## Key Issues

### *Reliance on Management Company*

Although the ultimate responsibility of the scheme lies with the Employment and Training Corporation (ETC), a high level of reliance was placed on the work carried out by the outsourced company managing the scheme (referred to as the Management Company). In addition, the Corporation was not always in possession of the required information regarding the participants of the scheme.

### *Insufficient Checks carried out prior to the Issuing of Payments*

All invoices submitted by the Management Company were certified correct by the Final Beneficiary and Line Ministry. Nonetheless, the applications and other supporting documentation were not adequately verified in support of the invoices presented for payment.

## Control Issues

Opportunities for improvement were identified in the following areas:

- Informal guidelines issued by ETC on the criteria to be used by interviewers to rate applicants on the scoring grid were insufficient.
- Overcharging by the Management Company in respect of information meetings held with potential employers, interviews carried out with applicants, monitoring costs and transportation expenses.
- Selection of participants for the scheme, or exclusion thereof, was not always clear.
- Reimbursement for ferry expenses claimed by the Management Company not supported by the ferry tickets.
- Insufficient control over attendance records of participants.
- Inaccurate recording of vacation and sick leave availed of by participants, resulting in inaccurate deductions from wages. Furthermore, one (1) participant was paid a full month's wage to which he was not entitled. Another participant was overpaid one and a half month's wage, with only part of the overpayment being recouped.
- In those cases where the participant is not retained by the employer for the subsequent phase, although required by the agreements entered into between

the Management Company and employers, no declaration is given by the latter stating the reasons for non-retention.

- Monitoring carried out by ETC not evidenced.
- Lack of standard procedures in the maintenance of original documentation including application forms and apprenticeship agreements.
- Inconsistencies and contradicting statements were noted in the contract of service entered into between the Management Company and the Contracts Department. Other errors were found in the Tender Offer Document, as well as in the provision of transportation agreements.

## Recommendations

### *Key Issues*

#### Reliance on Management Company

ETC is to place control measures throughout the whole scheme, especially in those areas of management it has outsourced. It is also to be aware of all participants' movements and be in possession of all relevant documentation.

#### Insufficient Checks carried out prior to the Issuing of Payments

The Corporation is expected to verify all invoices prior to effecting payments and not accept billing at face value. The type of checks carried out is to be clearly indicated, including the name of the officer performing them.

### *Control Issues*

- Appropriate indications are to be given by ETC as to how applicants' aptitudes and attitudes are to be rated during the interviews.
- Whilst the overpaid amounts are to be recouped, any information presented by the Management Company is to be verified to ensure accuracy and completeness, especially if it forms the basis for payments. ETC is also to keep its own separate and independent records.

- The inclusion and exclusion of applicants from the scheme is to be clearly reflected in the details on the application forms and scoring grids. In order to attain the desired objectives of the project, applicants with little or no motivation are not to be chosen. Similarly, persons having health problems are to be dealt with separately, and exclusion from the ETC register is to be considered.
- Adequate checks, based on original documentation, are to be made prior to the execution of payments.
- All attendance sheets are to be pre-dated and drawn up on a daily basis, in accordance with timetables and participants actually signing to evidence their presence.
- The hours of vacation and sick leave availed of by each participant are to be recomputed. The Management Company is to bear the overpayments made to the participants in respect of wages.
- A simple declaration stating that the participant will not be kept for phase three (3), including proper justifications, is to be requested from employers.
- Any monitoring performed is to be properly evidenced and documented.
- All original documentation is to be held at ETC, with a copy of such documents retained by the Management Company.
- Contracts and agreements are to be drafted meticulously since these are binding for the parties endorsing them. Before signing such documents, ETC is to ensure accuracy of their contents and that details are clear and not conflicting.

## Management Comments

Corrective action had been taken on certain issues, including the recovery of overpayments, during the course of the audit. Other recommendations will be implemented in the future.

This was also confirmed by the Internal Audit and Investigations Directorate (IAID), the audit body responsible for Structural Funds, who performed a follow up review on NAO's Management Letter.



# Malta Tourism Authority

## Grant Scheme for Tourism Enterprises

### Background

The Grant Scheme for Tourism Enterprises (referred to as ‘the Scheme’) was aimed to increase the competitiveness of tourism service providers, as well as, to enhance the product of enterprises and organisations that work in the tourism sector. Support was provided with the aim of directly influencing investment by the private sector and leading the tourism sector to be more sustainable. A total of fifty-four (54) enterprises (referred to as the ‘Final Recipients’) qualified for funding under the Scheme.

The total public funds committed to the project amounted to €1.5 million, with €875,000 co-financing from the European Regional Development Fund (ERDF) and €625,000 borne by the Maltese Government. This €1.5 million constituted sixty percent (60%) of the net cost of the projects of the Final Recipients. The remaining forty percent (40%), together with the VAT element (which is over and above the private co-financing) was contributed by the Final Recipients.

### Key Issues

#### *Inadequate Timing of Site Visits*

Site visits, with the scope of ensuring that projects are not executed prior to approval, were carried out long after the eligibility date for commencement of such projects. Consequently, some items had already been purchased by Final Recipients and found on location.

#### *Lack of Effective Checks*

The Malta Tourism Authority (MTA) did not always carry out site visits, to ensure that all the products and services have been delivered on location and according to specifications, prior to the issuing of reimbursements to Final Recipients.

### Control Issues

Opportunities for improvement were identified in the following areas:

#### *On-the-spot Checks*

- Certain items co-financed by the Scheme were not found on site when location checks were carried out. Some equipment was also malfunctioning, without any replacement being provided by the supplier. No guarantees were presented for items purchased.
- Some of the items found on location differed from the specifications indicated on the respective invoices presented to the MTA for reimbursement.
- Checks on site carried out by the MTA were inadequate.

#### *Grants and Reimbursements to Final Recipients*

- Grants approved by the MTA were not always calculated correctly. There were cases of over/under payments as a result of incorrect calculations.

- Occasionally, documentation in support of expenditure was not presented by the Final Recipients and invoices with missing necessary details, including brand of equipment, specifications, number of units installed, etc. were submitted when claiming reimbursements.
- Cost ceilings were not established by the MTA for travel and accommodation expenses incurred by Final Recipients.

### *Clarity of Statements*

- At times declaration forms, stating why the cheapest quotation was not selected, were not clear.
- Definitions for eligible and ineligible expenditure as set by the MTA were not always clear.

### *Communication between the MTA and Final Recipients*

- Final Recipients did not always inform the MTA when projects were not carried out in their entirety, as well as of amounts received in the form of State Aid through other schemes.
- Instances were encountered where formal approval by the MTA was not evidenced for changes in the suppliers for the purchase of items or services, as well as, for certain project extensions.

### *Retention of Documentation and Reporting*

- Lack of retention of documentation by the Final Recipients. Filing of source documentation by the MTA was incoherent, with some original invoices being lost or misplaced.
- An inventory list of items co-financed by EU Funds was not kept by the Final Recipients.
- Errors were noted in the amounts reported by the MTA as State Aid to the pertinent “Monitoring Board”.

## **Compliance Issues**

### *VAT Element in Quotations*

Quotations obtained by the Final Recipients from the suppliers were at times unclear as to whether VAT was included. A number of quotations submitted totally excluded the VAT element.

### *Invoices neither Stamped nor Certified Correct*

A considerable number of the invoices and receipts were neither certified correct, nor stamped with the Structural Funds stamp before being passed for payment.

### *Reporting*

The MTA was aware of a possible irregularity during the Scheme, but did not report it in the quarterly irregularity reports. Other quarterly reports on the progress of the project relating to allocated disbursements, problems encountered and financial forecasts were not prepared by the MTA. Only short executive summaries were available.

## **Recommendations**

### *Key Issues*

#### *Inadequate Timing of Site Visits*

Site visits are to be carried out before approval of eligibility of project.

#### *Lack of Effective Checks*

Timely site visits covering all Recipients are to be carried out to ensure better control over the Scheme and checklists filled in correctly indicating the actual verifications carried out prior to payments to Final Recipients.

### *Control Issues*

#### *On-the-spot Checks*

- All the funds granted to the Recipient under the Scheme are to be recouped if items not found on location are not justified. Guarantees for equipment purchased are also to be requested and replacement provided in cases of non-functioning equipment.
- Invoices presented for reimbursement are to clearly reflect the items purchased by the Recipients.
- Proper on-the-spot checks are to be carried out and the MTA is also to consider making use of surveyors to assist in those areas in which it lacks expertise.

#### *Grants and Reimbursements to Final Recipients*

- All calculations are to be double-checked, especially where errors cannot be rectified. Invoices and receipts are to be properly verified and only eligible expenses are to be reimbursed.

- Invoices presented for reimbursement are to include the necessary details to clearly identify the item being purchased. The MTA is to refrain from processing payments in absence of all relevant documentation.
- Various cost ceilings are to be established by the MTA and used as guidelines.

#### Clarity of Statements

- Details on declaration forms are to be legible.
- The MTA is to clearly define the terms used when referring to eligibility of interventions, giving examples to illustrate.

#### Communication between the MTA and Final Recipients

- Final Recipients are to immediately notify the MTA when the project/s or part thereof is shelved. All State Aid received is to be timely declared. The MTA is also to consider penalizing the Recipients in cases of non-compliance.
- Changes in suppliers as well as extension of projects are to be approved in writing by the MTA, following a formal request submitted by the Final Recipients.

#### Retention of Documentation and Reporting

- All relevant documentation is to be retained by Final Recipients. Responsibility for proper filing is also to be assumed by the MTA in line with the requirements stipulated in the Manual of Procedures.
- Recipients are to be requested to maintain an inventory of the co-financed items, with details of their specific location.
- The MTA is to ensure that State Aid amounts reported are accurate.

### *Compliance Issues*

#### VAT Element in Quotations

No quotations are to be accepted by the MTA unless the VAT element is clearly indicated.

#### Invoices neither Stamped nor Certified Correct

As required by the Manual of Procedures, all invoices are to be stamped and certified correct prior to being passed for payment.

#### Reporting

Irregularities are to be reported immediately to the Managing Authority, as required by the Manual of Procedures. Quarterly reports are also to be drawn up and forwarded to the Managing Authority.

### Management Comments

Most recommendations outlined in the report have been accepted. Whilst action is already being taken in some cases, other recommendations will be kept in view for forthcoming schemes.

However, since Final Recipients are co-financing the schemes, the MTA is reconsidering the use of declaration forms and found reservations in taking recommendation on board.

Further reservations were made as to the non-acceptance of quotations not clearly indicating the VAT element.

# Malta Tourism Authority

## Licences, Contributions and Salaries

### Background

The Malta Tourism Authority (MTA) was set up with effect from 1 September 1999 in terms of the Malta Travel and Tourism Services Act, 1999. This Authority replaced the National Tourism Organisation – Malta.

The mission of the MTA is to advance the economic and social activity of tourism in the national interest, by working with all stakeholders to develop a sustainable industry for current and future generations.

This audit covered financial year ending 31 December 2005.

### Key Issues

#### *Inadequate Breakdown of Bar Sub-Licences*

Detailed breakdown of bar licences previously settled at local Police Stations were not passed to MTA. Only aggregate amounts owed by owners were transferred from the Police manual registers.

#### *Incorrect Contributions invoiced for Souvenir Shops and Pleasure Boats*

The Trade Department and the Malta Maritime Authority were unable to give MTA a complete list of all (a) souvenir shops and (b) registered pleasure boats in Malta for which a licence is needed. Contributions collected by MTA in regard to (a) and (b) are based on incomplete and unreliable information.

### Control Issues

Opportunities for improvement were identified in the following areas:

#### *Divergence from the Collective Agreement*

MTA paid employees allowances that were not covered by the Collective Agreement. In a particular case, the total of such allowances granted in one year amounted to over Lm3,000 (€6,988).

Two (2) categories of employees within the Authority were also not covered by the Collective Agreement.

#### *Reconciliation of Gross Salaries*

A difference between the total gross emoluments reported by the MTA in the Financial Statements and the returns submitted to the Inland Revenue was not reconciled. A discrepancy was also noted between the monthly returns and the total annual return forwarded to the tax authorities for the same financial year.

### Compliance Issues

#### *Social Security Contributions not paid on the Entire Basic Salary*

It is a standard practice that when government officials are appointed with the MTA, their salary is topped up so that the total pay package is in harmony with the salary grades of the MTA. However, no Social Security Contribution

is being paid on the topping up over and above the salary of the civil service since this is being considered as an allowance. Notwithstanding, rate for overtime work is still being paid using the total pay package as the basic salary.

### *Consultant employed without a Contract of Service*

No contract of service was drawn up for a Consultant working with the MTA. His contract conditions could thus not be verified.

### *Final Settlement System Regulations*

A written approval from the Commissioner of Inland Revenue was not provided to support the tax rate being applied to the Consultant's salary. This tax rate was not in accordance with the Final Settlement System Regulations.

## Recommendations

### *Key Issues*

#### *Inadequate Breakdown of Bar Sub-Licences*

As bar licence permits are no longer under the jurisdiction of the Police Department, an agreement should be reached between the two (2) entities whereby manual registers kept by the former are passed on to MTA. This would enable the setting up of a comprehensive set of records.

#### *Incorrect Contributions invoiced for Souvenir Shops and Pleasure Boats*

MTA is to take the initiative to carry out a review of all licensed souvenir shops and pleasure boats in coordination with the Trade Department and Malta Maritime Authority/ Malta Transport Authority respectively. The purpose would be to build up a complete database.

### *Control Issues*

#### *Divergence from the Collective Agreement*

Allowances precluded by the Collective Agreement are not to be granted. For more equitability, a revision of, or addenda to, the Collective Agreement is required for additional allowances to be justified. The new Agreement should also reflect the grades and respective job descriptions of all employees engaged with MTA.

### *Reconciliation of Gross Salaries*

Full reconciliation, in verification of both published figures in the Financial Statements as well as returns submitted to Tax Authorities, is required.

### *Compliance Issues*

#### *Social Security Contributions not paid on the Entire Basic Salary*

MTA is to recoup unpaid contributions from all officers employed under these conditions retrospectively from date of secondment with the Authority.

#### *Consultant employed without a Contract of Service*

A contract of service should be drawn up to regularise the consultant's employment and a copy is to be inserted in the personal file.

#### *Final Settlement System Regulations*

Unless a written approval is obtained from the Commissioner of Inland Revenue to deduct tax at a different rate, tax is to be deducted as per rates established in the Income Tax Act.

## Management Comments

Management has concurred with all observations and has committed itself to implement most of the recommendations presented and/or any other additional or alternative measures to rectify limitations mentioned.

MTA made reservation on the deduction of social security contribution regarding the topping up of salary difference paid to government officials working on its behalf, stating that an allowance warrants no SSC deductions. However, this was not upheld by the Management Personnel Office (MPO).

MTA also reiterated that the difference in gross emoluments between the annual and monthly return is considered immaterial.

The issue of unreconciled amounts of said returns with the financial statements was not addressed.