N A O
National Audit Office
MALTA

Annual Audit Report

Public Accounts 2007

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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 as established in the NAO Audit Plan. We have attempted to make this report as user friendly as possible and have tried to adopt plain common language, although this was not always possible due to the technicality of some of the issues raised.

The Report is presented in the format of Ministerial Portfolios existing in 2007, each containing one or more Departments or sections which were the subject of our review. The Section on 'Other Audits' concerns reviews that either relate to pre-2007 or are of a Performance Audit nature. Most audit reports under the Ministerial Portfolios have the following structure:

Background

Includes a brief description of the relevant activities, roles and operations of the respective Department or section under review. Where applicable it may also include new legislation governing such entity.

Key Issues

Outline any material findings or outcomes of our audit and any major developments impacting on the respective Department or section.

Control Issues

Outline 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

Summarise instances whereby the relative Department or section lacked compliance with effective legislation and standing General Financial Regulations.

Recommendations

Outline our recommendations to the respective Departments so as to encourage them to correct or mitigate the weaknesses that came to our attention. In general, our recommendations are aimed at improving the internal control systems and promote good practice.

Management Comments

Seek to include the Management's reaction to NAO's comments and action taken, or planned to be taken, so as to rectify any shortcomings identified.

Values displayed in Euro are based on the rate of exchange of €1=Lm0.4293 and are for information purposes only.

Executive Summary

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

The **Financial Report** statements and accounts for year 2007 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 2007 were not provided by the Ministry of Finance in respect of certain items of revenue;
- variance analysis systems at Ministerial and Departmental levels need to be improved, as evidenced by the substantial excesses of actual over revised budgets registered under certain items of expenditure;
- transactions dated 2008 were incorrectly reported in the 2007 Financial Year;
- debenture interest and loan repayments recorded as received from a Public Corporation were effectively paid by Government;
- from the Lm7.09 *(€16.5)* million budgeted funds, Lm4.5 *(€10.5)* million were actually used towards paying Treasury Clearance Fund Advances, leaving Lm95 *(€221)* million worth of advances still pending at year end;
- 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 to embark on such a demanding exercise. (page 12)

Once again a number of Ministries, Departments and Entities failed to send their annual **2007 Return of Arrears** to the Treasury Department as stipulated in Treasury Circular 3/2008 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. (page 36)

Over the years, there has been an increase in the number of **part-time Consultants and Advisers** employed with various Ministries. Shortcomings over the checking conducted by the Salaries Section within the Ministry for Gozo prior to issuing of Salaries, coupled with the lack of control over duties and work performed, were noted. (page 54)

The **Travel Abroad on Official Government Business** report summarises the various Ministry of Finance's Circulars related to travel abroad, in particular MFIN Circular 1/2008, issued on the basis of NAO's conclusions and related recommendations put forward in previous Reports of the Auditor General, with particular reference to the audit report *'Travel Abroad on Official Government Business – Financial Year 2004'*. Areas of concern not regulated and others where compliance is still lacking are also identified. (page 59)

A number of concerns arose when an audit of the **Social Security Contributions – Class I (Post 1998)** was carried out at the **Inland Revenue Department**. In particular it was noted that:

- there is lack of enforcement measures in place to collect the amounts of Social Security outstanding. No prompt action in the form of 'official reminders', 'demand notices' and 'judicial letters' were taken in some of the cases reviewed;

- there is lack of proper monitoring and follow-up action over settlement agreements, between the Commissioner and the defaulting employer, to ensure that agreed conditions are adhered to; and

- no arrears of revenue return is being completed and the Department is not in a position to quantify the amounts due by employers on a yearly and on a cumulative basis. (page 66)

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 were reported in our report on page 70. Furthermore, the following concerns were also noted:

- Forty-three (43) audit reports representing 63% of Local Councils were qualified.

- Nine (9) Local Councils recorded a negative working capital in the Statement of Affairs.

- Fourteen (14) Local Councils registered a Financial Situation Indicator (FSI) below the 10% benchmark.

- Twenty-three (23) Local Councils registered a deficit in the Income and Expenditure account.

- Twenty-four (24) out of sixty-eight (68) Audit Reports were delivered by 30 June 2008. The financial statements of Pieta' Local Council were not received for the third consecutive year.

- Twenty-nine (29) Local Councils failed to submit a reply to the management letter by 31 October 2008.

No Joint Committees' audit reports were available by the time the audit of the Local Councils was carried out. Presently there is no legislation regulating the submission of the Joint Committees' financial statements.

Although nine (9) Local Councils had a change in their Executive Secretary during the year, only two (2) mid-term audits have been carried out as required in the Local Councils (Audit) Procedures 2006. The mid-term audit is meant to serve as an independent hand-over exercise whenever an Executive Secretary leaves the employment of a Local Council and another is appointed.

An inbuilt facility urgently needs to be incorporated in the weapons system of the **Police Department** so as to enable the extraction of the ageing of the balances included in the return of **arrears of revenue of licences**. Furthermore, from a number of records examined, it also transpired that the last payments received date back to year 1995. (page 87)

An IT Audit held at the **Courts of Justice Division** within the **Ministry for Justice and Home Affairs** involved the review of two (2) areas: **Entity Level Controls and Business Continuity planning with respect to IT**. The audit sought to determine whether an adequate strategy defined the auditee's IT direction and whether information management and processing were set down in policies and procedures. The auditee's IT planning with respect to business continuation in the event of disruptions due to a disaster was also evaluated. The IT Audit identified a considerable need for improvement in the planning of both areas. (page 90)

An examination of total costs incurred by a particular beneficiary on a project listed under the **European Refugee Fund**, against the payments made by the Ministry, resulted in an overpayment. (page 92)

The budget for the provision of **School Transport** was exceeded. An audit at then **Education Division** revealed that the School Transport Section (STS) lacked segregation of duties. Lack of controls in the system, as well as errors made by the Accounts Section, resulted in overpayments made to service providers. Theoretically, the average seating capacity was not being fully utilised though schools filed a number of complaints due to overcrowded buses. Shortcomings in the contract of service were also noted. (page 96)

Procurement of routes in connection with **'Special' School Transport** for students in the mainstream schools was not always effected in accordance with standing procurement regulations. Moreover, following the acceptance of a new tender, the service provider continued to invoice the ex-Education Division with the rates of the old contract which were higher. (page 100)

Log books reviewed during an audit of the **Transport Pool** at the **Education Division** showed that vehicles were being retained by the officers after office hours. (page 103)

An IT Audit held at the **Education Division** within the **Ministry of Education, Culture, Youth and Sport** involved the review of two (2) areas: **Entity Level Controls and Business Continuity planning with respect to IT**. The audit sought to determine whether an adequate strategy defined the auditee's IT direction and whether information management and processing were set down in policies and procedures. The IT Strategy planning and Business Continuity planning processes need to be strengthened to ensure that appropriate plans are in place. (page 105)

IT network accessories meeting the criteria of tangible fixed assets under MF Circular 14/99 were not included in the **inventory records** of the **Ministry for Gozo**. Audit trail of a number of other items purchased in 2006, from the budget cost centre of the Ministry on behalf of other Departments, was also lacking in the inventory records. It was also noted that 11% of the total inventory value reported by the Department of Corporate Services was damaged. (page 110)

Several shortcomings were noted in the attendance records kept by the **Ministry for Investment, Industry and Information Technology**. In many instances, Sick Leave was not substantiated by medical certificates. The audit of **Personal Emoluments** also revealed that control on overtime needs to be substantially enhanced. (page 114)

Various issues of concern were raised during an audit at the **Licensing and Testing Directorate** related mostly to the registration of new vehicles including those which are entitled to either a discount or exemption in registration tax. (page 120)

A lack of periodical review of files in respect of **Sickness Assistance** benefits was encountered in an audit carried out at the **Social Security Department**. Situations were found where revaluation of land was never carried out, checking with Common Database was lacking and no updates were requested from claimants declaring investments in prior years. (page 124)

Segregation of duties at the **Maltese Embassy in Paris** was lacking. Completeness of revenue collected on behalf of Government could not be confirmed mainly due to lack of source documentation. Excessive overtime performed by a Locally Engaged Personnel contributed to the exceeded budget. Furthermore, administrative guidelines issued by the Head Office to the Maltese Missions abroad need to be reviewed and updated. (page 128)

The Central Liaison Office (CLO) has a direct access through the computerised **VAT Information Exchange System (VIES)** to the VAT registration database of the Member States. Shortcomings over the control of Recaps statements, their keying-in and reconciliation thereof were noted. (page 134)

A follow-up performance audit revealed that the most significant development since the publication of the report **Acquisition of Property by Government** in 2004, related to the Lands Acquisition Ordinance (LAO) amendments which streamlined the lands acquisition process. However, outstanding dues in respect of acquisitions dating back before the 2003 amendments to the LAO continue to pose serious challenges. The acquisitions function is still not adequately supported with a reliable management information system, documented policies and guidelines. (page 143)

An audit carried out at the **Police Department** on **Salaries** revealed a number of weaknesses, including incorrect computation of income supplement, bonuses and sick leave, mainly due to the lack of a proper automated system to maintain the payroll records. Adjustments to payroll are still being calculated manually prior to submission to Treasury. (page 149)

Audit Opinion

Audit Report to the House of Representatives

Audit Mandate

In terms of Section 108(5) of the Constitution of Malta and para. 7 of the First Schedule of the Auditor General and National Audit Office Act, 1997, I am hereby reporting on the statements and accounts prepared by the Accountant General in terms of Section 67 of the Financial Administration and Audit Act, 1962, 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 statements and accounts rests with the Accountant General and the Accounting Officers.

Basis of opinion

The Opinion only draws on conclusions upon areas that have been examined.

The International Standards of Supreme Audit Institutions (ISSAIs) were used as guidelines of practices to be followed in the conduct of the audits. Those standards require that audits are planned and performed to obtain reasonable assurance whether statements and accounts of Government Ministries and Departments are free from material error.

An audit involves performing procedures to obtain sufficient audit evidence about the statements and accounts being audited. The procedures selected depend on the auditors' judgement, including risk assessment, as well as an evaluation of internal controls.

Opinion

In my opinion, except for the comments contained in the Annual Audit Report, the statements and accounts subjected to our audit were fairly presented in accordance with the stated accounting policies of the Government of Malta.

In terms of paragraph 5(ii) of the First Schedule of the Auditor General and National Audit Office 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.

Anthony C. Mifsud
Auditor General
December 08

Financial Report

Analysis of the Financial Report

Introduction

Statements of the Consolidated Fund Account, showing the comparative positions in 2006 and 2007, and the receipts and payments of funds created by law were laid on the Table of the House of Representatives during Sitting No. 2 on 12 May 2008. In the absence of a duly appointed Auditor General, the 2007 Financial Statements' audit certification was not certified by the Auditor General to the effect that figures tally with Treasury Books, as required by Sub-para. 1(c) of the First Schedule of the Auditor General and National Audit Office Act, 1997. These Statements were published and laid on the Table of the House of Representatives after being *'verified by the National Audit Office'*.

The Financial Report statements and accounts for year 2007 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. 21 on 23 June 2008.

A comprehensive review of Government financial operations can be made by reference to both this Report and the Financial Report for 2007.

Consolidated Fund Statement – 2007

As detailed in Article 102 (1) of the Constitution of Malta, the Consolidated Fund incorporates all moneys raised or received by the Government of Malta, not being revenues or other moneys payable into some other fund, being a fund established by or under any law for the time being in force in Malta for a specific purpose. 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 2007 Budget (Original Estimates) for an expenditure of Lm1,057,295,000 *(€2,462,834,847)* as authorised by Warrant No. 1 issued on 8 November 2006, and a further Lm47,318,000 *(€110,221,290)* as approved by Supplementary Estimates Warrant No. 2 dated 20 November 2007, it was estimated that expenditure was to exceed revenue by Lm57,484,000 *(€133,901,700)*. Following the closure of the 2007 Accounts, it resulted that revenue had actually exceeded expenditure by Lm4,545,000 *(€10,587,002)* as detailed in the Table 1.

Table 1 – Consolidated Fund 2007

		Estimated (Original & Supplementary)		Actual	
Opening Consolidated Deficit Balance as on 01/01/07	**Lm000's** *€000's*				(28,557) *(66,520)*
Revenue Ordinary (incl. Grants)	**Lm000's** *€000's*	992,929 *2,312,902*		954,960 *2,224,458*	
Extraordinary	**Lm000's** *€000's*	54,200 *126,252*	1,047,129 *2,439,154*	60,503 *140,934*	1,015,463 *2,365,393*
Expenditure Recurrent	**Lm000's** *€000's*	844,326 *1,966,751*		814,226 *1,896,636*	
Public Debt Servicing [a]	**Lm000's** *€000's*	88,052 *205,106*		85,974 *200,266*	
Capital	**Lm000's** *€000's*	172,235 *401,200*	1,104,613 *2,573,056*	110,718 *257,904*	1,010,918 *2,354,806*
Deficit 2007	**Lm000's** *€000's*		(57,484) *(133,902)*		4,545 *10,587*
Closing Consolidated Deficit Balance as on 31/12/07	**Lm000's** *€000's*				(24,012) *(55,933)*

(Source: Financial Report 2007 pg xxi)

[a]These exclude Lm796,000 *(€1,854,181)* (Estimates) / Lm754,530 *(€1,757,582)* (Actual) 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 2007, 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 2007.

NAO contends that in areas indicated in Table 2, further analysis of variations for 2007 was required by the Ministry of Finance on the basis of information submitted by the respective Ministry. A better approach in variance analysis is required in that explanations given in respect of the below mentioned variances was the same as the one published in the 2006 Financial Report. This further denotes that the 2006 variances were not taken into consideration in preparing the respective 2007 budget figures.

Table 2 – Variances in Revenue for Financial Year 2007

Revenue		Budget Estimates	Actual	Variation	Reasons for Variation
Indirect Tax Revenue					
Customs and Excise Duties of which:					
Cigarettes	**Lm000's** *€000's*	30,400 *70,813*	24,392 *56,818*	(6,008) *(13,995)*	Actual receipts reflect activity under this item.
Petroleum	**Lm000's** *€000's*	38,300 *89,215*	41,408 *96,455*	3,108 *7,240*	Actual receipts reflect activity under this item.
Non Tax Revenue					
Dividends on Investment	**Lm000's** *€000's*	3,400 *7,920*	9,419 *21,940*	6,019 *14,021*	Increase due to payment of higher profits / dividends than projected being passed to Government.
Grants	**Lm000's** *€000's*	73,133 *170,354*	24,176 *56,315*	(48,957) *(114,039)*	Implementation of programmes financed by the European Union will continue in 2008.
Extraordinary Receipts					
Sinking Funds of converted loans	**Lm000's** *€000's*	4,200 *9,783*	6,394 *14,894*	2,194 *5,111*	Actual proceeds from sinking funds on loans maturing during 2007.

(Source: Financial Report 2007 pgs xiv-xv)

Expenditure

The appropriations for expenditure during 2007 were authorised by the issue of Warrant Nos. 1 and 2 by the Prime Minister and Minister of Finance. These were appropriated under the following Statutes:

		Lm	€
(i)	Appropriation Act (Voted Services)	733,874,027	*1,709,466,636*
(ii)	In terms of Special Laws	364,982,000	*850,179,362*
(iii)	In terms of the Constitution	5,756,973	*13,410,140*

Analysis of Appropriations

i) Appropriation Act (Voted Services)

	Lm	€
Appropriated by Act XVII of 2006	693,045,027	*1,614,360,650*
Appropriated by Act XXVI of 2007 (Second Appropriation Act)	40,829,000	*95,105,986*

ii) Special Laws

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

	Lm	€
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)	16,000	*37,270*
Land Acquisition (Public Purposes) Ordinance (Cap. 88)	38,000	*88,516*
Social Security Act, 1987 (Act X of 1987 – Cap. 318)	246,800,000	*574,889,355*
Pensions Ordinance (Cap. 93)	31,989,000	*74,514,326*
Expenses of the Office of the Ombudsman (Cap. 385)	196,000	*456,557*
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)	73,686,000	*171,642,208*
Interest plus contribution to the Sinking Funds in respect of Foreign Loans (Cap. 213)	7,962,000	*18,546,471*
Malta Arbitration Centre (Act II of 1996 – Cap. 387)	30,000	*69,881*
Expenses of the National Audit Office (Act XVI of 1997 – Cap. 396)*	800,000	*1,863,499*
Refunds under V.A.T./C.E.T. Acts	300,000	*698,812*
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)	470,000	*1,094,806*
Short Term Borrowing – Treasury Bills Act (Cap. 133)	2,000,000	*4,658,747*
	364,982,000	***850,179,362***

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

	Lm	€
The President of Malta	23,443	*54,608*
The Attorney General	17,717	*41,270*
Judges and Magistrates	690,701	*1,608,901*
The Public Service Commission	25,112	*58,495*
	756,973	*1,763,274*

In terms of Article 106 (as applied to the Public Debt)	5,000,000	*11,646,867*

Excess of Expenditure over Estimates

Excess expenditure over revised estimates exceeding Lm200,000 *(€465,875)* occurred in the instances shown in Table 3.

Table 3 – Excess of Expenditure over Revised Estimates

Vote, Item		Revised Estimates 2007	Actual 2007	Variation Actual 07/ Rev Est 07	Variation Actual 06/ Rev Est 06
Vote 5: Office of the Prime Minister					
Item 6778: Industrial Projects and Services Ltd.	Lm	2,050,000	2,471,716	421,716	424,851
	€	*4,775,215*	*5,757,550*	*982,334*	*989,637*
Vote 7: Armed Forces of Malta					
Item 16: Allowances	Lm	1,175,000	1,381,443	206,443	81,417
	€	*2,737,014*	*3,217,897*	*480,883*	*189,651*
Vote 22: Public Debt Servicing					
Item 3639: Lm116,000,000 5.7% 2012 III Interest	Lm	6,612,000	7,235,751	623,751	-
	€	*15,401,817*	*16,854,766*	*1,452,949*	-
Item 3645: Lm11,529,400 5.2% 2020 I Interest	Lm	-	271,917	271,917	-
	€	-	*633,396*	*633,396*	-
Vote 37: Ministry for Resources and Infrastructure					
Item 5404: Expenditure Reporting Schemes	Lm	1	500,000	499,999	-
	€	*2*	*1,164,687*	*1,164,684*	-
Vote 39: Ministry of Health, the Elderly and Community Care					
Item 16: Allowances	Lm	8,705,000	9,127,945	422,945	(107,472)
	€	*20,277,195*	*21,262,392*	*985,197*	*(250,342)*
Item 17: Overtime	Lm	1,042,000	1,260,588	218,588	86,037
	€	*2,427,207*	*2,936,380*	*509,173*	*200,412*
Vote 41: Ministry for Investment, Industry and Information Technology					
Item 5463: Energy Support Measures	Lm	10,000,000	12,091,091	2,091,091	-
	€	*23,293,734*	*28,164,666*	*4,870,932*	-
Item 6777: Malta Shipyards Ltd.	Lm	4,300,000	4,637,721	337,721	790,084
	€	*10,016,306*	*10,802,984*	*786,678*	*1,840,401*
Vote 42: Ministry for Rural Affairs and the Environment					
Item 5250: Public Private Partnership	Lm	2,600,000	3,049,577	449,577	454,000
	€	*6,056,371*	*7,103,604*	*1,047,233*	*1,057,536*
Vote 46: Social Security Benefits					
Item 5141: Retirement Pensions	Lm	111,282,000	112,539,906	1,257,906	147,986
	€	*259,217,331*	*262,147,463*	*2,930,133*	*344,715*
Item 5145: Widows Pensions	Lm	38,080,000	38,721,385	641,385	(783,383)
	€	*88,702,539*	*90,196,564*	*1,494,025*	*(1,824,792)*
Item 5149: Social Assistance	Lm	22,800,000	23,664,736	864,736	253,030
	€	*53,109,713*	*55,124,007*	*2,014,293*	*589,401*

Capital Vote II: Ministry for Justice and Home Affairs Item 7001: I.C.T. (Operational I.T.)	Lm €	512,000 *1,192,639*	792,038 *1,844,952*	280,038 *652,313*	(28,301) *(65,924)*
Capital Vote IV: Ministry of Education, Youth and Employment Item 7023: Malta College of Arts, Science and Technology – Construction/adaptation/ refurbishment works and equipment	Lm €	400,000 *931,749*	718,844 *1,674,456*	318,844 *742,707*	(5,000) *(11,647)*
Item 7173: EU Structural Funds 2004 – 2006 (EU Post Accession Programmes: Structural Funds)	Lm €	856,000 *1,993,944*	1,524,205 *3,550,443*	668,205 *1,556,499*	(809,464) *(1,885,544)*
Capital Vote V: Ministry for Tourism and Culture Item 7070: Contribution to Malta Tourism Authority – Subvention (Branding Malta)	Lm €	8,000,000 *18,634,987*	8,400,000 *19,566,737*	400,000 *931,749*	(758) *(1,766)*
Capital Vote VIII: Ministry for Gozo Item 7167: EU Pre-Accession 2003 Programme	Lm €	1,949,000 *4,539,949*	2,447,189 *5,700,417*	498,189 *1,160,468*	(1,922,077) *(4,477,235)*
Item 7173: EU Structural Funds 2004-2006 (EU Post Accession Programmes – Structural Funds)	Lm €	204,000 *475,192*	1,650,492 *3,844,612*	1,446,492 *3,369,420*	(123,850) *(288,493)*
Capital Vote IX: Ministry of Health, the Elderly and Community Care Item 7220: Integrated Health Information System	Lm €	999,998 *2,329,369*	1,980,050 *4,612,276*	980,052 *2,282,907*	- -
Capital Vote X: Ministry for Investment, Industry and Information Technology Item 7101: Malta Government Investments/ MIMCOL: Direct Investments - Subvention	Lm €	700,000 *1,630,561*	1,000,000 *2,329,373*	300,000 *698,812*	(69,000) *(160,727)*
Item 7176: Water Services Corporation Drainage: Malta North Infrastructure – V Italian Protocol	Lm €	2,352,000 *5,478,686*	2,907,070 *6,771,652*	555,070 *1,292,965*	(2,345,836) *(5,464,328)*
Capital Vote XI: Ministry for Rural Affairs and the Environment Item 7164: WasteServ Malta Ltd.	Lm €	3,000,000 *6,988,120*	4,397,114 *10,242,520*	1,397,114 *3,254,400*	485,610 *1,131,167*
Item 7107: Veterinary Services: Modernisation and equipment	Lm €	120,000 *279,525*	679,962 *1,583,885*	559,962 *1,304,361*	(2,172) *(5,059)*
Capital Vote XII: Ministry for Urban Development and Roads Item 7174: EU Cohesion Fund 2004-2006 (EU Post Accession Programmes – Cohesion Fund)	Lm €	1,674,000 *3,899,371*	2,338,884 *5,448,134*	664,884 *1,548,763*	(2,033,411) *(4,736,573)*
Item 7206: Development of New Projects	Lm €	5,000 *11,647*	224,717 *523,450*	219,717 *511,803*	(14,845) *(34,580)*
Item 7205: Road construction/improvements	Lm €	4,641,000 *10,810,622*	5,761,600 *13,420,918*	1,120,600 *2,610,296*	89,971 *209,576*

NAO further noted that savings under Item 12 – Staff Salaries and Wages, collectively amounting to Lm1,025,407 *(€2,388,556)*, were transferred during the year to other items of expenditure within the same vote on the condition that no additional funds will be requested under Item 12 by year end.

The figures in Table 3 outline the importance of having in place a formal, structured and effective variance analysis system. Such a system would reduce to a bare minimum variances within the same item of expenditure recurring from one year to the next as outlined in Table 3.

On a Government-wide approach, NAO recommends 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 Secretary. Such analysis is to be forwarded to the respective Permanent Secretary, thus enabling effective, adequate and timely top management follow-up of resulting variances together with their cause.

This process would further aid the Budget Office within the Ministry of Finance, the Economy and Investment in Government's annual budgetary allocation process.

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 which result from 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 accrual-based accounting system.

Assets

Table 4 represents the Statement of Assets (Financial Report 2007 – Appendix I - refers).

Table 4 – Statement of Assets

	2007		2006	
	Lm000's	***€000's***	**Lm000's**	***€000's***
Public Credit				
Share Holding	165,450	*385,395*	170,962	*398,234*
Other Investments	106,915	*249,045*	52,963	*123,371*
Loans	2,186	*5,092*	2,686	*6,257*
	274,551	*639,532*	226,611	*527,862*
Investments held on behalf of				
Sinking Funds (Local)	53,750	*125,204*	53,738	*125,176*
Sinking Funds (Foreign)	19,934	*46,434*	16,520	*38,481*
Trust Funds	480	*1,118*	434	*1,011*
Court & Other Deposits	338	*787*	379	*883*
	74,501	*173,541*	71,070	*165,549*
Advances				
Unallocated Stores	---	---	---	---
Advances	95,015	*221,325*	104,430	*243,256*
Loans	---	---	---	---
	95,015	*221,325*	104,430	*243,256*
Bank and Cash				
Banks	363	*846*	356	*829*
Cash at Treasury	---	---	---	---
C.B.M. – Public Account	71,111	*165,644*	62,059	*144,559*
	71,474	*166,490*	62,416	*145,390*
TOTAL ASSETS	**515,541**	***1,200,887***	**464,526**	***1,082,055***

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

Investments

The estimated nominal value of direct investments as shown in the Financial Report as at 31 December 2007 was Lm41,088,371 *(€95,710,158)* a minor decrease of Lm499 *(€1,162)* over the previous year. The market value decreased by Lm5,511,679 *(€12,838,758)* over a year.

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 2007 and the preceding year:

Investments Liquidated

During the first quarter of 2007, Government received the sum of Lm500,000 *(€1,164,687)* from the liquidator of Malta Government Privatisation plc. This amount represented a distribution as full repayment of the amount originally invested by Government as share capital in the company being 499,999 Ordinary shares of Lm1 *(€2.33)* each. Proceeds were credited to Revenue Item - Miscellaneous Receipts – to Vote 22 Public Credit.

Increase in Investments

During the year, Government increased its existent investment in Malta Government Investments Ltd by 499,500 Ordinary Shares of Lm1 *(€2.33)* each, through capitalisation of the company's accumulated profits. The Company issued share capital stands at Lm500,000 *(€1,164,687)*. The shares were allotted to the Malta Government Board of Trustees and credited as fully paid up shares.

Although the Shareholders' Resolution dated 28 May 2007, Treasury Books were adjusted for during February 2008.

Movements in Values of Existing Investments

- During 2007, 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 experienced a slight increase to Lm18,671,393 *(€43,492,646)* as at 31 December 2007 when compared to the market value of Lm18,536,093 *(€43,177,482)* as at the end of 2006. This increase was due to the appreciation of the market price of Lm0.01 *(€0.02)* per share.

- The market value of ordinary shares in Bank of Valletta Ltd decreased by Lm5,592,768 *(€13,027,645)* from Lm103,466,208 *(€241,011,433)* market price as at 31 December 2006. This decrease was due to the depreciation of Lm0.20 *(€0.47)* per share.

Investments unrecorded in previous years

- 6,089 Subscription Shares of Lm429 *(€1,000)* each were subscribed in the Council of Europe Development Bank. The paid in portion amounts to Lm288,490 *(€672,001)*, being transfers from the reserves and cash, leaving a callable portion of subscription of Lm2,325,518 *(€5,417,000)*.

  Following enquiry by the Treasury, a statement of Malta's contributions was forwarded by the Bank but it was limited to portraying Malta's contributions to the Bank's capital as at 31 December 2007. There were no indications as to the date when Malta subscribed to these shares.

- Following Treasury's enquiry, the European Investment Bank confirmed that Malta's subscribed capital as at 31 December 2007 stands at Lm29,966,857 *(€69,804,000)*, having amounts paid towards the Capital and Reserves amounting to Lm936,464 *(€2,181,375)* and Lm2,366,623 *(€5,512,749)* respectively. This investment did not feature in the Financial Report 2007 since Treasury received Bank's communication on 5 March 2008.

The above strengthens NAO's concern, already highlighted in the Annual Audit Report – Public Accounts 2006 - in respect of the completeness of reporting of investments in Appendix H of the Financial Report.

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	51,713,822	*120,460,801*	7,418,753	*17,281,046*
Term Deposits with Commercial Banks	-	-	12,514,954	*29,152,001*
Malta Government Stocks	2,035,800	*4,742,139*	-	-
TOTAL	**53,749,622**	***125,202,940***	**19,933,707**	***46,433,047***

(Source: Financial Report 2007 pgs 188-189)

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 Lm9,905,372 *(€23,073,310)* as at 31 December 2007.

MGI estimated that the net book value of these companies amounted to Lm6,458,244 *(€15,043,662)* after an accumulated provisional loss of Lm3,447,128 *(€8,029,648)* . 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	9,240,055	*21,523,538*	2,877,122	*6,701,891*	6,362,933	*14,821,647*
Associated Companies	2	665,011	*1,549,059*	570,006	*1,327,757*	95,005	*221,302*
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 2007, the total of investment in industry, as reported by Treasury, amounted to Lm10,152,044 *(€23,647,901)* as against Lm11,200,093 *(€26,089,199)* on 31 December 2006, a decrease of Lm1,048,049 *(€2,441,297)* over the previous year.

This decrease works out as follows:

- Sale of two (2) indirect investments valued at Lm1,280,412 *(€2,982,558)*;
- Purchase of five (5) indirect investments valued at Lm969,997 *(€2,259,485)*; and
- Decrease in an existent indirect investment amounting to Lm737,634 *(€1,718,225)*.

It is to be noted that indirect investments at year end, as reported by Treasury, amount to Lm10,152,044 *(€23,647,901)*. These do not tally with MGI Ltd's balances reported standing at Lm9,905,372 *(€23,073,310)*.

Although Treasury's and MGI's records do not tally, NAO satisfactorily noted that, contrary to what was reported upon in previous years' Reports of the Auditor General, information regarding indirect investments from MGI Ltd was received in time by Treasury, enabling the latter to affect the necessary transactions in the Government Accounting System, where applicable.

The difference of Lm246,672 *(€574,591)* 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 International Construction	190,011	*442,607*	277,081	*645,425*	87,070	*202,819*
Dairy Products (Malta) Ltd	-	-	150,000	*349,406*	150,000	*349,406*
Topwear Ltd	-	-	9,600	*22,362*	9,600	*22,362*
Property Management Services Ltd	-	-	0.20	*0.47*	0.20	*0.47*
Desalination Services Marketing Ltd	-	-	0.20	*0.47*	0.20	*0.47*
TOTAL	**190,011**	***442,607***	**436,681**	***1,017,194***	**246,670**	***574,588***

New Items recorded as 'Other Investments'

Enemalta Corporation - Government Interest (Equity)

The Lm53,500,000 *(€124,621,477)* investment represents Government's interest in the Corporation following the transfer of land by Government to the latter. The equity value was calculated by capitalising at 5% the balance between the value of the ground rents and the ground rent payable. In view of valuation concerns in respect of estimated 2004/5 values of land, the Corporation reduced the resulting capitalised amounts of lands at Has Saptan Tunnels and Has Saptan (Hal Ghaxaq) by Lm12 *(€27.95)* million.

Malta Stock Exchange

The Lm1,500,000 *(€3,494,060)* investment is made up of:

- Lm500,000 *(€1,164,687)* initial capital of the Exchange, as regulated by Part IV Section 30 (1) of the Financial Markets Act (Cap. 345); and

- Lm1,000,000 *(€2,329,373)* capital investment as repayment of the Lm1 *(€2.33)* million loan by Government to the Malta Stock Exchange through an Advance Warrant issued during Financial Year 2003.

This investment should have been recorded under Statement H – Statement of Investments – of the Financial Report 2007 being a direct investment instead of recording it as indirect in nature. Upon enquiry, Treasury confirmed that this investment will be correctly reported upon in the Statement of Investments for Financial Year 2008.

Dividends/Interests Received

Treasury accounts for and reports interests payable from Government's indirect investment as revenue.

NAO noted that debenture interests recorded as received from Water Services Corporation are not actually being paid by the Corporation. It involves merely a paper transaction since public money is being used to pay such interests to Government from Vote 41 – Ministry for Investment, Industry and Information Technology - Item 6121, resulting in a nil net effect.

Dividends received from Malta Stock Exchange amounting to Lm367,800 *(€856,744)* were inadvertently omitted from this Statement, but correctly accounted for under Revenue Item 0639 – Sundry Dividends.

Loans made by Government and Repayments thereof

Balances and other details of all loans issued by Government as on 31 December 2007 as reported in Appendix E of the Financial Report 2007, are summarised as follows:

		Lm	**€**
I.	Loans under Act II of 1956	9,917	*23,100*
II.	Other Loans	2,175,909	*5,068,505*
		2,185,826	***5,091,605***

Other Loans at II consist of the following:

	Lm	**€**
Aids to Industries Scheme	1,596	*3,718*
Agriculture – Assistance to Co-operatives	41,600	*96,902*
Water Services Corporation	2,132,713	*4,967,885*

Loan Repayments

The loan to the Water Services Corporation which as at 31 December 2007 amounted to Lm2,132,713 *(€4,967,885)* 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)*.

The only adjustment for the year under review related to a loan repayment amounting to Lm500,000 (€1,164,687) reported as having been made by Water Services Corporation during 2007. As also reported upon in last year's Report of the Auditor General, this transaction again consisted of a transfer of public funds from Vote 41 – Ministry for Investment, Industry and Information Technology - Item 6742 (Grant to the Water Services Corporation towards the cost of water production) – 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 2008. However, Treasury accounting records relating to Financial Year 2007 were adjusted.

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 2007, in respect of advances made to various Government Departments, agencies and organisations.

Pending advances were reported as amounting to Lm95,014,894 *(€221,325,167)* as on 31 December 2007, as against Lm104,429,513 *(€243,255,330)* outstanding on 31 December 2006.

New Advances

According to the Financial Report 2007, Appendix L, the following four (4) new advance warrants were issued during 2007:

- Three (3) advances collectively amounting to Lm70,000,000 *(€163,056,138)* for the redemption of MGS 2007 I, II and III.
- An advance of Lm1,432,239 *(€3,336,219)* to repay arrears due to the EU Commission by way of VAT and GNI Own Resources balances for the years 2004 till 2006.

The relative Advance Warrant further stated that: *"the amount so advanced shall be accounted for and repaid in 2008 out of the Consolidated Fund through funds provided for the purpose within Item 5410, EU Own Resources of Recurrent Vote 19, Ministry of Finance."*

Outstanding Advances

Outstanding advances apart from advances forwarded to Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd., as at 31 December 2007 were the following:

Table 8 – Outstanding Advances

Description	**Lm**	**€**
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	*3,630,519*
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	331,384	*771,917*
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	200,000	*465,875*
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	9,950,163	*23,177,645*
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	375,000	*873,515*

Observations

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

This advance was to be repaid by Enemalta Corporation over a period of two (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 – Lm200,000 (€465,875)

This advance is made up of two (2) warrants. One (1) 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's 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 December 2007.

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 2007, Lm5,000,000 (*€11,646,867*) repayment was effected in respect of Malta Drydocks Corporation – 1997 advance. This repayment was effected as follows:

- Lm2,997,903 *(€6,983,236)* through Government funds credited by MGI/MIMCOL to the Public Account held at the Central Bank of Malta; and

- Lm2,002,097 *(€4,663,631)* transferred from Ministry of Finance Capital Vote III, Item 7189 Contribution towards Treasury Clearance Fund Advances as per Ministry of Finance's instructions dated December 2007.

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

Table 9 - Pending Advances towards 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	4,543,603	*10,583,748*
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*
Total	**57,136,938**	***133,093,263***

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 Lm7,090,000 (€16,515,257). However, only an amount of Lm4,502,097 (€10,487,065) was actually utilised, thus resulting in Lm2.6 (€6.06) million underutilised funds.

Gozo Channel Company Ltd – Lm375,000 (€873,515)

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."*

In July 2004, the Ministry of Finance, in agreement with Gozo Channel Co Ltd, compiled a new schedule of interest and capital repayments. The advance amount of Lm500,000 *(€1,164,687)* should be completely repaid by 2013.

In 2007, interest amounting to Lm17,500 *(€40,764)* and capital repayment of Lm62,500 *(€145,586)* were received from the company, as detailed in the schedule of payments. Interests paid during the year, as reported in Appendix L of the Financial Report, were overstated by Lm2,500 *(€5,823)*. However, figures were correctly recorded in Government's accounting system.

Inspection of Securities/Investments

Government Securities Board

The purpose of the board is to verify and certify the list of securities held by the Government as at 31 December 2007 with the relative stock certificates held by Treasury. Representatives from NAO attended the meeting in an observer capacity.

The Board is made up of three (3) members, namely the Chairperson, a MIMCOL representative and the Accountant General. MIMCOL representative was again not present for the meeting to inspect the investments held at the Treasury Department on 18 April 2008 and failed to inform beforehand the other Board members of his absence.

On the suggestion of NAO representatives, the Board requested MIMCOL representative to submit a letter to the Chairman to explain his absence from this meeting. Reason forwarded was *"………due to other urgent work commitments at MIMCOL"*. Following a specific request by the Board, this representative verified and signed a separate set of Statements.

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 Board decided that since most of the Certificates were denominated in Maltese Lira, new certificates in Euro are to be obtained for 2008.

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 2007.

NAO satisfactorily noted that 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 drastically reduced to an acceptable period. In fact, 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 24 January 2008 and 22 September 2008 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 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 again informed that the Treasury was undergoing an extensive exercise in order to bring the reconciliation exercise up to date. The main problem still lies with the recording of manual transactions.

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.

The rate of completion of manual reconciliation for years 2002 till 2004 is practically complete, with the 2005 and 2006 figures rating very close as well. As regards 2007, reconciliation is complete except for December deposits.

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 enhancements to make the BRS Euro compliant by January 2008 were in place by December 2007.

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

Treasury still maintains that January 2002 should be officially recognised 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. For the period 1992 to 1996, accounting systems were still not uniform within Government departments.

Under the described circumstances, Treasury is of the opinion that it is not feasible to embark on such a demanding exercise. This decision is based on an assessment of cost-effectiveness and human resources requirements.

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.

NAO is concerned that the situation reported upon for Financial Year 2006 still prevails. Balances, as reported in Part 1 of the Financial Report 2007, do not tally with the respective balances featuring in the Bank Reconciliation Statement for the month of December 2007 prepared by Treasury.

The Financial Report 2007 states that: *" .... resulting in an end-of-year Debit Book Balance of Lm71,111,325 against a Bank Balance of Lm67,491,678".* On the other hand, the December 2007 Bank Reconciliation Statment features Lm107,210,237 (*€249,732,674)* and Lm101,816,686 *(€237,169,080)* as Central Bank of Malta and Cash Book balances respectively.

Liabilities

Table 10 features the Statement of Liabilities (Financial Report 2007 – Appendix I – refers).

Table 10 – Statement of Liabilities

	2007		2006	
	Lm000's	***€000's***	**Lm000's**	***€000's***
Public Debt	1,261,989	*2,939,644*	1,205,826	*2,808,819*
Treasury Bills	148,675	*346,320*	156,978	*365,660*
Deposits				
Court and Other Deposits	41,630	*96,972*	38,281	*89,171*
Other	10	*23*	10	*23*
	41,640	*96,995*	38,291	*89,194*
Funds				
Sinking Funds	73,683	*171,635*	70,258	*163,657*
Contingencies Fund	500	*1,165*	500	*1,165*
Trust Funds	504	*1,174*	446	*1,039*
	74,688	*173,976*	71,204	*165,861*
Accumulated Fund				
Cons. Fund at year end	(24,012)	*(55,933)*	(28,557)	*(66,520)*
Net Public Debt	(987,438)	*(2,300,112)*	(979,216)	*(2,280,960)*
	(1,011,451)	*(2,356,047)*	(1,007,773)	*(2,347,480)*
TOTAL LIABILITIES	**515,541**	***1,200,887***	**464,526**	***1,082,055***

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

Public Debt

Local Loans

On 31 December 2007, the local Public Debt as reported in Appendix F of the Financial Report amounted to Lm1,358,615,291 *(€3,164,722,318)*. This amount represents an increase of Lm50,640,478 *(€117,960,582)* over the corresponding reported figure for 2006. The closing Public Debt balance is inclusive of Treasury Bills outstanding at year end and former MDD, MSCL Loans with local commercial banks amounting to Lm148,674,681 *(€346,318,847*) and Lm24,484,210 *(€57,032,867)* respectively.

This increase works out as follows:

	Lm	€
Total of New Local Loans	598,548,348	*1,394,242,600*
Total Repayment of Loans	(547,907,870)	*(1,276,282,017)*
Net increase in Public Debt	**(50,640,478)**	***(117,960,583)***

Foreign Loans

Audit Concerns

- Payment by Draft
  - At reprint stage, the Departmental Accounting System allows changes to figures quoted on the original Payment by Draft thus constituting an audit risk. It is to be remarked that both Payments by Draft were dated differently.
  - In all cases, figures quoted on the second ('reprint') Payment by Draft tallied with CBM Debit Advice.
- Details on CBM Debit Advice
  In certain instances, it was noted that:
  - the Rate of Exchange as quoted by CBM did not tally with the value date of the CBM Advice;
  - CBM did not adopt a consistent approach in the rate of exchange applied on the Debit Advices, in that middle/buying/cross rates were used;
  - the Maltese equivalent was not always shown on the CBM Debit Advice;
  - in two (2) separate cases, figures in respect of the equivalent amount and the Rate of Exchange and the Maltese equivalent were manually written on the CBM Debit Advices; and
  - the Euro equivalent and the amount transferred on the CBM Debit Advice did not tally. Figures quoted in Treasury Books equalled to the amount transferred.

Management Comments

- Payment by Draft
  - The original Payment by Draft is issued upon Commitment stage. On receiving the CBM Debit Advice, Treasury reprints the Payment by Draft adjusting figures accordingly.
  - Although adjustments to the Payment by Draft are done by an officer, other than the one who prepares the original Payment by Draft, the same user name features on both Payments by Draft since the system maintains the user name of the officer who issued the original Payment by Draft.
- Details on CBM Debit Advice
  - Treasury informed several times the CBM on issues identified above. However, no supporting documents were forwarded to NAO.
  - Any discrepancy in the rate of exchange during the year is adjusted for by the currency revaluation at year end.
  - Treasury confirmed that the amount transferred quoted on the CBM Debit Advice is taken into consideration.

Recommendations

- Payment by Draft
  - The Departmental Accounting System should allow users to opt for Reprint/Amendment, as applicable to the particular case.
  - The amended Payment by Draft is to be rubberstamped and countersigned by the officer issuing the amended version.
  - Each user of the Departmental Accounting System is to be identified by a unique user name.
- Details on CBM Debit Advice
  - Treasury should refrain from accepting CBM documentation with hand written adjustments, without being signed and rubber stamped by the respective CBM officials.
  - Treasury should formally discuss the above concerns with CBM.

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

In terms of the General Financial Regulations, 1966 and Treasury Circular 1/2008, Departments were to submit to the Accountant General an annual return of abandoned claims, cash losses and stores written off by not later than 28 March 2008. Nil Returns were also required.

As stated in previous year's annual audit report, NAO is not in a position to ascertain the completeness of Appendix M of the Financial Report. In particular, figures quoted under 'Abandoned Claims' column amount merely to Lm3,979 (€9,269) i.e. abandoned claims relating to the Treasury Division. This figure is highly understated considering that Lm185.6 (€432.3) million were reported by various Ministries/Departments, in their respective Return of Arrears of Revenue, as amounts written off or not due.

Upon examination, NAO noted the following shortcomings:

Unserviceable and 'Nil Value' Items

a) The Lists of Unserviceable/Obsolete Items and the Lists of Inventory/Non Inventory Items for Condemnation attached to two (2) Returns did not indicate that the items written-off were of no market value.

b) Lists of Unserviceable Items and the related Appendices referred to in the Departmental Minutes Sheets filed in the Treasury File were not attached to the Return. The Reports of the Boards of Survey were not available in the Treasury File. The Return did not indicate if the unserviceable items written-off were of no value.

c) Upon examination of figures reported in Appendix M of the Financial Report, NAO noted that figures reported under the 'Stores Written Off' column are incorrect as they include unserviceable items. It was noticed that unserviceable items collectively amounting to Lm25,088 *(€58,439)* were erroneously reported as 'Stores Written Off' in Appendix M of the Financial Report.

Returns not Submitted

a) It was noted that a Return stated the Section/Branch from where the Returns originated. In this particular case, it is questionable whether there were any other Sections within the same Ministry/Department that did not submit the Return.

b) The following Ministries/Departments did not submit the Return:

Vote Number	Ministry/Department
1	Office of the President
28	*Ministry of Education, Youth & Employment (Educational Services Directorate)**
32	*Ministry for Tourism & Culture*
37	*Ministry for Resources & Infrastructure*
39	*Ministry of Health, the Elderly & Community Care*
40	Elderly & Community Care
45	Social Security
46	Social Security Benefits
49	*Ministry of Foreign Affairs**

* Submitted only Bank Balances and Cash in Hand Return

Authority for the writing-off of Unserviceable/Obsolete Items and Cash Losses

a) Two (2) Departments stated that the Permanent Secretary granted approval to write-off the unserviceable items. However, the Permanent Secretary's signature was not available.

b) Authority for approval to write-off the unserviceable/obsolete items relating to eight (8) Returns could not be verified as the full name and the grade of the officer authorising the write-offs were not recorded under the signature.

c) Approval for the writing-off of Lm19,005 *(€44,270)* being 1993 and post-1993 Travel Advances could not be verified as full documentation regarding this write-off was not available in the Treasury File. A detailed breakdown of these Travel Advances could not be traced in the Treasury File. This issue was referred to the Ministry of Finance for necessary action.

d) Approval for items written-off amounting to Lm3,361 *(€7,829)* could not be traced in the Treasury File.

Two Versions of the Return Received from the same Department

The value of the unserviceable items written-off on a Return read Lm10,726 *(€24,985)*. However, this amount was not recorded on the List of Unserviceable Items nor was it referred to in the Report of the Board of Survey.

After the Treasury requested the Department whether this amount originated from the Department's Inventory, the Department forwarded a second version of the Return, together with the List of Unserviceable Items, showing an amount of Lm8,260 *(€19,241)*. However, it was noted that four (4) Laptops, reported as unserviceable in the first list, did not feature in the second version. The Board of Survey in its report noted that the serial numbers of two (2) of these Laptops - PC-Laptop Slimbook Slim II 486 2/50 on the last page of the list were omitted. It is questionable whether the amount of Lm8,260 *(€19,241)* is correct and if the four (4) Laptops have been actually disposed of as unserviceable ICT items.

Lack of Documents submitted by the Ministries/Departments

It was noted that various Ministries/Departments did not submit copies of the related documentation of the stores written-off authority and the report for cash losses as requested in the Circular. However, several Ministries/Departments complied following a specific request from Treasury.

Other Findings in connection with Returns Submitted

a) According to the Board of Survey, monitor NCR was missing whilst it was registered as unserviceable in the Return.

b) Digital Canon Camera Powershot A80 had no value according to the Board of Survey. However, according to the Return the camera had a value of Lm995 *(€2,328)*.

Appendix M Figures

Figures reported by the Departments of Corporate Services of Votes 38 and 42 were not reported upon in Appendix M of the Financial Report. Returns featured Lm33,748 *(€78,612)* as Abandoned Claims and Lm240 *(€559)* as Stores Written Off.

After taking the above issues into consideration, the totals for Appendix M should read: Abandoned Claims Lm37,727 *(€87,880)*, Stores Written Off Lm715 *(€1,666)* and Cash Losses Lm85 *(€198)*.

Recommendations

It is recommended that Treasury:

- ensures compliance with requirements specified in Treasury Circular 1/2008 by all Ministries/Departments, including submission of all related documentation;
- carries out an exercise comparing figures reported in both the Statement of Abandoned Claims, Cash Losses and Stores Written Off and Statement of Arrears of Revenue in respect of abandoned claims;
- reports any discrepancies between both Statements to relative Permanent Secretary, requesting reasons for variances;
- ensures the proper identification of endorsing officers by requesting officers authorising the write-offs to rubber-stamp indicating the full names and the grades;
- includes a column for 'Abandoned Claims' in Statement attached to Treasury Circular forwarded to Ministries/ Departments; and
- specifically states in Treasury Circular whether Nil Returns may be submitted via email.

Letters of Comfort/Bank Guarantees

The position of Contingent Liabilities as at 31 December 2007, as reported upon in Part I of the Financial Report 2007, is reproduced in Table 11, a breakdown of which can be found in Table 12.

Table 11 – Contingent Liabilities – 2007

	Lm	***€***
Government Guarantees:		
Local	85,972,959	*200,263,124*
Foreign	182,358,021	*424,779,923*
	268,330,980	*625,043,047*
Letters of Comfort	20,434,554	*47,599,706*
TOTAL	**288,765,534**	***672,642,753***

Table 12 – Letters of Comfort/Bank Guarantees

Beneficiary		**31 Dec 06**	**31 Dec 07**	**Remarks**
Air Malta Co. Ltd. (Local)	Lm *€*	8,100,000 *18,867,925*	8,100,000 *18,867,925*	This represents dues to Air Malta plc by the Libyan Arab Airlines. Funds are being held at the Central Bank of Libya.
Enemalta Corporation	Lm *€*		5,000,000 *11,646,867*	–
	Lm *€*		90,153,000 *210,000,000*	This loan was taken up by Enemalta Corporation to repay all its existing Government secured facilities with local banks and foreign financial institutions.
	Lm ***€***	**95,153,000** ***221,646,867***	**95,153,000** ***221,646,867***	
Gozo Ferries Co. Ltd.	Lm *€*	5,484,794 *12,776,133*	3,961,751 *9,228,397*	In the 90's, the Ministry of Finance issued a Sovereign Guarantee in favour of the company as a security on loans taken in connection with the building of the ferries. The company signed a hedge agreement against the repayment of cashflows over the life of these foreign loans, with the Central Bank of Malta, whereas the latter guaranteed a fixed rate of exchange throughout the life of the loans. The Letter of Guarantee on this agreement has been excluded in order to avoid double counting since, at the same time, the Central Bank obtained a guarantee from Government to protect itself from any exchange losses.
Housing Authority	Lm *€*	11,475 *26,730*	23,043 *53,676*	On 7 March 2006, a Letter of Guarantee was issued to secure overdraft facilities in replacement of a Letter of Guarantee issued by another commercial bank for the same purpose.
Malta Enterprise Corporation (ex Malta Development Corporation)	Lm *€*	3,842,644 *8,950,953*	4,411,708 *10,276,515*	Lm825,483 *(€1,922,858)* represent Letters of Comfort issued to cover the Loan Guarantee Scheme, taken over from IPSE Ltd and the New Enterprise Loan Guarantee Scheme.
Water Services Corporation	Lm *€*	24,971,829 *58,168,714*	27,549,257 *64,172,506*	Three (3) Letters of Guarantee issued on 30 May 2005 in connection with Loan 1 – Term Facility, Loan 2 – Revolving Facility and overdraft facility with a commercial bank.

Malta Freeport Corporation Ltd.	Lm *€*		10,950,831 *25,508,574*	a) Lm2,116,622 *(€4,930,403)* taken over from Malta Freeport Terminals Ltd as a result of the privatisation process. Commercial bank requested a Letter of Comfort to cover this facility. b) Lm1,962,800 *(€4,572,094)* taken over from Malta Freeport Terminals Ltd as a result of the privatisation process. Malta Freeport Corporation Ltd has converted the overdraft facility into a loan facility repayable over a ten (10) year period. c) Lm26,839 *(€62,518)* Letter of Guarantee was issued in substitution of the Letter of Guarantee covering the balance on the loans of Lm7.75million *(€18,052,644)*.
	Lm *€*		88,243,270 *205,551,526*	d) On 20 January 2004, Malta Freeport Corporation Ltd entered into a Currency SWAP agreement with a private company over the 2028 bonds (original denomination US$ 250m) Lm86,184,052 *(€200,754,838)*. This SWAP agreement is guaranteed by the Government of Malta, but does not increase the overall exposure of the Government of Malta since the same treatment applicable for the Gozo Ferries Co Ltd Sovereign Guarantee was applied. As a result, the currency denomination has been changed to Euro.
	Lm ***€***	**100,033,980** ***233,016,492***	**99,194,101** ***231,060,100***	
Malta Industrial Parks Ltd.	Lm *€*		4,815,583 *11,217,290*	Letter of Comfort issued on 28 April 2005 in connection with loan to Malta Industrial Parks Ltd to finance the upgrade and maintenance of factories and industrial parks.
	Lm *€*		3,000,000 *6,988,120*	Letter of Comfort issued on 5 March 2007 in connection with the expropriation of Land at Ricasoli.
	Lm *€*		1,576,866 *3,673,110*	Letter of Comfort issued on 31 January 2007 in connection with the development of a specialised facility at Luqa Airport leased land.
	Lm ***€***	**1,263,395** ***2,942,919***	**9,392,449** ***21,878,520***	
Mediterranean Offshore Bunkering	Lm *€*	nil *nil*	67,556 *157,363*	Letter of Guarantee issued on 29 November 2007 to secure credit facilities available to MOBC.
Malpro Ltd.	Lm *€*	400,000 *931,749*	300,000 *698,812*	–

Malta Shipyards Ltd.	Lm €	2,897,775 *6,750,000*	11,623,017 *27,074,347*	a) Lm2,897,775 *(€6,750,000)* two (2) Letters of Guarantee issued on 1 June and 21 July 2006 to serve as temporary performance bonds related to two (2) contracts won by Malta Shipyards Ltd. b) Lm1,068,824 *(€2,489,690)* Letter of Guarantee issued on 3 October 2006 for capital expenditure. c) Lm3,856,508 *(€8,983,247)* two (2) Letters of Guarantee issued on 18 September 2007 to secure banking facilities to fund conversion works on vessels Fairmont Fjord and Fairmont Fjell. d) Lm1,799,910 *(€4,192,662)* Letter of Guarantee issued on 21 December 2007 to secure overdraft facilities for operating purposes and for any other financing requirements.
Malta Government Investments Ltd	Lm €	10,385,850 *24,192,523*	10,412,865 *24,255,451*	–
Malta Tourism Authority	Lm €	1,671,728 *3,894,079*	1,189,252 *2,770,212*	–
Foundation for Tomorrow's Schools	Lm €	9,639,392 *22,453,743*	13,585,769 *31,646,329*	–
Malta Maritime Authority	Lm €	3,316,892 *7,726,280*	3,801,766 *8,855,733*	–
TOTAL	**Lm** ***€***	**267,172,754** ***622,345,106***	**288,765,534** ***672,642,753***	

Letters of comfort and bank guarantees may translate into dues by Government should the entities call upon the Government to make good for their debts.

Concluding Remark

In general, NAO is satisfied that documentation relative to the Statements was available upon request at Treasury. Moreover, Treasury and Ministry of Finance, the Economy and Investment staff were cooperative at all times during the conduct of the audit.

Management Comments

- Action is being taken by Treasury to obtain the relative certificates denominated in Euros. Most of these certificates have been received.

- The difference in Treasury's Cash Book closing balance, as shown on the Bank Reconciliation Statement and Financial Report, arises from the Cash Book's unreconciled opening balance in October 2002 - when the automated BRS was introduced - and the nature of the reports issued from the BRS system which include only unreconciled items.

  Action is now being taken by Treasury, to submit to the Auditor General, Bank Reconciliation reports containing more meaningful information. These have been developed and are currently being tested. The preparation of the Bank Reconciliation Statements in the earlier format will be maintained as it assists management to monitor performance.

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 No. 3/2008 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 1 April 2008, for transmission to the Auditor General. The requirement to forward a copy of the Statement of Arrears to the Budget Office, Ministry of Finance was again stated in Treasury Circular No. 3/2008. 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

NAO did not receive annual Returns of Arrears of Revenue from all Ministries, Departments and Entities. Details of arrears of revenue included in Table on page 50 have been compiled only from Returns forwarded to NAO by the Treasury Department.

The following Ministries/Departments/Entities submitted 'nil' Returns:

- Office of the Ombudsman

- Office of the Prime Minister (**OPM**)
  - Public Service Commission
  - Electoral Office

- Ministry for Justice and Home Affairs
  - Citizenship and Expatriate Affairs
  - Corporate Services

- Ministry of Finance
  - Economic Policy Division
  - Public Lotto Department
  - Lotteries & Gaming Authority

- Ministry for Competitiveness and Communications
  - Consumer and Competition Division

- Ministry of Foreign Affairs

Treasury failed to publish a list of defaulting Departments in Part I of the Financial Report 2007 on the grounds that by the Treasury Circular deadline (i.e. 1 April 2008), a high degree of non-compliance was registered. However, Treasury's efforts proved positive as only a few departments still failed to submit the required information.

Notes and Comments on Arrears of Revenue

Office of the Prime Minister

The difference of Lm4,344 *(€10,119)* in the opening balance 2007 compared to the 2006 gross closing balance is due to:

- Lm5,000 *(€11,647)* erroneously omitted from the 2005 Return of Arrears;
- Lm260 *(€606)* erroneously calculated due to cut-off date when submitting 2007 Return; and
- Lm916 *(€2,134)* overstated due to initial erroneous calculation in working of the amount due.

Out of Lm19,540 *(€45,516)* gross closing balance, the sum of Lm18,817 *(€43,832)* are arrears newly accrued in respect of refund of salary. The remaining Lm723 *(€1,684)* are amounts outstanding over one (1) year but less than two (2) years.

Armed Forces of Malta

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

		Lm	**€**
a)	Patrol Craft Conveyances/Hire of Vehicles & Mach./ Expl. Ord. Depot Charges	1,102	*2,567*
b)	Security Duties rendered at Commercial Banks, Water Services Corporation and MIA	58,044	*135,206*
c)	Services rendered by AFM/Sundry Services	2,048	*4,771*

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

	Lm	**€**
Arrears outstanding for one (1) year or less	58,935	*137,282*
Arrears outstanding over one (1) year but less than two (2) years	831	*1,936*
Arrears outstanding over two (2) years but less than five (5) years	520	*1,212*
Arrears outstanding over five (5) years but less than ten (10) years	252	*587*
Arrears outstanding over ten (10) years	656	*1,528*

Amounts reported as 'Estimated arrears considered as not collectable' mainly relate to dues from Malta Maritime Authority (2002) and Posta Ltd. (1997) amounting to Lm3,266 *(€7,608)* and Lm933 *(€2,173)* respectively.

Government Printing Press

The net closing balance is in respect of:

		Lm	**€**
a)	Jobbing	39,635	*92,325*
b)	Revolving Fund	15,999	*37,265*

Out of the Lm55,634 *(€129,593)* net closing balance, 84.3% or Lm46,894 *(€109,234)* relates to newly accrued arrears.

Courts of Justice Division - Malta

The opening balance for 2007 differs from the gross closing balance for the previous year mainly due to the omission of the Magistrates' Court Fines balance as explained below. In addition, a pending fine of Lm3,339 *(€7,778)* was inadvertently omitted from previous returns under Judges' Court Fines.

The closing balance of arrears from Magistrates' Court Fines at the end of 2006 was reported as amounting to Lm1,701,024 *(€3,962,320)*. However this does not feature in the opening balance for 2007 since it transpired that this figure was not accurate. It resulted that certain amounts, such as fines imposed by Magistrates who now serve as Judges and payment of fines by instalments, were omitted when data was transferred from the manual registers to the LECAM computerised system currently in use.

Testing carried out by the Division also revealed that the information extracted from the CORTEX system managing the Civil Court Fees is also unreliable due to great variations noted between the closing balance of one year and the opening balance of the following year.

Due to the above shortcomings, arrears of revenue in respect of Magistrates' Court Fines and Civil Court Fees are not being reported this year. Only amounts due from Judges' Court Fines are being published.

The CJD in conjunction with MITTS Ltd. is currently undertaking a project of readjustment of the LECAM system together with the absorption of the CORTEX system into the LECAM system. As a result the Division will do away with two (2) systems and thus will have one (1) system. This exercise will also take into consideration the reconstruction of the arrears of revenue information. It is intended that Magistrates' fines, which up to date are still maintained on manual registers, are entered directly into the LECAM system rendering the compilation of arrears of revenue more efficient, apart from other advantages. This exercise will also be taking into account the current flaws in the arrears of revenue reporting system in respect of Court fees so that this is rectified. The Division stated that this exercise is expected to take months to complete since there are thousands of records to be inputted.

The gross closing balance in respect of the Judges' Court Fines as presented by the Division at year end can be analysed as follows:

	Lm	**€**
Arrears outstanding equal to or less than one (1) year	30,950	*72,094*
Arrears outstanding over one (1) year till two (2) years	13,923	*32,432*
Arrears outstanding over two (2) years till five (5) years	2,118,935	*4,935,791*
Arrears outstanding over five (5) years till ten (10) years	1,617,600	*3,767,994*
Arrears outstanding over ten (10) years till fifteen (15) years	4,393	*10,233*
Arrears outstanding over fifteen (15) years till twenty (20) years	45,429	*105,821*
Arrears outstanding over twenty (20) years	66,365	*154,589*
	3,897,595	***9,078,954***

A meeting was held on 12 June 2008 at the Office of the Permanent Secretary, MFEI, in connection with the Division's arrears. According to a letter dated 13 June 2008 issued from MFEI, the Division agreed to put extra effort and take further initiatives *"with a view to improving the arrears of revenue reporting system and the collection of overdue amounts."*

Civil Protection

Lm2,250 *(€5,241)* due by the Malta Environment and Planning Authority, which had been contested in previous years, have been withdrawn and no further claims issued. The Department has taken action to obtain authority to write-off the amount.

It was agreed that Lm7,089 *(€16,513)* due by the International Training Centre Malta Ltd, which was granted the lease of part of the premises in respect of water and electricity bills refund, will be settled during 2008. As from 2005, separate water and electricity meters were installed and payments are now being effected on a normal basis.

Government Property Division

The majority of arrears outstanding relate to Commercial Tenements, as detailed in the following breakdown of gross outstanding arrears as at 31 December 2007:

		Lm	€
a)	Rural	105,253	*245,174*
b)	Perpetual	59,463	*138,512*
c)	Residential	468,341	*1,090,941*
d)	Non-Residential	292,844	*682,143*
e)	Commercial	3,594,463	*8,372,846*
f)	Encroachments	20,637	*48,071*

Lands and Public Registry Division

The NAO is not in a position to verify the 2007 return of arrears submitted by the Department due to the following factors which impair the completeness of the return and the recoverability of the arrears:

- The past arrears collected could not be determined by the Department.
- The Department is not empowered to take further action to collect outstanding claims amounting to Lm8,917 *(€20,771)*. The adjudication of a court hearing is expected in December 2008, the outcome of which will determine what action is to be taken. The test case amounts to Lm4,148 *(€9,663)* and represents almost half (47%) of the outstanding arrears prior to and including 2005.

Inland Revenue Department

Income Tax

Gross arrears as categorised by the Department are reproduced below:

Category	Grand Total for all Years	
	Lm	€
Government Employees	7,605,769	*17,716,676*
Parastatal Employees	2,291,536	*5,337,843*
Drydocks Employees	308,726	*719,138*
Private Employees	32,024,903	*74,597,957*
Overseas Employees	333,842	*777,643*
Temporary Residents (Work Permit)	14,802,913	*34,481,512*
Self-Employed	34,390,214	*80,107,650*
Shareholders	4,779,765	*11,133,857*
Rentiers / Pensioners	11,040,029	*25,716,350*
Temporary Residents (Settlers)	3,773,427	*8,789,720*
Temporary Residents (Entertainment)	123,902	*288,614*
Non-residents	2,138,528	*4,981,430*
Companies anonyme	157,898,391	*367,804,312*
Partners	103,356	*240,755*
Partnerships collectif	270	*629*
Partnership not registered	1,125	*2,621*
Companies en commandite	1,485,438	*3,460,140*
Companies foreign owned	174,455	*406,371*
Companies (Overseas)	635,925	*1,481,307*
Estates	26,812	*62,455*

Clubs, Associations etc.	614,406	*1,431,181*
Church (Commercial)	1,718,752	*4,003,615*
Church (Entities)	62,558	*145,721*
Others	2,577	*6,003*
Total for all Categories	**276,337,619**	***643,693,500***

Source: Inland Revenue Department

Furthermore, arrears denominated in foreign currencies for Years of Assessment 1998 to 2007, amounting to Lm37,563,477 *(€87,499,364)* as at year end 2007, are also due from foreign owned companies and companies overseas.

Hereunder is an analysis of the gross closing balances by Year of Assessment:

Year of Assessment	*Arrears in Maltese Currency*			*Arrears denominated in Foreign Currency converted to Maltese Currency*		
	%	**Lm**	**€**	**%**	**Lm**	**€**
Pre Y/A 1999	41.13	113,651,116	*264,735,886*	0.20	75,820	*176,613*
1999	10.45	28,879,106	*67,270,221*	0.10	37,240	*86,746*
2000	3.26	9,012,218	*20,992,821*	0.10	38,545	*89,786*
2001	4.20	11,605,932	*27,034,549*	3.53	1,327,468	*3,092,169*
2002	4.59	12,681,849	*29,540,762*	1.60	601,761	*1,401,726*
2003	4.92	13,608,602	*31,699,515*	0.61	228,830	*533,031*
2004	5.49	15,168,610	*35,333,357*	2.03	763,183	*1,777,738*
2005	6.43	17,757,057	*41,362,816*	0.81	304,743	*709,860*
2006	8.64	23,873,977	*55,611,407*	9.50	3,569,185	*8,313,965*
2007	10.89	30,099,152	*70,112,164*	81.51	30,616,702	*71,317,731*
		276,337,619	***643,693,498***		**37,563,477**	***87,499,365***

Source: Inland Revenue Department

NAO is concerned that the net collectable arrears of amounts due in Maltese Currency decreased by Lm2,991,817 *(€6,969,059)* as opposed to the increase in the income tax arrears during the year of Lm6,623,863 *(€15,429,450)*.

Capital Transfer Duty

The following are observations noted during audit testing:

- The difference between the closing and opening balance, amounting to Lm163 *(€379)*, is mainly due from differences in figures in respect of *Causa Mortis* (Malta) arrears.

- Differences between the figures quoted in the Department's return of arrears and figures as per breakdown of arrears submitted by same were also noted. Notwithstanding, the gross and net balances were correctly stated since differences were compensating in amount.

It is suggested that the workings of arrears pertaining to Death and Donation Duties (Malta and Gozo) and Penalties be compiled on Excel rather than manually, thereby minimising any possible human errors and assisting management in reports' preparation and analysis.

The gross closing balance can be analysed as follows:

	TOTAL		MALTA		GOZO	
Duty on Documents:	**Lm**	**€**	**Lm**	**€**	**Lm**	**€**
Intervivos	12,590,599	*29,328,206*	11,778,669	*27,436,918*	811,930	*1,891,288*
Causa Mortis	1,030,346	*2,400,061*	920,637	*2,144,507*	109,709	*255,553*
	13,620,945	***31,728,267***	**12,699,306**	***29,581,425***	**921,639**	***2,146,841***
Death and Donation	2,221,460	*5,174,610*	2,136,851	*4,977,524*	84,609	*197,086*
Penalties	113	*263*	113	*263*	-	-
	2,221,573	***5,174,873***	**2,136,964**	***4,977,787***	**84,609**	***197,086***

During the meeting held at the Office of the Permanent Secretary, Ministry of Finance, in mid-June 2008, the Department agreed to make extra effort, allocate more resources and undertake further initiatives for the collection of overdue amounts. Furthermore, the Department will endeavour to:

- liaise with the VAT Department in a bid to have a Magistrate specifically dedicated to tax lawsuits; and
- consider what tax collection improvements may be made through the meetings being held under the auspices of the Parliamentary Secretary responsible for Revenue and Land.

Customs Department

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

		Lm	**€**
a)	Import and Export Duties	6,048,233	*14,088,593*
b)	Licences, Taxes and Fines	4,932	*11,488*
c)	Fees of Office	1,117	*2,602*
d)	Reimbursements	327,258	*762,306*

The negative amount of Lm10,355 *(€24,121)* under the 'Past Arrears written off and/or adjusted' is made up of:

- Lm10,246 *(€23,867)* in respect of 'Import & Export Duties' resulting from:

a) a negative adjustment of Lm11,874 *(€27,659)* carried out in 2006 in the Secretariat Section's ledgers. This amount was carried forward as a negative opening balance in the 2007 Statement of Arrears and adjustment carried out to give a zero balance for the year under review; and

b) Lm1,628 *(€3,792)* write-offs re amounts due featuring in the Secretariat Section and write-offs in respect of duty/VAT of which Lm1,486 *(€3,461)* were omitted from previous years' Arrears' Returns.

- Lm110 *(€256)* in respect of 'Reimbursements' resulting from Lm154 *(€359)* due to the changeover from the Maltese Lira to the Euro of the opening balance generated by the new system and Lm44 *(€102)* write-offs in respect of manual overtime requests.

V.A.T. Department

The following is a sub-classification of the gross closing balance of arrears as at 31 December 2007. Department's figures were adjusted to reflect a correction of Lm20,443 (*€47,619)* resulting from a wrong addition under 'Refunds to Govt. on stock (1997)' not rectified in the 2005 return although reported upon in last year's audit report.

		Lm	**€**
a)	VAT (1998)	110,680,708	*257,816,697*
b)	VAT (1994)	6,561,920	*15,285,162*
c)	CET	2,867,977	*6,680,589*
d)	Refunds to Govt. on stocks - 1997	224,918	*523,918*

The Department was twice requested to forward to NAO an electronic breakdown of figures produced in its Return in respect of VAT (1998), apart from copies of approval for the amounts written-off and/or adjusted. Detailed audit testing was hindered since information requested was not received.

NAO noted that arrears under contention, statue-barred or in the process of being written-off for VAT (1994) exceeded the net closing balance by Lm1,713,658 *(€3,991,749)*. This is unrealistic as the latter figure should be either the same or more than the former. A similar discrepancy was noted in the 2006 Arrears of Revenue Return.

The VAT Department stated that the substantial figures for VAT (1998) declared in the Return for Past Arrears written-off and/or adjusted amounting to Lm77,322,063 *(€180,111,957)* and Arrears Newly Accrued amounting to Lm150,728,303 *(€351,102,499)* represent estimated assessments and interests as a result of missing VAT returns and cancellation thereof once such returns are submitted. Amounts that are under contention, statue-barred, or in the process of being written-off, amounting to Lm102,953,238 *(€239,816,534),* represent estimated assessments and interests due on outstanding tax, audit assessments and estimated assessments. Substantial figures regarding amounts written-off and newly accrued were also reported in the 2005 and 2006 Arrears of Revenue Returns.

Contracts Department

NAO is concerned that the only movement in arrears during the year related to the write-off of Lm102 *(€238)* arrears due for goods supplied from the ex-CSS, leaving the net closing balance made up of arrears in respect of Penalties and Damages. It is to be remarked that court and legal fees of cases examined and decided in favour of Government were not added to the arrears balance due by defaulters.

No amounts were collected during the year even though cases are long overdue. Dues from cases decided in favour of Government have not to date been collected. This concern was raised during a Public Accounts Committee meeting discussing the Department's balance of arrears at year end 2005.

In a letter dated 28 February 2007, sent by the Ministry of Finance to the Public Accounts Committee, 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."* NAO is not in agreement with this statement on the grounds that only 0.05% represented arrears due to the ex-CSS as at year end 31 December 2006.

Ministry of Education, Youth and Employment

The Ministry

The Ministry responsible for Education submitted the arrears of revenue return for 2007 with a closing balance of Lm151,218 *(€352,243)*. The last return submitted by the Ministry was that as at end financial year 2002 showing a closing balance of Lm20,223 *(€47,107)*.

The net collectable arrears as at the end of December 2007, as reported by the Ministry, consist of:

		Lm	**€**
a)	Examinations Department	389	*906*
b)	Maintenance Grants overpayments	18,294	*42,614*
c)	Allowances overpayments	874	*2,036*
d)	Institute for Tourism Studies	131,661	*306,688*

Lm94,171 *(€219,360)* of the amount due to the Institute for Tourism Studies is due from Government entities. The remaining amount is in respect of overpaid stipends or other dues which the Institute is taking the necessary legal action through the Attorney General's Office for their recovery.

Following the necessary verifications, it was observed that the amounts reported in the return are not accurate. Shortcomings are indicated hereunder.

The amount of revenue in arrears from Maintenance Grants overpayments were found to be unreliable and could not be verified. The University's Stipends Office lacks audit trail of the refunds due from students and only records data on an Excel database. This information is also considered incomplete. It transpired that:

- when overpayments are fully refunded by the students, these are deleted from the database;
- when students pay by instalments, no date is recorded to reflect when refund was effected; and
- the receipt number is not recorded to substantiate amounts paid.

Following communications from NAO, the Ministry has devised a new database which will address the shortcomings to ensure correctness of returns with respect to overpaid stipends by the Educational Establishments.

The Education Division

The following is a sub-classification of the gross closing balance of arrears as reported by the Division in its Arrears of Revenue Return ending 31 December 2007:

		Lm	€
a)	Breach of Contract	33,204	*77,345*
b)	Overpayment in Salaries	97,292	*226,629*
c)	Running of Tuckshops	3,371	*7,852*

NAO noted that with respect to Breach of Contract, a claim amounting to Lm7,793 *(€18,153),* which was already shown as not due in last year's return, was included again in the opening balance for the year under review.

The closing balance for year ending 2006 in relation to Overpayment in Salaries stood at Lm76,018 *(€177,074)*. However, the opening balance submitted in the 2007 return, showed the amount of Lm74,300 *(€173,072)*.

Following a sample verification of the amounts submitted, the shortcomings reported in the Annual Report by the Auditor General of the previous year still prevailed. It was also observed that:

- the opening balances of various debtors, were not amended as indicated in the audit write-up prepared by NAO and as also agreed by the management in their reply submitted by the Division last year;
- amounts actually collected during 2006 were shown again as collected in 2007;
- amounts shown as 'Arrears Newly Accrued' in 2006 were noted again as newly accrued in the return for year 2007; and
- supporting documentation indicated that out of a total of Lm67,854 *(€158,057)* reported as 'Arrears Newly Accrued', the sum of Lm32,433 *(€75,549)* was actually collected during the same year and therefore should not have been included.

To rectify the situation, the Directorate now has an officer who is working solely on the updating of information and the collection of arrears of revenue.

Ministry for Tourism and Culture

As stated by the Ministry, the difference of Lm16,460 *(€38,341)* between the closing balance as at end 2006 and beginning 2007 is due to various factors attributed to revenue due to the Malta Tourism Authority as follows:

a) Cancellation of receipts due to dishonoured cheques.

b) Amendments on invoices and/or credit notes for prior period. The system has now been amended so as to eliminate the possibility of having amendments that are back dated.

c) Backdated invoices are re-issued as new invoices, thus covering certain periods which may have already featured in previous returns.

The gross closing balance of Lm566,721 *(€1,320,105)* is made up as follows:

		Lm	€
a)	Malta Tourism Authority – Ex HCEB and Police Licenses	446,068	*1,039,059*
b)	Ex White Rocks Complex	33,682	*78,458*
c)	Tourism – due from Local Council in respect of beach cleaning services	86,971	*202,588*

Dues from the Ex White Rocks and from the Local Councils (in respect of beach cleaning services) have been outstanding for a number of years and are considered as not collectable.

An analysis showing the Ageing of Debtors was not provided by the Department of Tourism.

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

The 2007 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 **(DCS**) with effect from January 2005.

Missing information in the Arrears Returns regarding TV Licences has been reported regularly in the Auditor General's Annual Reports since 2004. 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. Enhancement to remedy this situation are underway."* and that *"Full report to follow shortly as soon as ad-hoc software amendments are finalised."* (Source: Report of Auditor General 2004 pg 51)

- *Estimated Amount considered as not Collectable – Prescription on TV Licence Fees*

On 10 May 2006, the Revenue Unit, after obtaining advice from the Office of the Attorney General, requested Ministry of Finance's authority for the write-off of TV Licences in cases where the Revenue Unit received an official letter claiming prescription of amounts due for over five (5) years. Where no such letter is received, Revenue Unit will claim recovery of total amount of fees due. Approval was granted by the Ministry of Finance on 15 May 2006 to proceed accordingly.

As at year end, amounts due *"over 5 years, hence prescribed by Law"* amounted to Lm1,105,271 *(€2,574,589)*. (Source: Footnote in Statement of Arrears 2007) NAO is of the opinion that those prescribed arrears contested by means of an official letter should have been reported as amounts written off during the year instead of reported as 'Estimated amounts considered as not collectable'. Upon enquiry, Revenue Unit stated that the reason behind this approach was that the database has still to date not been adjusted to reflect the writing off of prescribed amounts.

- *Writing-off of Outstanding Television Licence Fees*

The DCS embarked upon an exercise aimed at the recovery of outstanding Television Licence Fees. A total of 32,113 registered reminder letters, claiming an outstanding amount of Lm2,755,470 *(€6,418,519)*, were sent to all defaulters in an effort to recover the highest possible amount of unpaid fees.

On 25 October 2007, the Ministry of Finance approved the writing off of the following amounts outstanding for over three (3) years:

a) Untraced foreigners - Lm39,751 *(€92,595)*

Most of these people are not registered in the Common Data Base or the Electoral Register. In almost all cases, individuals left the address registered with DCS with the result of new occupants declaring that the individual previously living in the premises left the island.

b) Deceased Maltese Nationals - Lm48,241 *(€112,371)*

There are 813 licences registered on deceased individuals. It is the DCS's established procedure to turn to their heirs when they can be traced. In many cases, however, since these individuals end up in homes and the television, more often than not, disappears at death, it is difficult to prove the existence if the heirs opt to refuse to admit it. In many cases also, many of these licencees have passed away for quite a number of years.

c) Untraced Maltese Nationals - Lm56,329 *(€131,211)*

In these cases, the address reported in the Common Data Base yields a 'person unknown' on returned mail. Each of these cases has been investigated with the Electoral Commission in an effort to trace the said individuals but to no avail. Due to the provisions of the Data Protection Act, the DCS can only make use of the addresses available in the Common Data Base.

Of these, Lm138,438 *(€322,474)* were written off during 2007. The remaining Lm5,882 *(€13,701)* were written off during 2008. Upon enquiry as to why the Return of Arrears failed to report said amounts as written off during the year under review, DCS remarked that: *"……… these figures were not entered into the Arrears of Revenue report due to the fact that the computer system does not allow adequate financial reporting so as to allow the completion of the said form in its entirety and therefore only the actual figure for arrears is included. This has been done ever since this system has been taken over. Finance have always accepted this report as sent."*

- *Meeting held at the Office of the Permanent Secretary, Ministry of Finance, the Economy and Investment (MFEI)*

A meeting was held on 12 June 2008 at the Office of the Permanent Secretary, MFEI, in connection with arrears in respect of Television Licence Fees. According to a letter dated 13 June 2008 issued from MFEI, the following measures were decided to be adopted:

- the release of an information notice whereby people would be reminded of their obligation to pay their television licence;
- the issue of a legal notice regarding affidavits presented in respect of television sets reported scrapped etc; and
- the implementation of measures for the collection of all outstanding dues within the next few months.

- *Conclusions and Recommendations*

Due to the above shortcomings, no conclusion could be reached on the state of arrears as at year end. Failure to provide a complete Return leads NAO to conclude that the computer system has still to date not been enhanced.

It is recommended that, as a matter of urgency, the DCS should establish systems and controls to ensure that future arrears are accurately recorded on a timely basis and arrears are collected before they become prescribed by law.

Commerce Division

NAO is not in a position to forward a sub-classification of the gross closing balance of arrears as at year end since the arrears newly accrued and amounts estimated as not collectable in respect of Licences, Taxes and Fines were not provided by the Division. The Division remarked that these figures *"…cannot be estimated due to fee revision and pending Ministerial directions."* It is pertinent to note that same figures were also missing from the 2006 Return of Arrears.

Civil Aviation

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

		Lm	**€**
a)	Miscellaneous Licences	23,029	*53,642*
b)	Airport Tax	525,510	*1,224,109*

The Department was requested to confirm if last year's statement regarding controls to ascertain completeness of Airport Tax is still valid. The Department replied that: *"Statement remains valid ………till 31 Oct 2008. On 01 Nov 2008 the airport tax will become history by way of LN160 of 2008."*

Malta Transport Authority

The net closing balance of arrears is made up of dues receivable by the Licensing and Testing Directorate in respect of:

		Lm	€
a)	Motor Vehicle Road Licenses	3,983,553	*9,279,183*
b)	Motor Car Dealers	1,817	*4,233*
c)	Motoring Schools	850	*1,980*
d)	Driving Instructors	245	*571*

Amounts estimated as not collectable, amounting to Lm886,160 *(€2,064,198),* are in respect of arrears due for the period 1994 to 1997 and are mainly made up of:

- Lm619,060 *(€1,442,022)* due from three (3) Corporations and a Government Entity which are statute-barred; and

- Lm266,299 *(€620,310)* due from a private company. The matter is being tackled through legal correspondence between the Attorney General and the company's legal representatives.

Ministry for Resources and Infrastructure

The difference in the opening balance, amounting to Lm1,395 *(€3,250)*, is due to:

- Lm776 *(€1,808)* due to the Manufacturing and Services Department inadvertently omitted from the 2005 and 2006 returns; and

- Lm618 *(€1,440)* amendment after an intensive exercise was carried out by the Cleansing Department on the arrears in respect of invoices issued for the collection of deposit of waste at Maghtab.

The net closing balance is made up of:

		Lm	€
a)	Breach of Contracts		
	- Damages and Maintenance	38,405	*89,460*
b)	Dues by Local Councils		
	- Central District Office	197,705	*460,529*
	- Cleansing Services Department	21,504	*50,091*
c)	Dues from Deposits of Waste and Rubble	454	*1,058*
d)	Dues to Manufacturing and Services Department	233,598	*544,137*

Ageing of arrears can be analysed as follows:

	Lm	€
Amounts outstanding for less than one (1) year	116,798	*272,066*
Amounts outstanding over one (1) year but less than two (2) years	44,778	*104,305*
Amounts outstanding over two (2) years but less than five (5) years	143,876	*335,141*
Amounts outstanding over five (5) years but less than ten (10) years	173,720	*404,659*
Amounts outstanding over ten (10) years	12,495	*29,106*

Ministry for Gozo

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

	Lm	€
Public Cleansing Department – Waste Disposal	74,285	*173,037*
Public Cleansing Department – Local Councils	12,143	*28,286*
Works Department	23,194	*54,028*
Agricultural Department	11,613	*27,051*

Ageing of gross arrears are grouped as follows:

	Lm	€
Amounts outstanding for less than one (1) year	13,336	*31,065*
Amounts outstanding over one (1) year but less than two (2) years	16,309	*37,989*
Amounts outstanding over two (2) years but less than five (5) years	44,760	*109,821*

The total arrears of revenue due to the Public Cleansing Department in respect of Waste Disposal stand at Lm74,285 *(€173,038)*. This amount has been outstanding prior to 2004 before WasteServ Malta Ltd took over the waste management system in Malta. Lm46,285 *(€107,815)* of the foregoing total is due from private companies or individuals while Lm21,130 *(€49,220)* is owing from parastatal or Government-owned entities. The remaining balance is due by Government Departments.

No action has been taken to recoup any of the outstanding balances. Moreover, sufficient details, such as Identity Card Number of the individual contractors, were also not indicated in the list of debtors provided to NAO.

Courts of Justice Division - Gozo

The main reason for the difference in the opening balance of debtors when compared to the closing balance as at end December 2006 is due to the fact that the Court Fees report indicating amounts due is now being compiled based on the year taxed. As a result, additional fees raised after the claim had been decided no longer fall under the year of the respective case initiated.

Ageing of the gross balance of debtors is analysed as follows:

	Fees		**Fines**	
	Lm	**€**	**Lm**	**€**
Amounts outstanding equal to or less than one (1) year	27,930	*65,059*	17,206	*40,079*
Amounts outstanding between one (1) year to two (2) years	15,124	*35,229*	19,413	*45,220*
Amounts outstanding over two (2) years to five (5) years	28,623	*66,674*	16,486	*38,402*
Amounts outstanding over five (5) years to ten (10) years	6,741	*15,702*	11,870	*27,650*
Amounts outstanding over ten (10) years	-	-	6,210	*14,465*
	78,418	***182,664***	**71,185**	***165,816***

Health Division

The net closing balance of Lm594,644 *(€1,385,148)* is made up of the following:

		Lm	€
a)	Licences	5,315	*12,381*
b)	Hospital Fees (SLH)	359,113	*836,508*
c)	Hospital Fees (EU)	85,240	*198,556*
d)	Hospital Fees (SPBH)	1,760	*4,100*
e)	Hospital Tests	7,164	*16,688*
f)	Refunds/Resignations	100,886	*235,001*
g)	Overpayments	35,166	*81,915*

A difference of Lm6,629 *(€15,441)* was noted between this year's opening balance and last year's closing balance which was primarily due to the inclusion of new claims for years 2004-2006 in respect of hospital bills of patients from EU Member States and a further balance included in Hospital Fees (SLH) which were written off in 2004 but not adjusted previously.

From last year's closing balance of Lm786,413 *(€1,831,850)*, an amount of Lm204,564 *(€476,506)* (26%) and a further amount of Lm32,940 *(€76,730)* (4%) were collected and written off respectively during the year. The amount written-off mainly relates to Hospital fees (SLH) accrued since year 2000 which were considered as not recoverable.

The balance due for Hospital fees (EU) is not complete as it only relates to E125 - individual claims representing medical treatment given to a foreigner visiting Malta. E127 - claims sent by Malta to EU countries once a year for medical treatment given locally to foreigners residing in Malta - for the years from 2005 to 2007, which amount to approximately Lm240,000 *(€559,050),* have been excluded from the return. The amounts for the years 2005 and 2006 have been calculated and approved but the request for payment has not been sent to the countries concerned. The amount for 2007 was still being computed due to the lengthy process involved in their compilation.

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

- Lm155,561 *(€362,360)* (22%) was newly accrued;
- Lm296,519 *(€690,703)* (42%) reflects balances which are from two (2) to five (5) years old; and
- the remaining balance of Lm252,390 *(€587,911)* (36%) reflects balances due more than five (5) years and up to twenty (20) years.

Ministry for Investment, Industry and Information Technology

The 2007 opening balance is made up of Loans to Companies Lm125,408 *(€292,122)* and Loans to Hotels Lm10,040 *(€23,387)* which were written off during the year under review, following Ministry of Finance's approval.

Action has been taken by the Ministry to recoup the arrears due amounting to Lm1,014 *(€2,362),* being refund of salaries reported as the 2007 closing balance.

Ministry for Rural Affairs and the Environment

Three (3) files in respect of cases of arrears of revenue pertaining to the Pitkali Markets could not be traced within the Ministry. This has already featured in the Annual Report for 2006. The aggregate balance relating to these three (3) cases, amounting to Lm50,778 *(€118,281)*, is now considered as not collectable.

Another two (2) personal files of ex-employees within the Ministry also could not be traced and this limited the necessary verifications on arrears of revenue that were planned to be carried out by NAO.

Except for Lm476 *(€1,109)* due from a Local Council, the remaining arrears due are from individuals and private companies.

A summary of the ageing of debtors is provided hereunder:

	Lm	**€**
Amounts outstanding less than one (1) year	55,929	*130,280*
Amounts outstanding between one (1) and two (2) years	6,735	*15,688*
Amounts outstanding between two (2) and five (5) years	45,940	*107,011*
Amounts outstanding between five (5) and ten (10) years	94,492	*220,107*
Amounts outstanding between ten (10) and twenty (20) years	714	*1,663*
Amounts outstanding over twenty (20) years	30,881	*71,933*

Ministry for Urban Development and Roads

The Ministry failed to submit the Return of arrears as per Treasury Circular 3/2008. Information submitted was limited to the following:

		Lm	**€**
a)	Road formation (on Government land) Contributions (wef October 2007)	201,800	*470,068*
b)	Valletta Accessibility Measures (June – December 2007)	68,732	*160,103*

According to the Ministry, the information shown with regards to the CVA system has been compiled by the ADT.

Social Security Department

The return of arrears as at 31 January 2008 amounts to Lm3,502,132 *(€8,157,773)* and is made up of the following overpayments:

		Lm	€
a)	Social & Unemployment Assistance	1,474,466	*3,434,582*
b)	Non Contributory & Disability Pensions and Age Allowance	271,254	*631,852*
c)	Sickness Allowance	320,751	*747,149*
d)	Unemployment & Injury Benefits / Marriage Grant	46,005	*107,163*
e)	Children Allowance / Maternity Benefit	280,244	*652,793*
f)	Supplementary Assistance	153,892	*358,472*
g)	Pensions	952,881	*2,219,615*
h)	Miscellaneous Overpayments	2,638	*6,145*

Overpayments mainly arise from incorrect or inaccurate declarations made by claimants, non reporting of changes in circumstances by beneficiaries or errors committed during the awarding of the assistance, benefit or pension.

An ageing analysis of the net closing balance of arrears revealed that:

	Lm	€
Amounts outstanding for less than one (1) year	1,081,004	*2,518,062*
Amounts outstanding over one (1) year but less than five (5) years	1,875,648	*4,369,085*
Amounts outstanding over five (5) years but less than ten (10) years	423,802	*987,193*
Amounts outstanding over ten (10) years	121,677	*283,431*

Following a review of the balances due in respect of the Social & Unemployment Assistance and Pensions, it was noted that:

- the effectiveness and efficiency of collection methods in place, for Social & Unemployment Assistance, need to be strengthened in view of the increasing closing balance compared to last year. The collectibility of a higher proportion of past arrears (especially the major balances – up to five (5) years old) needs to be pursued, whilst newly accrued amounts are to be restrained to acceptable levels by ensuring prompt payments; and

- positive results are being achieved as a result of the collection methods in place for Pensions. It is to be ensured that such efforts are pursued and sustained to ensure that the collection of past arrears continues to be strengthened whilst newly accrued amounts are further restrained.

Ministries/Departments Arrears of Revenue 2007

Ministry/Department		Outstanding on 31/12/2006	Collected during 2007	Written off or not due 2007	Arrears 2007
Office of the President[a]	Lm	2,734	2,734	0	0
	€	*6,369*	*6,369*	*0*	*0*
Office of the Prime Minister [d]	Lm	16,659	15,693	243	18,817
	€	*38,805*	*36,555*	*566*	*43,832*
Armed Forces of Malta	Lm	218,867	206,746	3,879	58,934
	€	*509,823*	*481,589*	*9,036*	*137,279*
Information Department	Lm	0	0	0	398
	€	*0*	*0*	*0*	*927*
Government Printing Press	Lm	22,652	13,913	0	46,894
	€	*52,765*	*32,409*	*0*	*109,234*
Ministry for Justice and Home Affairs:					
Attorney General	Lm	244	0	0	0
	€	*568*	*0*	*0*	*0*
Notary to Government	Lm	127	127	0	104
	€	*296*	*296*	*0*	*242*
Lands and Public Registry	Lm	9,231	c	0	9,228
	€	*21,502*	*c*	*0*	*21,495*
Civil Registration	Lm	13,266	b	b	b
	€	*30,901*	*b*	*b*	*b*
Courts of Justice:					
Malta[d]	Lm	3,903,797	40,490	0	34,288
	€	*9,093,401*	*94,316*	*0*	*79,870*
Gozo [d]	Lm	129,241	24,275	500	45,136
	€	*301,051*	*56,546*	*1,165*	*105,139*
Police Department	Lm	226,452	77,199	9,066	72,874
	€	*527,491*	*179,825*	*21,118*	*169,751*
Correctional Services Department	Lm	48	48	0	0
	€	*112*	*112*	*0*	*0*
Civil Protection	Lm	14,557	2,195	295	12,141
	€	*33,909*	*5,113*	*687*	*28,281*
Government Property Division - Land Department	Lm	4,750,815	1,465,561	391,158	1,646,906
	€	*11,066,422*	*3,413,839*	*911,153*	*3,836,259*
Ministry of Finance [a]	Lm	415	0	0	700
	€	*967*	*0*	*0*	*1,631*
Treasury Department	Lm	32,409	14,927	3,979	5,096
	€	*75,493*	*34,771*	*9,269*	*11,870*
Inland Revenue Department:					
Income Tax - Maltese Currency [e]	Lm	269,713,756	220,666,584	100,829,041	328,119,488
	€	*628,264,048*	*514,014,871*	*234,868,486*	*764,312,807*
Income Tax - Foreign Currency	Lm	16,855,534	c	c	c
	€	*39,262,833*	*c*	*c*	*c*
Social Security Contributions with effect from 1998	Lm	a	b	b	b
	€	*a*	*b*	*b*	*b*
Capital Transfer Duty Department:					
Duty on Documents	Lm	12,029,785	1,267,226	3,897,669	6,756,055
	€	*28,021,861*	*2,951,843*	*9,079,126*	*15,737,375*
Death and Donation Duty (incl Penalties)	Lm	2,359,912	28,822	110,959	1,443
	€	*5,497,116*	*67,137*	*258,465*	*3,361*
Customs Department	Lm	8,367,506	7,693,741	-10,355	5,716,524
	€	*19,491,046*	*17,921,596*	*-24,121*	*13,315,919*
V.A.T. Department	Lm	100,003,518	51,768,224	79,980,844	152,081,073
	€	*232,945,535*	*120,587,524*	*186,305,250*	*354,253,606*
Contracts Department	Lm	204,340	0	102	0
	€	*475,984*	*0*	*238*	*0*
Ministry of Education, Youth and Employment:					
The Ministry and ex - Education Division [d]	Lm	223,383	63,620	8,436	133,757
	€	*520,342*	*148,195*	*19,651*	*311,570*
Industrial and Employment Relations	Lm	149,553	b	b	b
	€	*348,365*	*b*	*b*	*b*
Ministry for Tourism and Culture [d]	Lm	583,609	208,010	63,052	254,174
	€	*1,359,443*	*484,533*	*146,872*	*592,066*
Mediterranean Conference Centre	Lm	179,430	b	b	b
	€	*417,959*	*b*	*b*	*b*
Ministry for Competitiveness and Communications:					
Malta Transport Authority [a]	Lm	4,193,263	269,144	0	948,507
	€	*9,767,675*	*626,937*	*0*	*2,209,427*
Revenue Department (ex-Wireless Telegraphy Department)	Lm	2,578,914	c	c	c
	€	*6,007,254*	*c*	*c*	*c*
Commerce Division	Lm	679,959	55,668	10,116	c
	€	*1,583,878*	*129,672*	*23,564*	*c*
Civil Aviation	Lm	466,504	404,763	340	487,138
	€	*1,086,662*	*942,844*	*792*	*1,134,726*
Ministry for Resources and Infrastructure [d]	Lm	711,194	139,441	58,351	116,798
	€	*1,656,636*	*324,810*	*135,921*	*272,066*
Ministry for Gozo	Lm	121,991	13,776	0	13,336
	€	*284,163*	*32,089*	*0*	*31,065*
Ministry of Health, the Elderly and Community Care:					
Health Division [d]	Lm	786,413	204,564	32,940	155,561
	€	*1,831,850*	*476,506*	*76,730*	*362,360*
Min for Investment, Industry and Information Technology	Lm	135,448	0	135,448	1,014
	€	*315,509*	*0*	*315,509*	*2,362*
Ministry for Rural Affairs and the Environment [d]	Lm	325,802	49,351	14,744	57,816
	€	*758,915*	*114,957*	*34,344*	*134,675*
Ministry for Urban Development and Roads	Lm	0	c	c	c
	€	*0*	*c*	*c*	*c*

Outstanding on 31/12/2007	Gross Variation	Amounts Est as not Collectable	Net collectable arrears as at 31/12/2007	Net collectable arrears as at 31/12/2006	Net Variation	Due from Govt. Dept. & Para. Bodies	Individual & Private Companies
0	-2,734	0	0	2,734	-2,734	0	2,734
0	*-6,369*	*0*	*0*	*6,369*	*-6,369*	*0*	*6,369*
19,540	2,881	0	19,540	12,315	7,225	0	19,540
45,516	*6,711*	*0*	*45,516*	*28,686*	*16,830*	*0*	*45,516*
67,176	-151,691	5,982	61,194	209,006	-147,812	57,395	3,799
156,478	*-353,345*	*13,934*	*142,544*	*486,853*	*-344,309*	*133,694*	*8,849*
398	398	0	398	0	398	398	0
927	*927*	*0*	*927*	*0*	*927*	*927*	*0*
55,633	32,981	0	55,633	22,652	32,981	55,633	0
129,590	*76,825*	*0*	*129,590*	*52,765*	*76,825*	*129,590*	*0*
244	0	244	0	0	0	0	244
568	*0*	*568*	*0*	*0*	*0*	*0*	*568*
104	-23	0	104	127	-23	104	0
242	*-54*	*0*	*242*	*296*	*-54*	*242*	*0*
c	c	8,917	c	c	c	c	c
c	*c*	*20,771*	*c*	*c*	*c*	*c*	*c*
b	b	b	b	9,231	b	b	b
b	*b*	*b*	*b*	*21,502*	*b*	*b*	*b*
3,897,595	-6,202	9,607	3,887,988	5,604,821	-1,716,833	0	3,887,988
9,078,954	*-14,447*	*22,378*	*9,056,576*	*13,055,721*	*-3,999,145*	*0*	*9,056,576*
149,602	20,361	0	149,602	147,730	1,872	0	149,602
348,479	*47,428*	*0*	*348,479*	*344,118*	*4,361*	*0*	*348,479*
213,061	-13,391	0	213,061	226,452	-13,391	13,656	199,405
496,299	*-31,193*	*0*	*496,299*	*527,491*	*-31,193*	*31,810*	*464,489*
0	-48	0	0	48	-48	0	0
0	*-112*	*0*	*0*	*112*	*-112*	*0*	*0*
24,208	9,651	12,055	12,153	5,105	7,048	4,923	7,230
56,389	*22,481*	*28,081*	*28,309*	*11,891*	*16,417*	*11,468*	*16,841*
4,541,002	-209,813	c	c	4,750,815	c	c	c
10,577,689	*-488,733*	*c*	*c*	*11,066,422*	*c*	*c*	*c*
1,115	700	0	1,115	c	c	0	1,115
2,597	*1,631*	*0*	*2,597*	*c*	*c*	*0*	*2,597*
18,599	-13,810	0	18,599	28,430	-9,831	0	18,599
43,324	*-32,169*	*0*	*43,324*	*66,224*	*-22,900*	*0*	*43,324*
276,337,619	6,623,863	220,986,321	55,351,298	58,343,115	-2,991,817	c	c
643,693,499	*15,429,450*	*514,759,658*	*128,933,841*	*135,902,900*	*-6,969,059*	*c*	*c*
37,563,477	20,707,943	c	c	c	c	0	37,563,477
87,499,364	*48,236,532*	*c*	*c*	*c*	*c*	*0*	*87,499,364*
b	b	b	b	a	b	b	b
b	*b*	*b*	*b*	*a*	*b*	*b*	*b*
13,620,945	1,591,160	9,199,215	4,421,730	3,975,618	446,112	0	4,421,730
31,728,267	*3,706,406*	*21,428,407*	*10,299,860*	*9,260,699*	*1,039,161*	*0*	*10,299,860*
2,221,574	-138,338	849,920	1,371,654	1,457,133	-85,479	0	1,371,654
5,174,875	*-322,241*	*1,979,781*	*3,195,094*	*3,394,207*	*-199,113*	*0*	*3,195,094*
6,400,644	-1,966,862	19,104	6,381,540	8,364,853	-1,983,313	6,656,895	8,208,094
14,909,490	*-4,581,556*	*44,500*	*14,864,990*	*19,484,866*	*-4,619,877*	*15,506,394*	*19,119,716*
120,335,523	20,332,005	113,789,417	6,546,106	6,052,758	493,348	c	c
280,306,366	*47,360,832*	*265,058,041*	*15,248,325*	*14,099,133*	*1,149,192*	*c*	*c*
204,238	-102	0	204,238	204,340	-102	0	204,238
475,747	*-238*	*0*	*475,747*	*475,984*	*-238*	*0*	*475,747*
285,084	61,701	0	285,084	80,533	204,551	98,157	186,927
664,067	*143,725*	*0*	*664,067*	*187,591*	*476,476*	*228,644*	*435,423*
b	b	b	b	149,553	b	b	b
b	*b*	*b*	*b*	*348,365*	*b*	*b*	*b*
566,721	-16,888	*120,653*	446,068	446,496	-428	0	446,068
1,320,105	*-39,338*	*281,046*	*1,039,059*	*1,040,056*	*-997*	*0*	*1,039,059*
b	b	b	b	171,252	b	b	b
b	*b*	*b*	*b*	*398,910*	*b*	*b*	*b*
4,872,626	679,363	886,160	3,986,466	a	c	0	3,986,466
11,350,165	*1,582,490*	*2,064,198*	*9,285,968*	*a*	*c*	*0*	*9,285,968*
2,625,892	46,978	1,105,271	1,520,621	1,463,371	57,250	0	1,520,621
6,116,683	*109,429*	*2,574,589*	*3,542,094*	*3,408,737*	*133,357*	*0*	*3,542,094*
c	c	120	c	679,839	c	c	c
c	*c*	*280*	*c*	*1,583,599*	*c*	*c*	*c*
548,539	82,035	0	548,539	466,504	82,035	338,042	210,497
1,277,752	*191,090*	*0*	*1,277,752*	*1,086,662*	*191,090*	*787,426*	*490,326*
630,200	-80,994	138,533	491,667	446,449	45,218	475,105	16,561
1,467,971	*-188,665*	*322,695*	*1,145,276*	*1,039,946*	*105,330*	*1,106,697*	*38,577*
121,551	-440	316	121,235	121,745	-510	74,950	46,285
283,138	*-1,025*	*736*	*282,402*	*283,590*	*-1,188*	*174,587*	*107,815*
704,470	-81,943	109,826	594,644	579,045	15,599	7,164	587,480
1,640,974	*-190,876*	*255,826*	*1,385,148*	*1,348,812*	*36,336*	*16,688*	*1,368,460*
1,014	-134,434	0	1,014	135,448	-134,434	0	1,014
2,362	*-313,147*	*0*	*2,362*	*315,509*	*-313,147*	*0*	*2,362*
319,523	-6,279	84,832	234,691	229,012	5,679	476	234,215
744,288	*-14,626*	*197,605*	*546,683*	*533,454*	*13,229*	*1,109*	*545,574*
270,532	270,532	c	c	0	c	c	c
630,170	*630,170*	*c*	*c*	*0*	*c*	*c*	*c*

Ministries/Departments Arrears of Revenue 2007 (cont)

Ministry/Department		Outstanding on 31/12/2006	Collected during 2007	Written off or not due 2007	Arrears 2007
Ministry for the Family and Social Solidarity:					
Social Security Department:					
National Insurance Contributions Pre-1998	Lm	a	b	b	b
	€	*a*	*b*	*b*	*b*
Overpayments of Benefits	Lm	3,087,107	582,780	83,199	1,081,004
	€	*7,191,025*	*1,357,512*	*193,802*	*2,518,062*
Department of Social Housing	Lm	5,390	125	0	423
	€	*12,555*	*291*	*0*	*985*
TOTALS [f]	**Lm**	**433,103,825**	**285,279,747**	**185,624,006**	**497,875,627**
	€	***1,008,860,529***	***664,523,054***	***432,387,622***	***1,159,738,241***

a) Did not send Return of Arrears 2006.

b) Return of Arrears 2007 not submitted.

c) Information not available or incomplete.

d) Opening Balance 2007 does not tally with Closing Balance 2006 (vide comments).

e) Credit balances were added back to net arrears as reported in the Arrears of Revenue Return prepared by the Department.

f) Totals are incomplete in view of a) to e) above.

Outstanding on 31/12/2007	Gross Variation	Amounts Est as not Collectable	Net collectable arrears as at 31/12/2007	Net collectable arrears as at 31/12/2006	Net Variation	Due from Govt. Dept. & Para. Bodies	Individual & Private Companie
b *b* 3,502,132 *8,157,773* 5,688 *13,249*	b *b* 415,025 *966,748* 298 *694*	b *b* 0 *0* 0 *0*	b *b* 3,502,132 *8,157,773* 5,688 *13,249*	a *a* 3,087,106 *7,191,023* 5,390 *12,555*	b *b* 415,026 *966,751* 298 *694*	b *b* 0 *0* 0 *0*	b *b* 3,502,132 *8,157,773* 5,688 *13,249*
480,126,269 ***1,118,393,359***	**48,053,883** ***111,935,437***	**347,326,493** ***809,053,093***	**90,433,802** ***210,654,093***	**97,479,026** ***227,065,050***	**-5,272,115** ***-12,280,724***	**7,782,898** ***18,129,276***	**66,803,403** ***155,610,070***

Consultants/Advisers on a Part-time basis

Background

Over the years, there was an increase in the number of consultants and advisers employed with various Ministries. During Financial Year 2007, there were forty-three (43)[1] consultants/advisers (excluding part-time medical consultants) employed on a part-time basis across eleven (11) Ministries.

The audit aimed at assessing the compliance aspects of Salaries issued by the Ministry for Gozo – Salaries Section[2] (**Treasury**) and ascertaining the adequacy and effectiveness of related controls in place by means of a Questionnaire.

Key Issues

Information not provided

NAO was limited in achieving the full scope of the audit on the basis that:

- five (5) out of eleven (11) Ministries failed to forward replies to the questionnaire up to the writing of the Management Letter[3] ; and
- contracts in respect of five (5) part time consultants/ advisers were not forwarded.

Limited checking conducted by Treasury prior to issuing of Salaries

Adjustments as forwarded by Ministries/Departments are processed by Treasury with minimum checking with the risk of having erroneous salary payments being issued according to Ministerial/Departmental instructions.

Lack of Audit Trail of 'Rejects' Adjustments done by Treasury

Treasury is not adequately covered for an adjustment and/or payment processed, following a 'reject' case. Communication with the Ministry/Department concerned is in most cases conducted by phone. Supporting documentation backing up the query, reply and related adjustment are lacking.

Part-time Consultants/Advisers not covered by a Contract/Performance Agreement prior to Employment

NAO noted that three (3) consultants/advisers commenced rendering services to Government prior to entering into a formal written contract with the particular Ministry.

[1]Twelve (12) were newly engaged on a part-time basis during the year under review. Thirty-one (31) were already in employment on a part-time basis with Government. Seven (7) were Government employees having their service extended (on a part-time basis) over the retirement age.

[2]Responsibility was transferred over from Treasury Department Malta to Ministry for Gozo – Salaries Section during October 2007.

[3]Another Ministry forwarded replies to the Questionnaire. Answers could not be taken into account since reply was received excessively late.

Individual engaged as Part-time Adviser with two Ministries

An adviser entered into two (2) separate contracts in 2005, with two (2) separate Ministries, for the provision of ten (10) hours and thirty (30) hours advisory services per week. This individual is also a Social Security Department pensioner. Although the adviser is rendering a total of forty (40) hours per week services to Government he is being deducted 15% part-time tax on income earned for advisory services.

Payments made to Consultants/Advisers over and above those provided for in contracts/performance agreements

Payments to six (6) consultants/advisers included amounts in excess of those specified in the respective contracts/ performance agreements. Extra payments were in respect of Government bonus and/or weekly allowance, cost of living allowance and other allowances.

Control Issues

Part-time Consultants/Advisers engaged directly

Engagement from outside the Public Service

All six (6) respondents stated that consultants/advisers are directly selected on a personal basis by the respective Ministry. In all cases, the process for engagement was initiated by the Ministry/Department and a contract of service entered into following OPM's approval[4].

Retention of ex Government employees

16.3% or seven (7) out of the forty-three (43) part-time consultants/advisers are ex-Government employees held in employment over the retirement age as part time consultants/advisers. This may be interpreted that present Government employees expect to enter into a contract of service following their retirement because of the past experience/expertise in their field.

Lack of Control over Duties and Work Performed by Part-time Consultants/Advisers

Work and Hours Performed by Part-time Consultants/ Advisers not Documented

Only one (1) out of the six (6) respondents stated that attendance records are maintained to verify the number of hours performed by three (3) part-time consultants/ advisers. Another Ministry stated that its consultant signs attendance sheets on his own initiative.

Top management may not be in a position to effectively control the number of hours worked by each of its consultant/ adviser. The Ministry may not be adequately covered in its future request to OPM to extend the particular contract(s) of service.

Duties not specified in Contract Agreements

From the 63.2% or twenty-four (24) out of thirty-eight (38) contracts/performance agreements available at NAO, it was noted that duties were not specified in detail in the contracts.[5] The Ministry may therefore not be able to hold the particular consultant/adviser directly accountable.

Minimum Controls over Work Performed

The methods used by respondents lack adequate monitoring of performance of consultants/advisers.

Missing and/or Incorrect Details in Contracts

NAO noted that some contracts/performance agreements:

- lacked the consultant/adviser I.D. No (7.9% or three (3) out of thirty-eight (38)), the witness I.D. No (73.7% or twenty-eight (28) out of thirty-eight (38)) and the date the contract/performance agreement was signed on (29% or eleven (11) out of thirty-eight (38)); and
- quoted an incorrect consultant/adviser I.D. No (5.3% or two (2) out of thirty-eight (38)).

There is the risk that missing or incorrect details may lead to the contracts/performance agreements becoming legally invalidated.

[4]One (1) of the respondents remarked that a consultant has been in employment since 1997.

[5]Work expected to be performed was governed by a general provision stating that the consultant/adviser shall render services and perform other duties which may be assigned to him/her by the said Minister and/or the Permanent Secretary, or a senior Government official delegated for the purpose by the said Minister or Permanent Secretary.

Compliance Issues

Non-compliance with Contract Provision in respect of Request for Extension of Contract

All contracts entered into between Government and part time consultants/advisers require the latter to forward in writing, one (1) month prior to the completion of the Agreement, a letter or notice informing Government of his/her intention to remain in employment.[6]

Out of the six (6) Ministries who submitted replies to the Questionnaire, employing twenty-seven (27) consultants/advisers on a part-time basis, only one (1) copy of letter by a consultant requesting an extension of his contract of service was forwarded to NAO. Two (2) Ministries stated that some of their consultants/advisers expressed their intention to extend their contract verbally.

Incomplete List of Part Time Consultants/Advisers due to Erroneous Grade Codes

NAO noted that the list of part time consultants/advisers provided by Treasury excluded sixteen (16) consultants/advisers since Treasury erroneously assigned the Grade Code relating to 'Contract Employees'. Necessary adjustments were made by Treasury upon notification from NAO. This may lead to distorted replies to Parliamentary Questions.

Details in Payper System differing from details as per Contract Agreement

NAO noted that:

- 52.6% or twenty (20) out of thirty-eight (38) cases, the Ministry name; and

- either the present appointment date or the confirmation date or both, of 55.3% or twenty-one (21) out of thirty-eight (38) cases as inputted in the Payper system, did not tally with details as featuring in the contract/performance agreement and/or letters of extension.

Incorrect Fringe Benefits Calculations

The "Fringe Benefits – A Tax Guide for the valuation of 'payments in kind'" was not complied with in calculating the taxable fringe benefit arising from the use of fully expensed cars by three (3) consultants/advisers. Treasury could not forward explanations as figures were processed by Treasury as calculated by the Ministry/Department concerned.

Non Compliance with PSMC

Full year payments were issued by Treasury to three (3) consultants/advisers even though the contracts' period expired by more than the two (2) months limit set by the PSMC. Should OPM refuse to grant approval to extend the provision of services, the Ministry would have to recoup payments issued beyond the expiry date of the contract/performance agreement.

Recommendations

Key Issues

Limited checking conducted by Treasury prior to issuing of Salaries

Prior to the issuing of salaries' payments, Treasury is to conduct a sample-based checking of adjustments forwarded by Ministries/Departments.

Lack of Audit Trail of 'Rejects' Adjustments done by Treasury

Any queries raised by Treasury and related replies received from Ministries/Departments are to be fully documented and filed for future reference.

Part Time Consultants/Advisers not covered by a Contract/Performance Agreement prior to Employment

Treasury is advised to:

- ensure that no payments are issued to said individuals if provision of services is not covered by a contract of service;

- refrain from paying arrears to said individuals once contract/performance agreement is signed; and

- obtain a copy of the contract/performance agreement entered into from the Ministry prior to issuing first payment.

Individual engaged as Part-time Adviser with two Ministries

Treasury is advised to:

- review all payments forwarded to said individual; and

- have adequate controls in place to eliminate the possibility of part time consultants/advisers rendering services to Government in excess of thirty (30) hours per week.

[6] 89.5% (i.e. thirty- four (34) out of thirty-eight (38)) of contracts available at NAO stated that such request is to be approved by Government. 10.5% stated that such request is to be approved by the Permanent Secretary of the particular Ministry prior to processing further to OPM.

Payments made to Consultants/Advisers over and above those provided for in contracts/performance agreements

Treasury is advised to:

- revise payments issued and claim overpayments; and
- query all Ministerial/Departmental instructions for deviation from original contract/performance agreement.

Control Issues

Part-time Consultants/Advisers engaged directly

Engagement from outside the Public Service

MPO should ensure that a real need exists prior to approving the particular Ministry's issuing of the contract of service to the consultant/adviser and that no conflicts of interest exist.

Retention of ex-Government employees

NAO strongly advises Ministries to have in place effective succession planning enabling the appointment of a Designate prior to the retirement of certain key staff.

Lack of Control over Duties and Work Performed by Part-time Consultants/Advisers

Work and Hours Performed by Part-time Consultants/Advisers not Documented

Consultants/advisers not required to sign attendance sheets are to be requested to forward a signed detailed record of work performed. Records, endorsed by top management, are to be forwarded to the Salaries Section prior to issuing of four (4) weekly payment.

Duties not specified in Contract Agreements

Ministries are advised to:

- provide in writing a list of duties, agreed upon by both parties, to be performed by the consultant/adviser engaged with them; and
- have in place proper controls ensuring that consultants/advisers perform the tasks assigned.

Missing and/or Incorrect Details in Contracts

Ministries are urged to ensure that contracts/performance agreements entered into are complete and correct in all material respects.

Compliance Issues

Non-compliance with Contract Provision in respect of Request for Extension of Contract

Although Ministries are urged to request their consultants/advisers to forward their request for extension of contract in writing and within the time limit as set in the contracts, OPM should remind consultants/advisers to abide by the contract provisions. Non-compliance may lead to termination or non extension of contract of service.

Incomplete List of Part-time Consultants/Advisers due to Erroneous Grade Codes Details in Payper System differing from details as per Contract Agreement

It is highly recommended that double checking be done by Treasury ensuring correctness of details inputted in the Payper System.

Incorrect Fringe Benefits Calculations

Treasury is to:

- conduct proper checking of details given by Ministries/Departments at least prior to issuing the first pay declaring the taxable fringe benefit; and
- recheck and revise where necessary taxable fringe benefits.

Non Compliance with PSMC

Treasury should have in-built controls ensuring no payments are issued to consultants/advisers if OPM's approval for extension is not received either prior to the expiry of the contract or within the two (2) months time limit as set in the PSMC.

Management Comments

Management offered the following comments in view of the above shortcomings and recommendations:

- It is the Head of Department who takes responsibility of adjustments to the Payroll.
- Treasury agrees that it should effect more checks and controls. At present, Treasury does not possess strong and efficient tools to help carry out these internal verifications. Due to very tight time frames, Treasury is not in a position to undertake such tasks manually until electronic audit tools are available.

- All departmental officials are aware that no adjustments would be carried out without documented instructions submitted to Treasury.

- If the contract of a part-time consultant/adviser is backdated, Treasury has to honour this document and issue arrears. It is the responsibility of the Ministry/Department concerned to draw up contracts concurrently with the engagement of the consultants/advisers.

- As regards the individual engaged as part time adviser with two (2) Ministries, Treasury remarked that it is the pension which is considered as being his full time income. It is the responsibility of the employee to verify and adjust his tax rates and the responsibility of the Inland Revenue Department to calculate taxes due.

- Although Treasury concurs with the recommendation that regular sample based checks should be undertaken to minimise instances of overpayments, it remarked that overpayments in Income Supplements, Bonuses and Allowances were done by the Departments. Treasury informed NAO that immediate corrective action was taken as soon as these errors were identified.

- The present Payper system is not flexible to:

  - allow diversification in the assignment of grade codes; and
  - reflect all the changes happening following a change in Ministry portfolios.

  These deficiencies will be eliminated once the new payroll system is implemented.

- Treasury will proceed to implement the recommendation related to fringe benefits.

- After the publication of Legal Notice 51 of 2007, all contracts governing contract employees had to be adjusted in order to reflect the terms of this legal notice. In order for OPM to adjust these contracts, Treasury was instructed not to remove contract employees awaiting renewal of contract from Payper. This was an exception and Treasury remarked that it is now scrupulously following PSMC.

As can be noted from the above comments, Treasury is in most cases shifting reponsibility to the Ministry/Department concerned or the present Payper system.

Ministry of Finance's Travel Abroad on Official Government Business related Circulars

Background

NAO satisfactorily noted that the Ministry of Finance fine-tuned through the years the regulations governing travel abroad on official business and regularly directed Heads of Departments/Directors Corporate Services to ensure that these rules are followed.

This report summarises the various Ministry of Finance's Circulars related to travel abroad issued on the basis of NAO's conclusions and related recommendations put forward in its Reports of the Auditor General, specifically the audit report relating to *'Travel Abroad on Official Government Business – Financial Year 2004'*.

Travel abroad related MFIN Circulars based on NAO's recommendations

- ***Paper 226 laid on the Table of the House of Representatives on 25 January, 1997***

As a reaction to findings and recommendations put forward in the Report of the *Auditor General – Public Accounts 2005,* the Office of the Prime Minister compiled an updated set of financial regulations, procedures and circulars relative to official travel abroad. This information was distributed to line departments of the said Ministry for ease of reference and guidance.

The Ministry of Foreign Affairs introduced an undertaking to be signed by delegates prior to their departure. This undertaking obliged delegates to close their advance account by submitting detailed expenditure statements, supporting documentation and money advance balances within one (1) calendar month from their return from overseas thereby conforming to the provisions of the then Estacode. By means of Paper 226, this Ministry also claimed that delegates who do not comply with this requirement were not allowed to travel again on duty before they settle their dues.

- ***MF Circular 12/99 – Travel Abroad on Official Business – dated 18 November 1999***

NAO's concerns, featuring in the *Report of the Auditor General – Public Accounts 1998* about Travel Advances, were brought to the attention of the Finance Ministry and the Office of the Prime Minister. They were asked to address the problems highlighted by NAO in order to formulate clear guidelines on the concerns raised by this Office.

As a response, Ministry of Finance issued MF Circular 12/99 addressing the issues raised by NAO by codifying in one (1) document the existing regulations on this subject arising from the Public Service Management Code as well as from various OPM Circulars.

As reported upon in the *Report of the Auditor General – Public Accounts 1999*, NAO undertook an exercise to establish whether the instructions contained in the relative circular were being observed. However, NAO concluded that the provisions of MF Circular 12/99 were still not being adhered to.

- ***MF Circular 8/2000 – Advances for Travel Abroad: Pre '93 Advances – dated 7 July 2000***

Various communications were held between the Ministry of Finance and NAO, the purpose of which were to establish guidelines of how to deal with the reported Pre-1993 outstanding Travel Advances, an issue which featured regularly in the Annual Reports of the Auditor General since 1990 up till the *Report of the Auditor General – Public Accounts 2003.* MF Circular 8/2000 was issued to address this long pending issue.

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

- ***MF Circular 9/2001 – Travel Abroad on Official Business – dated 22 August 2001***

The *Report of the Auditor General – Public Accounts 2000* stated that the Ministry of Finance issued several circulars updating the regulations of travel abroad on official business in order to strengthen compliance and further enhance improvements in the application of travel rules and regulations. MF Circular 12/99 was subsequently amended by MF Circulars 3 and 9 of 2001.

MF Circular 9/2001 laid down that:

- officials travelling abroad have to declare that they have no pending statement of expenses to submit in connection with any advances received in respect of previous visits abroad dating back more than one (1) month;
- Heads of Departments/Directors Corporate Services have to confirm the correctness of the Officer's declaration; and
- travel forms duly filled in and accompanied by originals of all documents and receipts were to be forwarded by the Directors Corporate Services to the Auditor General within three (3) months of the date of the visit abroad.

The findings highlighted in this report clearly illustrated that compliance was not satisfactory even though Heads of Department/Directors Corporate Services have been directed to ensure that these are abided by.

- ***MFIN Circular 1/2008 – Overseas Travel – dated January 2008***

During 2007, the Ministry of Finance requested an informal meeting with NAO to discuss the introduction of certain recommendations put forward by NAO in its report *'Travel Abroad on Official Government Business – Financial Year 2004'*. This NAO review seeks to assess the degree of compliance with the prevalent travel rules and regulations and other rules specifically controlling EU-related Travel, besides recommending new guidelines mitigating identified concerns along with stronger enforcement of current controls.

The main areas discussed, during the meeting held on 17 January 2007, related to contingency money, transport expenses, telephone claims, gratuities, outstanding travel advances and new rates of subsistence allowance.

Following this meeting, Ministry of Finance issued MFIN Circular 1/2008 with a view to streamlining regulations and procedures and *"…… addressing a number of issues that have been raised in successive audits performed by NAO"*. However, the revised regulatory framework shall not apply to Ministerial delegations in that they shall continue to follow a receipts/statement of expenses-based system as at present.

The main changes introduced related to the:

- introduction of an all-encompassing subsistence allowance;
- imposition of a range and limit on contingency money; and
- shifting of responsibility as regards keeping of physical documentation.

The table overleaf provides further analysis and comparison of NAO's recommendations in its report *'Travel Abroad on Official Government Business – Financial Year 2004'* and previous years' audit reports as against Ministry of Finance's changes to the Public Service Management Code relevant provisions regulating travel abroad.

Issue	*NAO Recommendation as per Travel Abroad Survey and previous years' audit reports*	*PSMC Revised / Additional Regulation*
Permanent Secretaries' responsibilities and duties - Applicability to Extra Budgetary Units (**EBUs**) and other Government Entities	NAO recommended that the guidelines mentioned in MF Letter dated 17 March 2005 be formalised either by inclusion in the provisions of the Public Service Management Code or by issuing an MF Circular in this regard. ***(Source: Travel Abroad Survey – Key Issues: Non EU-Related Travel No 6)***	Introduction of new subsection ***(PSMC Section 8.7)*** stating that: *"EBUs and other Government Entities should also adhere to the prevailing travel rules and regulations and any reference to the Permanent Secretary in such rules and regulations should be taken to mean the Chief Executive of EBUs and Government Entities". (FMMU Letter Circular dd 17/3/05)*
Air Travel	NAO remarked that only 38% of respondents always made air travel/ hotel accommodation arrangements through Air Malta. ***(Source: Travel Abroad Survey – Compliance Issues: Non EU-Related Travel No 4)***	The requirement to make hotel accommodation arrangements through Air Malta shall no longer apply. ***(PSMC Section 8.7)***
Class of Accommodation	NAO's recommendation regarding lack of adequate controls on hotel accommodation entitlements referred to a control system adopted by 16% of respondents. It was stated that whenever the half subsistence allowance is paid, the respective Ministry/Department could make all the necessary hotel arrangements for the Officers proceeding abroad and not delegate this process to the travelling Officers. ***(Source: Travel Abroad Survey – Control Issues: Non EU-Related Travel No 4.1)***	Through the introduction of the new EU-based *per diem* allowance, the notion of class of accommodation, or the option to have accommodation costs reimbursed against production of receipts, shall no longer apply. ***(PSMC Section 8.6)***
Subsistence Allowance	NAO's recommendation was limited to the fact that the travel rules and regulations should more clearly highlight the categories of non-entitled expenditure (ex: subsistence allowance given even when meals were provided free). ***(Source: Travel Abroad Survey - Control Issues: Non EU-Related Travel No 7.1)*** The ***Report of the Auditor General – Public Accounts 2003*** – also recommended that before issuing the subsistence allowance, the officer-in-charge should refer to the official programme of the visit for any meals provided free by the organising bodies in order to deduct the subsistence allowance accordingly.	The option to claim half-subsistence rate and accommodation charges is being substituted by an all-encompassing subsistence allowance based on *per diem* rates, denominated in Euro, as applied by the European Union. The *per diem* allowance shall be taken to cover all expenses, incidental or otherwise, except hospitality expenses and expenses relating to hotel/airport transfers and local transportation to/from airport. ***(PSMC Section 8.6)*** Percentage deductions in respect of free meals and accommodation were amended accordingly.

Other Expenses - Contingency Money	The PSMC should be amended accordingly to include clear directives regarding the criteria regulating contingency money. The amount advanced should be kept to a bare minimum to cover only those expenses reimbursable under the prevailing Travel Rules and Regulations. ***(Source: Travel Abroad Survey – Key Issues: Non EU-Related Travel No 3)*** A similar recommendation also featured in the ***Report of the Auditor General – Public Accounts 2003.*** Ministries/Departments should strive to maintain taxi costs within an acceptable and reasonable limit. Taxi expenses should not be reimbursed unless such declaration is in writing and the relative taxi receipts are submitted by the Officers and approved by Top Management. ***(Source: Travel Abroad Survey - Key Issues: Non EU-Related Travel No 4.1)***	Contingency money may be granted largely to cover expenses related to airport/hotel transfers and local transportation to/from airport. When granted, it should not exceed 20% of the full allowance due and should in any case not exceed €230. Expenses must be justified and supported by original receipts. (New provision within ***PSMC Section 8.6***)
Travel on EU-related business – MF Letter Circular dated 5 November 2004	NAO remarked that MF Letter Circular does not include an article requiring the insertion of code MFIN021. ***(Source: Travel Abroad Survey - Compliance Issues: EU-Related Travel No 1.4)***	The code number MFIN021 should invariably be quoted on the letter of authority for the issue of tickets for those government passengers entitled to upgrading to business class. (New provision within ***PSMC Section 8.8***)
Travel on EU-related business – Advancement of Funds related to EU Travel	Unresolved difficulties should be immediately reported to the relevant Officer within the EU Paying Authority within MFEA. ***(Source: Travel Abroad Survey - Key Issues: EU-Related Travel No 1.1)***	When after the lapse of six (6) months, reimbursement in respect of a Commission meeting is still pending, Accounting Officers shall raise a query with the EU Paying Authority Directorate. (New Provision within ***PSMC Section 8.8***)
Accounting Arrangements prior to the Visit	Ministries/Departments should maintain a detailed and updated database of outstanding Travel Funds. In this way, Directors (Corporate Services) would be in a better position to confirm whether the Officer seeking travel authority in effect has any pending Travel Funds relating to previous audits. ***(Source: Travel Abroad Survey – Control Issues: Non EU-Related Travel Nos 5.1/5.2)***	Ministries and Departments are to maintain a simple updated database to ensure that a record of outstanding travel advances is readily available, thereby be in a position to confirm that the officer seeking travel authority does not have any outstanding travel funds relating to previous visits. (New Provision within ***PSMC Sections 8.9/8.10***)
Cancelled Visits	In the ***Report of the Auditor General – Public Accounts 2003,*** it was recommended that NAO was to be informed of cancelled visits.	Only Treasury is to be informed of visits cancelled prior to them being made. ***(PSMC Section 8.9)***

Accounting Arrangements for Expenditure Incurred	A recommendation to maintain a Ministerial/Departmental detailed and updated database of outstanding travel funds featured in the ***Report of the Auditor General – Public Accounts 2003.*** A similar recommendation featured in the Travel Abroad Survey. In this way, Directors (Corporate Services) would be in a better position to confirm whether the officer seeking travel authority in effect has any pending travel funds relating to previous audits. ***(Source: Travel Abroad Survey – Control Issues: Non EU-Related Travel No 5.1/5.2)*** Officers travelling on EU-related business should strive to account for the funds advanced to them as early as possible as detailed by MF Circular 2/2005. ***(Source: Travel Abroad Survey – Compliance Issues: EU-Related Travel No 3)***	The Accounting Officer responsible for travel is to inform the Bank Transactions Unit of Treasury that the GA27 and GA27A forms have been satisfactorily completed by submitting return as per Treasury Circular 2/2008. ***(PSMC Section 8.10)*** Physical documentation which has been submitted to Treasury upon completion of the relative statements of expenses, with effect from Financial Year 2005, shall be retained by the respective Ministries/Departments. As per Treasury Circular 2/2008, submission of the electronic return to Treasury is to be effected at the earliest possible and, in any case, not later than two (2) months from the date of the visit abroad. Pre 2005 post-travel documentation is still to be referred to NAO. A detailed progress report, drawn up on a bi-monthly basis, listing all outstanding and processed travel advances, shall be submitted by Accounting Officers to their respective Heads of Departments/Directors Corporate Services. ***(New Provision within PSMC Section 8.10)***

Pending Issues and Concerns

The following lists highlight areas of concern featuring in the report ‘Travel Abroad on Official Government Business – Financial Year 2004’ which are either not regulated by Ministry of Finance Circulars or where compliance by various Ministries/Departments is still lacking.

Areas of concern not regulated by Ministry of Finance Circulars

- Use of materials and knowledge obtained from travel.
- Delegation of Permanent Secretary’s final approvals.
- Suitable basis on which Officers are nominated to travel.
- Provisional bookings for air tickets reducing instances of officers entitled to travel on economy class basis travelling on club class basis.
- Ministerial delegations accompanied by more than one Officer in salary scale 4 or below on business class basis.
- Adverse travel expenditure variances.

Areas where compliance is still lacking

- Lack of preparation of Tentative Programmes and consultation with Permanent Secretary during Programme preparation, especially as regards participation at regular and ongoing EU Working Group meetings.
- Non-submission of Official Programmes and letters of invitation.
- Incomplete information presented to Permanent Secretaries prior to approving visits abroad.
- Non-submission of reports following visits abroad.

- Lack of compliance with the provisions governing travelling to Brussels.
- Non-compliance with the requirements of MF Letter Circular with regards to hotel accommodation in Brussels.
- Non-submission of a copy of the Personal and Financial Identification Form (Form C) by Officers attending Commission Meetings.
- Lack of control on refunds of unused balances.

Conclusion

The main objective of NAO audits in respect of travel abroad on official Government business is to determine the degree of compliance with the applicable rules and regulations governing travel abroad.

The lack of compliance with travel regulations in the past resulted in overpayments, wrong calculations and possible misuse of travel advances. Thus, in its reports, NAO feels the need to focus its remarks on lack of controls on travel abroad and continue recommending, amongst others, that a review be undertaken of existing rules and procedures to ensure clarity, reasonableness, consistency and accountability.

Ministry of Finance

Social Security Contributions
Class 1 (Post 1998)

Background

The Inland Revenue Department **(IRD)** has been responsible for the collection of Class I Contributions since 1978. As from 1998, the Inland Revenue Department became accountable for both the collection and enforcement of Class 1 Contributions. The total revenue collected during 2007 in respect of Class 1 Contributions amounted to Lm122,784,426[1] *(€286,010,776)*.

Key Issues

Enforcement Measures

Following the review of the enforcement measures in place at IRD the following deficiencies were noted:

- In seven (7) out of a sample of eighteen (18) cases examined it was noted that following the non-payment of current year basis (2007) dues on time and irrespective of the amounts due, no action was taken, in the form of a reminder.

- In three (3) out of the eighteen (18) cases, no enforcement action was taken in terms of an official reminder, issued on a periodic basis, for outstanding dues.

- In four (4) out of the eighteen (18) cases, no enforcement measures were taken, in the form of a 'Demand Notice', for outstanding dues in respect of which no payments have been made for over one (1) year.

- In two (2) out of the eighteen (18) cases, no additional action was taken following the issue of a *'Demand Notice'* after the lapse of the fifteen (15) day credit granted.

- In two (2) out of the eighteen (18) cases, no further legal action was taken following the issue of a 'Judicial Letter' even though no additional payments were received during 2007.

- No enforcement measures are in place to encourage settlement or set-off of outstanding dues receivable from Government Departments.

Follow Up of Settlement Agreement

There is a lack of proper monitoring and follow-up action over settlement agreements, between the Commissioner of Inland Revenue and the defaulting employer to ensure effective compliance.

Arrears of Revenue Return

The Department has not submitted their arrears of revenue since year 2002. The Department is not in a position to quantify the amounts due by employers on a yearly and on cumulative basis. The information could be obtained directly from the FS3 submitted by the employees.

Control Issues

Opportunities for improvement were identified in the following areas:

Penalties and Interest

Upon review of a sample of Settlement Agreements it could not be established on what basis the penalties and interest due on arrears are being reduced or waived.

[1] As per Annual Departmental Report of 2007

Information Systems and Settlement Agreements

An overview of the Information Systems in place at IRD in relation to settlement agreements, revealed the following shortcomings:

FSS-FBT[1] module

The finalised electronic FS7 and FS3s submitted by the employer, as required by IRD, do not include a breakdown of the reconciled monthly payment details.

ARS system and Settlement Agreements

Payments recorded in the Accounts Receivable System **(ARS)** are classified according to the type (FSS, SSC, penalty etc), the basis year, and include the receipt number and the amount received. However the system does not provide sufficient information to identify payments made under a settlement agreement.

Furthermore most of the settlement agreements drawn up by IRD, add up the FSS and SSC due from separate years, as well as penalties, as one whole amount split into equal monthly installments. Consequently it is difficult to establish whether an instalment has been paid or not, and whether the agreement is being honoured.

Recommendations

Key Issues

Enforcement Measures

Standard policies are to be put into place and enforced on a regular basis in order to improve collectibility. Reminders are to be sent on an ongoing basis. In addition, an annual statement could also be sent to defaulting employers, showing in detail their current position with the Department.

Following the lapse of the fifteen (15) day credit granted as per the 'Demand Notice', follow-up action, by way of a 'Judicial Letter' is to be ensured. Similarly, in the case of default, the issue of a 'Judicial Letter' should be followed up with the necessary legal action.

In the case of dues by Government Departments, procedures are to be implemented to ensure that outstanding amounts are settled on a timely basis or are set-off against inter-government balances.

Follow Up of Settlement Agreement

Specific officers are to be entrusted with the responsibility to follow agreements on a timely basis. Stricter measures are to be put into force when conditions are not adhered to, as already adopted in other Government Entities.

Moreover interest waived upon the signing of these agreements is to be reinstated once the employer does not abide with the scheduled repayment program agreed to.

Arrears of Revenue Return

Based on the information available, IRD should report annually, the amount of actual outstanding contributions due in arrears. Rather than non disclosure, such reporting will provide a more approximate position of the actual amounts in arrears.

In addition, IRD should review the estimates being generated on non submission of relevant documents and determine whether it is prudent to report them separately, taking into consideration the extent of collectibility.

Control Issues

Penalties and Interest

IRD should outline the current basis being used and the reasons behind the reduction or waiving off of penalties and interest due.

It is recommended that such basis and/or reasons for reduction are included in the respective agreements. In addition, it should be ensured that such basis and/or reasons are applied consistently for all defaulters in all future agreements.

Information Systems and Settlement Agreements

FSS-FBT module

Monthly payments made as per employer's records are to be displayed through the FS7 menu along with the other details. These should be integrated into the same menu, prior to the FS7 being finalized by the FSS section.

ARS system and Settlement Agreements

The payment records as per ARS system are to be enhanced to provide specific additional information, and identify payments made under a settlement agreement.

In addition, settlement agreements might be drawn up in such manner as to facilitate reconciliation of which payments have been made under such agreement.

[1]Final Settlement System and Fringe Benefit Tax

Management Comments

Management agreed with most of the recommendations put forward. In addition, the following comments were also submitted:

- As from year 2008, following an enhancement to its current software, the Department will be in a position to report the actual amounts due from Class I and Class II contributions in the respective Arrears of Revenue.

- Even though enforcement runs are carried out on a regular basis, various problems are being encountered by IRD. In particular employers having substantial amounts due are reluctant to pay since Government owes them money and instead suggest to off set balances.

- The IRD is also seeking the Attorney General's advice to make settlement agreements more binding.

- Management also confirmed that further enhancement to the software is planned in order to issue an annual statement to the defaulters. MITTS will also be consulted to have monthly payments made as per employer's records displayed through the FS7 menu and to improve the ARS systems. The latter enhancement will ensure that regular monitoring of instalment plans and the inclusion of penalties and legal fees are carried out.

Ministry for Justice and Home Affairs

Local Councils

Background

In accordance with the Local Councils Act, Section 65(1), the audit of the Local Councils' financial statements was carried out by seven (7) private audit firms on behalf of the Auditor General.

The financial statements covered the year ending 31 March 2008 during which year the Government allocated €23.92m (2007: €23.87m) to Local Councils. Thirty (30) Local Councils did not fund a Bring in Site and consequently an amount of €3,494 each was deducted from their allocation.

In accordance with the Local Councils Act Section 65(6) Local Government auditors are to submit the audit report and financial statements of each of the sixty-eight (68) Local Councils by not later than 30 June 2008.

The Government allocated €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 (12) weeks from the end of the financial year ending December 31, 2007.

Key Issues

Qualified Reports

Forty-three (43) audit reports representing 63% (2007: 50%) of Local Councils were qualified for one (1) 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 non-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)**[a] 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 and the applicable Local Councils are listed in Appendix A.

[a] 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.

Working Capital

Nine (9) Local Councils registered a negative working capital[b] during the year under review, as compared to ten (10) 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 (2) years:

Local Council	2007-2008	2006-2007	2005-2006
	€	€	€
Attard	(39,677)	(34,731)	162,641
Balzan	(1,789)	(33,878)	126,320
B'Kara	(295,753)	(37,331)	87,659
Birgu	(36,462)	(26,129)	7,810
Nadur	(4,209)	68,093	50,610
Rabat (G)	(109,094)	55,712	1,535
S. Lawrenz	(19,749)	3,732	13,318
Swieqi	(22,468)	(93,590)	20,512
Xaghra	(130,394)	(151,137)	21,854

B'Kara

The Council's current liabilities exceeded the current assets by €295,753. This exceptional increase was mainly brought about by outstanding balances due to suppliers in respect of capital expenditure. An amount of €851,335 was spent during the year on capital expenditure and as a result creditors as at year-end increased from €237,400 to €691,156.

Rabat (G)

The negative working capital is mainly attributable to the increase in creditors from €91,263 to €142,283, representing an increase of 56% and overdrawn cash & cash equivalents of €42,350 arising from unpresented cheques as at year end.

Xaghra

The council managed to reduce total payables to €142,590 (2007: €421,037) as at year end at the expense of a decrease in its cash and cash equivalents. Nevertheless the negative working capital of last year has not been cleared.

On the contrary, the working capital of Balzan and Swieqi registered a considerable improvement albeit still remaining in the negative.

The following table indicates two (2) Local Councils which improved their financial position this year from a negative to a positive working capital.

Local Council	2007-2008	2006-2007	2005-2006
	€	€	€
Mqabba	20,740	(23,035)	28,791
Xewkija	24,327	(14,577)	(15,206)

[b] Working capital is defined as current assets less current liabilities.

Mqabba

The Local Council efficiently managed its funds during the year under review. Capital expenditure amounted to only €4,515 as opposed to €53,186 authorised to be spent as per the budget for year ended March 2008.

Xewkija

An increase in permits and similar income of €26,069 (2007: €4,863) and grants received amounting to €11,711 enabled the Council to reverse the negative working capital of last year to a positive one.

Financial Situation Indicator

Fourteen (14) Local Councils registered a Financial Situation Indicator **(FSI)** below the 10% benchmark. These are shown in the table hereunder:

Local Council	Government Allocation 2007-2008	Current Assets-Liabilities 2007-2008	Financial Situation Indicator 2007-2008	Financial Situation Indicator 2006-2007
	€	€	%	%
Attard *	412,243	(39,677)	(9.62)	(8.43)
Balzan*	180,347	(1,789)	(0.99)	(18.26)
B'Kara	786,741	(295,753)	(37.59)	(4.69)
Birgu	199,149	(36,462)	(18.31)	(12.59)
Fontana	106,135	3,308	3.12	125.13
Ghasri	138,020	6,746	4.89	22.02
Mosta	750,797	2,635	0.35	4.10
Nadur	322,031	(4,209)	(1.31)	21.21
Rabat (G)	373,435	(109,094)	(29.21)	14.81
S. Pawl	880,321	63,965	7.27	39.13
S.Lawrenz*	122,432	(19,749)	(16.13)	3.06
Swieqi	364,603	(22,468)	(6.16)	(25.70)
Xaghra*	378,060	(130,394)	(34.49)	(40.31)
Xewkija	247,624	24,327	9.82	(5.98)

S.Lucija and Mqabba improved their financial situation and registered an FSI above the threshold limit of 10% after failing to meet this requirement during last year.

Income and Expenditure Account

There were twenty-three (23) Councils which registered a deficit[c] in the Income and Expenditure account for the year. The table on the next page presents the Councils, the deficit for the year under review and the corresponding figures for the previous two (2) years:

[c] A deficit in the income and expenditure account results when expenditure is greater than revenue.

* Although these councils are exempt by the Minister from maintaining an FSI of 10%, they have been included in the list because they registered a negative FSI.

Local Council	2007-2008	2006-2007	2005-2006
	€	€	€
Birgu	(7,901)	(44,566)	(25,772)
Birzebbuga	(5,553)	28,197	24,402
Gharghur	(9,524)	33,573	41,032
Gzira	(5,417)	(37,319)	74,976
Lija	(22,640)	1,474	7,361
Marsaxlokk	(27,741)	(36,720)	2,362
Msida	(16,219)	65,201	54,549
Paola	(107,376)	(70,433)	(7,123)
Pembroke	(20,247)	8,406	(50,785)
Qala	(4,647)	(6,576)	26,415
Qrendi	(37,850)	52,015	59,082
Siggiewi	(1,818)	40,051	44,379
S. Giljan	(162,555)	(80,811)	2,246
S. Lawrenz	(20,804)	(5,208)	17,622
S. Pawl	(1,576)	45,823	147,905
Sliema	(12,561)	63,454	(59,038)
S. Venera	(9,207)	25,605	22,388
Zurrieq	(14,082)	12,279	38,057
Iklin	(8,793)	6,140	6,946
Kirkop	(21,480)	(9,911)	(1,342)
Nadur	(110,604)	54,465	100,713
Attard	(49,212)	(200,862)	(1,412)
Rabat (G)	(37,915)	54,848	137,084

The following six (6) Local Councils rectified their position during the current year, being:

Local Council	2007-2008	2006-2007	2005-2006
	€	€	€
Ghaxaq	10,650	(17,522)	(15,844)
Hamrun	89,328	(25,840)	39,297
Mdina	708	(14,153)	16,895
S. Lucija	23,388	(16,443)	8,994
Swieqi	9,004	(84,654)	15,206
Xaghra	1,388	(38,036)	(8,360)

The Local Councils (Financial) Regulations Article 4(1)(c) obliges the Executive Secretary to maintain a positive balance between income and expenditure and accrued income and accrued expenditure of not less than 10% of the allocation approved in terms of Article 55 of the Act.

The reasons attributed to the material deficit experienced by the following Local Councils were the following:

Paola

The Council did not recognise any income derived from the Local Enforcement System **(LES)** during the year under review, since any receipts were credited against LES Debtors. Last year the income raised from LES amounted to €182,098. This lack of income had a negative effect on the operation of the Council and resulted in a deficit of €107,376 for the year.

San Giljan

The substantial deficit for the year was brought about by an increase in operations costs and administration expenses of €101,966 and €30,657 respectively over the comparative year. On the other hand the Council increased its total income by €58,850 in the same period.

Operations and maintenance costs mainly increased following an increase in expenditure related to road and street pavements as well as street lighting. Furthermore, administrative costs increased following an increase in professional services and community and hospitality expenses.

Nadur

The deficit for the year was brought about by two factors:

i. A decrease of €75,715 over the previous year in general income received by the Council from EU programme grants and;

ii. A substantial increase in administration expenses which increased from €269,376 to €350,829.

Attard

Even though the Council registered another deficit in its Income and Expenditure account, it was favourably noted that the deficit was reduced by 75% over the comparative year mainly due to savings in operations and maintenance costs, in particular road and street pavements that decreased from €161,919 to €7,360.

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) Allowances given to councilors and executive secretaries for the use of mobile phones and personal transport.

c) Payments not brought up for approval at Council level.

d) Expenditure not backed up by official receipts or invoices.

e) Three-Year Business plan not prepared and approved within the stipulated time period.

f) Receipts not deposited on a timely basis.

g) Invoices posted when received and not with the actual date of the invoice.

h) Unsigned invoices and/or invoices provided not properly addressed to the Council.

i) Invoices which were not always complete and which did not abide by local tax and VAT legislation.

j) Donations, sponsorships and re-imbursements given in contravention to Local Councils' Legislation.

k) Lack of control and monitoring of expenditure with budgeted projections.

l) Re-imbursement claims not supported by the required documentation.

m) No purchase request forms and purchase orders raised.

n) Receipts issued globally for income generated through Council activities.

o) Works not supported by certification.

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 2008.

Financial Statements are to consist of:

a. The Statement of the Local Council Members' and Executive Secretary's responsibilities;
b. Statement of Income and Expenditure;
c. The Statement of Affairs;
d. The Statement of Changes in Equity;
e. The Cash Flow Statement;
f. Notes to the Financial Statements; and
g. The Schedule of Special Needs Funds (were applicable).

Only nineteen (19) out of sixty-eight (68) Local Councils submitted the respective financial statements by 10 May 2008, in accordance with the Local Councils (Audit) Procedures 2006. This lack of non-adherence to the procedures reflected negatively as Local Government auditors had to postpone the commencement of the audit.

Last year, thirty-four (34) Local Councils submitted the financial statements by the stipulated date.

Audit Report and Financial Statements

Twenty-four (24) Audit Reports (2007: forty-nine (49)) were delivered by 30 June 2008 while the other forty-four (44) (2007: nineteen (19)) 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 by 31 October 2008, since the Council did not approve these statements for the third year running. As a consequence, these financial statements were not laid on the Table of the House of Representatives by the Minister responsible for Local Government.

Management Letters

Management letters highlighted a number of audit findings and relative recommendations. As at 31 October 2008, thirty-nine (39) Local Councils sent a response to the management letter as required by Article 7, sub-articles (3) and (4) of Legal Notice 156 of 1993 - Local Councils (Audit) Regulations, 2007. Twenty-nine (29) 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. Debtors
7. Creditors
8. Non-compliance with certain provision outlined in the Subsidiary Legislation
9. Bank/Cash
10. Invoices

Appendix B 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) Low value items included in the register.

d) Assets not appropriately tagged and cross-referenced to the asset register.

e) Discrepancies between the nominal ledger and the fixed asset register.

f) Items obsolete or beyond repair still appearing in the fixed asset register.

g) Fixed asset register not updated with additions.

h) Assets donated to the Council not included in the accounting records.

i) Accumulated depreciation as per fixed asset register not in agreement with the nominal ledger.

j) Provision for depreciation incorrectly calculated or depreciation not calculated on a monthly basis.

k) Incorrect classification of capital expenditure.

l) Insurance policy not covering the cost of fixed assets as per financial statements.

m) Items disposed of not properly accounted for.

n) No routine spot checks carried out.

o) 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 with 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) Incorrect calculations of accruals and prepayments.

f) Receipts not recorded separately in the accounts but in batch total when deposited.

g) Adjustments posted by auditors at year end to reconcile/ correct balances.

h) Discrepancies between last year's closing balances in Lm values and this year's opening balances in euro balances.

i) 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 (1) year old still outstanding to the extent that some amounts risk getting statute barred and no adequate provision for doubtful debts.

b) Excessive delays in cash remittance from fines paid at the Licensing and Testing Department.

c) Income/debtors could not be verified or were incorrectly recorded.

d) Unidentified deposits in respect of contraventions due to lack of information submitted by the banks.

e) Income/debtors disclosed in the financial statements not reconciled with LES reports or not reconciled regularly.

f) Council not recognising any revenue due from LES because it could not be measured reliably.

g) Joint Committee audit reports not available.

h) 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 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 (1) month from date of publication.

j) Works not certified by a contract manager.

k) Expenditure made by direct order without obtaining three quotations or through the issue of a call for tender.

l) Council being overcharged by contractor for services already covered.

m) Invoiced rates could not be reconciled to contracted rates.

n) No letter of acceptance sent to contractor on the awarding of tender.

o) Schedule of tenders not signed off on opening of the tender box by a minimum of two councilors together with the Council Secretary.

p) Works given outside contract specification.

Salaries

a) FSS forms together with the respective payment not submitted to the Commissioner of Inland Revenue **(CIR)** by due date.

b) Payments made to employees, with the exception of the Mayor Honoraria, are not brought up for approval at council level.

c) Discrepancy between the year end settlement (FSS) forms, payroll records and financial statements.

d) Mistakes and omissions in FSS returns.

e) Mayor's honoraria incorrectly declared in the FSS returns.

Debtors

a) Disagreement between the balance as per the Local Council records and the records of respective debtors.

b) Long-outstanding dues in respect of which no provision for bad debts was provided.

c) No practical acceptable audit procedures which could be performed to obtain reasonable assurance on the collection of applicable debtors.

Creditors

a) Supplier statements not available or not reconciled to Council's accounting records.

b) Amounts in dispute with suppliers and amounts long overdue.

Non-compliance with certain provisions outlined in the Subsidiary Legislation

a) Council did not meet regularly/council meetings not held.

b) Statutory documents not submitted to the Local Council Department, including Business Plan not prepared/budgets not approved.

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 and actual cash in hand.

d) The limit set by the Financial Regulations for petty cash exceeded.

e) Cash not receipted with an official Council receipt.

f) Receipts not deposited in sequential order.

g) Bank reconciliation not prepared on a monthly basis or not correctly prepared.

h) Stale cheques not written off.

i) Payments not included in schedule of payments which was presented to Council.

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

As reiterated last year, the Council is still financing the use of a mobile telephone as well as the purchase of top-up cards used by the Mayor.

Expenses incurred in connection with various EU Funded Projects amounted to €22,736. These expenses are not covered by a proper certification or commitment that these will ever be recoverable.

The Council did not submit any reply.

Birkirkara

An amount of €103,645 still showing in the Council's records as due from The Housing Authority is in dispute and does not seem to be recoverable.

The Council intends to seek legal action if agreement is not reached within reasonable time.

Ghajnsielem

The Council has re-imbursed Councillors with top-up cards during the year. Payment of top-up cards is not permitted under Local Councils regulations.

According to the Council, the payment of top-up cards is the easiest way to maintain control as each councilor knows that he/she will not be given anything in excess of the monthly allowance.

Kalkara

Council architect does not certify works independently by issuing certifying bills of quantities but by signing off the contractor's original invoices. Certain unsigned invoices were also traced. An independent verification of measurements and rates should be obtained rather than just endorsing a signature on the invoice.

The Council confirmed that action has already been taken *since the architect is issuing bill of quantities on every project.*

A re-imbursement was made to the Mayor for transport expenses incurred in connection with a twinning delegation visit to Crespellano which was re-imbursed through an E.U. Programme. Re-imbursement request forms or any supporting documentation were not traced.

No satisfactory reply has been provided for this issue.

Kercem

The Council received a grant from MEPA of €15,723 to be used for the embellishment of a playing field. The council had in fact provided the Authority with all the required sight plans of the entire project. However, it resulted that the Council expended these funds on the construction of a water culvert. These funds may be withdrawn at any time by the Authority since the Council did not abide with the provisions listed on the agreement mentioned previously in this report.

The Council argued that it was verbally informed by a MEPA official that the grant could also be used on other projects that the Council deemed more urgent.

Marsa

The Council has agreed to pay any outstanding dues to the Land Department for the use of the football grounds in favour of the Marsa Football Club. Furthermore, the Council has also contracted itself to carry out embellishment works at '6th August Grounds'. The contract has been signed with an MFA supplier without the issue of an appropriate tender offer.

Unless authorisation is obtained from the Department for Local Government and from the Ministry for Justice and Home Affairs, such payments could be considered as a donation in kind.

The Council confirmed that only in these two instances a tender has not been issued in accordance with the Local Councils Procedures since consent was granted by the Department for Local Government on the subject matter.

Marsascala

Last year the Council paid €978 to the "Destination Marsascala" consortium in terms of an agreement, which it signed with the same consortium. The signing of this agreement falls in conflict with Article 3(2b) of the Local Councils Act where the law clearly states that a Local Council does not have the power to enter into any form of commercial partnership in the furtherance of its functions, unless authorised to do so in writing by the Minister.

The Council confirmed that the aforementioned agreement is a payment for a promotional nature and that no such income is being derived from such consortium. In addition, the agreement is no longer in place.

Mosta

The Council had a substantial amount of creditors, amounting to €364,651, which could not be confirmed.

The Council informed us that it shall send a request to all creditors to confirm the outstanding balances as per the Council's ledger.

Mtarfa

Electrical works in connection with street bulbs was carried out by a contractor without having a contract with the Council. Furthermore the work invoiced was not certified by a technical person nor approved by a works order issued through the Council offices. Rates charged and work invoiced could not be verified. The contractor invoiced the Council €10,308 for work carried out during the year.

A contractor for patching work invoiced the Council the amount of €12,459 even though his contract expired in 2005 and no new tender had been issued. Furthermore although the contract managers have invoiced the Council for certification of the work, this expense could not be verified, since neither the invoice nor the certification could be traced. The bill of quantity could not be verified and no works orders were traced.

The Council did not meet regularly due to lack of quorums and disagreement between Councillors and Mayor.

The Mayor was re-imbursed on a monthly basis for the use of personal vehicle on Council business at the rate of €0.466 per kilometer. A monthly statement was authorised and signed by the acting Council Secretary. However these did not indicate the nature of Council business and were not authorised by the Council. During the year nine (9) payments were made amounting in total to €3,446.

A balance of €11,647 is still showing in the Council's accounts, in connection with a grant that had been committed to by the Housing Authority despite the fact that the underlying works have been finished during the previous years. The Housing Authority requested clarifications in connection with the works carried out but none have been provided. No provision is made in the Financial Statements against this amount.

Electrical works in connection with street bulbs were 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. The contractor invoiced the Council €10,307 for work carried out during the year.

The Council did not submit any reply.

Poala

In 2005, the Council financed €34,941 for the construction of a synthetic football pitch in Poala. The legal title of the football pitch is in the name of a Sports Club. In the following year it was agreed between the Council and the Sports Club that in return for this financing, the Council would be entitled to use the football pitch. This agreement will be in force for five (5) years. In terms of the Local Councils Procedures this type of agreement is not allowable.

The Council is stating that it is owed the amount of €56,452 from the Water Services Corporation on account of road-reinstatement commitments. Nonetheless, according to a statement received from the Water Services Corporation, the amount due amounts to €14,498.

The Council did not submit any reply.

Pembroke

During the year under review, we noted that the Council issued monthly payments of €233 to Pembroke Athleta for the latter to take care of and manage two athletic schools set up by the Council.

The Council did not submit any reply.

Qrendi

The tender for contract manager has been contested by one of the applicants at a Tribunal Board. The Appeal was decided on 27 August 2007 whereby the Board revoked the Council's decision to adjudicate the tender to the highest bidder and recommend the issue of a new tender.

However, the Council is still contracting the same architect for certifying its work despite this ruling. Certification of all payment and road surfacing work was carried out after this ruling.

The Council did not submit any reply.

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.

Santa Lucija

The Council made reimbursements to Councillors in respect of mobile telephone calls, purchase of Easyline telephone cards and paid for two (2) contracted mobile telephones for the Mayor and Executive Secretary. The total cost of these items for the whole year amounted to €3,128.

The Council argued that the Councillors are being reimbursed for expenses incurred during the course of performing their duties, which is in line with the Local Council's Act. However, the Council agreed also stated that these re-imbursements are difficult to assess and hope that this issue will be addressed in the revision of the Local Council's Act.

The Council made use of a handyman for various electrical and plumbing maintenance works in the locality. 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 confirmed that the services of the handyman are used mostly in emergency cases. Consequently works are usually unpredictable and each service provided varies from the other and needs to be estimated on its own merits, making it difficult to issue a tender.

St. Paul's Bay

The total payments made during the year to a particular local organisation in St. Paul's Bay, reached the amount of €5,730.

With reference to article 63A of the Local Councils Act, Memo 08/2005 and the Local Council Procedures (Tenders) 1996, the Council should be more considerable in the manner of how it distributes its resources to organizations within the locality.

The Council did not submit any reply.

Ta' Xbiex

The Council engages a contract manager to supervise cleaning contracts at a monthly retainer fee of €233. However, in all circumstances, no supervision reports are being drawn up and bills are not being certified and recognized.

The Council did not submit any reply.

Valletta

The Council did not carry out an appropriate reconciliation of 'Special Needs Funds' received and expended and there were no practical tests that could be performed to confirm the accuracy of the amount of 'Special Needs Funds' recorded.

The Council did not submit any reply.

Zebbug (M)

The Council exceeded its budget figures on two expenditure items by €73,246. The sum spent on the maintenance of roads and pavements exceeded the budget by €25,069 whereas local enforcement expenses were €48,177 more than was budgeted for.

The Council did not submit any reply.

Local Councils' Association

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

- The Council resolved to write off a number of assets from the inventory, which were obsolete and no longer in use. However, the nominal ledger was not updated.
- The Association receives LES payments electronically in a bank account on behalf of Local Councils for the eventual distribution to the respective councils. However, the Association has not transferred any amounts for the past four months and the outstanding amount stood at €268,847. No regular reconciliations are being performed and unidentified differences have been noted.
- On reviewing a sample of 'daily subsistence allowance' forms four (4) instances were noted where the cash withdrawn was not acknowledged by the Councillor as a form of receipt for the cash taken.
- The re-imbursement of certain flight tickets and subsistence allowance was not traced.
- The use and payment of Mobile telephone and Visa credit card, issues mentioned in previous years, still need to be properly addressed.
- The Association receives payment from Local Councils in respect of Local Conferences' registration fees, re-imbursement of Health Insurance and Money in transit premiums. As already outlined in previous years, receipts are not issued immediately on receiving payment.

The Local Council Association confirmed that:

- *It has purchased a new software routine to facilitate the reconciliation of LES payments. The unidentified differences were identified as interest earned on the bank account. Furthermore LES payments will as from now on be transferred to Local Councils on a quarterly basis.*
- *With respect to 'daily subsistence allowance' the Association stated that such allowances will be transferred directly through internet banking to the recipient's bank account.*
- *The Association argued that two flights tickets were re-imbursed whilst a decision is still pending by the Executive Council on the other flight ticket.*

Local Enforcement System (LES)

A number of auditors expressed their concern that Local Enforcement Debtors might not be recoverable and some of these balances relate to debts that risk becoming statute barred.

Outstanding fines should not take longer than one (1) 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 where 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, more realistic amounts would be included in the Local Councils' balance sheets.

In addition, prior to the pooling system, a number of Local Councils were net earners from the LES system. Since joining this system these Local Councils have become liable for possible losses made by the Joint Committee.

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, Local Government Auditors were not in a position to express an opinion on the completeness of LES debtors and the respective income.

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.

Incorrect treatment of Grants Received

In the majority of cases, the Local Councils incorrectly accounted for grants received.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance outlines two (2) broad approaches for the accounting of Government grants. Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

One method sets up the grant as deferred income which is recognised as income on a systematic and rational basis over the useful life of the asset. The other method deducts the grant in arriving at the carrying amount of the asset. The grant is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

A Government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised as income of the period in which it becomes receivable.

Grants related to income are sometimes presented as a credit in the statement of comprehensive income, either separately under a general heading such as 'Other Income'; alternatively, they are deducted in reporting the related expenses.

Department for Local Government

Amendment to Local Councils Procedures and Regulations

The Department for Local Government is 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

Nine (9) Local Councils had a change in their Executive Secretary during the financial year ending 31 March 2008. The Councils involved were Senglea, Zejtun, Gharghur, Ghaxaq, Mosta, San Gwann, Qrendi, Pieta, and Mtarfa. Only two Local Councils had a mid-term audit carried out by a Local Government Auditor as required in the Local Councils (Audit) Procedures 2006.

The procedures state that a mid-term audit is required to be performed, which will serve as an independent hand-over exercise whenever there is a change in the position of Executive Secretary within a particular Local Council.

In this respect, the Department should preferably inform immediately the Auditor General as soon as the termination notice is handed by the Executive Secretary to the Council. Moreover the Council should not be allowed to seek a replacement until a mid-term audit has been agreed to by the Auditor General and the Local Council.

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 increased during the year under review.

- Forty-nine (49) Local Councils did not submit the unaudited financial statements by 10 May 2008, in accordance with the Local Councils (Audit) Procedures 2006.

- Forty-four (44) Local Councils failed to submit the audited financial statements by 30 June 2008 while the comparative figure for 2007 was nineteen (19).

- The total number of Local Councils that failed to submit a reply to the management letter increased to thirty-one (31) as compared to twenty-three (23) of last year. Furthermore, the Local Council of Pieta' did not submit the audited financial statements for the third 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.

Appendix A - Qualified Reports

Council	1*	2*	3*	4*	5*	6*
Birgu	X			X		
Bormla		X				
Zejtun	X				X	
Balzan				X		
Birzebbuga		X	X			
B'Kara					X	
Fontana	X			X		
Gharb				X		
Gharghur	X					
Hamrun	X					
Kalkara	X					
Kercem	X					
Kirkop	X					
Lija				X		
Marsaskala		X				
Marsa		X				
Mosta	X				X	X
Mqabba				X		
Mdina	X					
Msida			X		X	
Nadur				X		
Naxxar	X	X				
Paola	X	X	X		X	
Pembroke	X					
Qala	X			X	`	
Qormi	X					
Qrendi	X					
Rabat	X					
Sannat	X					
Siggiewi	X			X	X	
S. Giljan	X		X			
S. Gwann	X		X			
S. Lawrenz				X		
S. Pawl	X	X	X		X	X
Sliema	X					
S. Venera	X					
Swieqi				X		
Tarxien	X					
Valletta					X	
Xaghra	X			X		
Xewkija	X			X		
Zebbug (G)	X					
Zurrieq		X				

* see overleaf for explanations

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)** less than 10% / 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.

Appendix B - Management Letter Weaknesses

Council	1	2	3	4	5	6	7	8	9	10
Attard	x									
Balzan	x						x			
Birkirkara				x	x	x				
Birgu		x	x	x	x	x	x			
Birzebbuga	x		x	x	x	x			x	
Bormla	x	x	x	x		x		x		
Fgura	x	x	x			x	x			
Floriana	x		x				x		x	
Fontana	x		x	x				x		
Gudja	x		x							
Gzira		x	x			x	x			
Gh Sielem	x	x	x	x			x			
Gharb	x						x			
Gharghur	x		x				x			
Ghasri	x						x			
Hamrun	x				x			x		
Iklin	x	x								
Isla	x	x	x	x		x		x		x
Kalkara	x	x	x	x	x		x	x	x	x
Kercem	x			x	x			x		
Kirkop	x	x	x	x	x		x		x	x
Lija	x			x						
Luqa						x				
Marsa		x		x	x		x	x		
Mellieha			x	x	x					
Mdina	x		x	x			x	x		
Mgarr		x								
Mosta		x	x				x			
Mqabba	x	x	x							
Msida	x	x	x	x		x	x		x	
Marsaskala	x	x	x					x	x	
Munxar	x		x	x	x					
Marsaxlokk	x	x						x		
Nadur	x		x	x		x				
Naxxar	x	x	x		x	x	x	x	x	x
Paola	x	x	x	x	x	x	x	x	x	x
Pembroke	x		x				x			
Qala	x	x		x						
Qormi	x	x							x	
Qrendi	x	x	x	x	x				x	
Rabat (M)		x	x	x		x	x		x	

Appendix B - Management Letter Weaknesses (cont)

Council	1	2	3	4	5	6	7	8	9	10
Rabat (G)		x		x	x					
Safi			x							
S. Giljan	x	x	x	x	x	x				
S. Gwann	x	x	x		x		x	x	x	
S. Lawrenz		x			x		x			
S. Pawl	x	x	x			x				
Sannat	x			x				x		
Siggiewi	x	x		x	x	x		x	x	
Sliema			x	x						
S. Lucija	x	x	x	x						
S. Venera			x	x					x	x
Swieqi	x			x	x					
Ta' Xbiex	x		x	x	x	x	x			
Tarxien	x	x	x	x				x		
Valletta				x						
Xaghra	x			x	x			x		x
Xewkija	x		x	x						
Xghajra	x	x	x				x		x	
Zabbar	x	x	x			x			x	
Zebbug (G)	x							x		
Zebbug (M)	x			x		x	x			
Zejtun	x	x				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. Debtors
7. Creditors
8. Non-compliance with certain provision outlined in the Subsidiary Legislation
9. Bank/Cash
10. Invoices

Police Department
Arrears of Revenue – Weapons Licences

Background

Weapons licences are regulated by Chapter 480 – Arms Act and Legal Notice 177 of 2006. Fees and charges to be applied are regulated by Legal Notice 178 of 2006.

The following are the type of licences issued by the Department:

- Licences to keep and to carry a weapon for individuals
- Collector's Licences
- Dealer's Licences
- Gunsmith Licences
- Auction Licences
- Target Shooting Licences
- Other Licences that may be issued by the Department in connection with Weapons such as licences for one time events.

The outstanding balances of Sporting Licences for the years 2006 and 2007 amounted to Lm203,047 *(€472,972)* and Lm168,705 *(€392,976)* respectively. The year 2006 registered an increase on the year 2005 of Lm8,025 *(€18,693)* while on the other hand a decrease of Lm34,342 *(€79,996)* resulted for the year 2006 when compared to 2007.

Key Issues

Outstanding Balances

a) There is no inbuilt facility incorporated in the Weapons System to extract the ageing of balances included in the return of arrears.

b) From the examination of twenty (20) records out of 525 from Mosta Police Station and twenty-nine (29) records out of 320 from Zejtun Police Station, it resulted that the last payments received were made between 1979 and 1995 with the exception of one (1) individual who paid the outstanding balance during the year 2007.

Examination of record details against 'CdB'

The personal details of selected licensees as per Weapons System were verified against the Common database **(CdB)** records. The following were the results:

- In four (4) cases the date of birth was omitted from the Weapons System record.
- In another seven (7) cases the registered person passed away, however this was not recorded within the System.
- In twenty one (21) instances the address shown as per Weapons System differed from that shown on CdB.
- In one (1) occurrence the ID card number shown as per System corresponds to a different person from that shown as per CdB.
- In another example the date of birth as per Weapons System differed from that shown as per CdB.
- In five (5) occasions no address was listed as per CdB for the relevant persons.

Control Issues

Opportunities for improvement were identified in the following areas:

- No audit trail exists in the weapons system showing the number of 'Letters to Call' sent during the year to individuals with outstanding balances.

- The Weapons System lacks the generation of the balance due in respect of each type of licences for each year.

- A total of 404 individuals were identified with a fictitious identity card number within the system. Many of these have in their possession more than one (1) weapon and have never paid any amounts. No details were available whether the weapon is still in his/her possession or in that of his/her heirs.

- The following are the shortcomings resulting from the examination of files in two (2) particular Police Stations:

  - No documentation or any follow up was found at Mosta Police Station for seventeen (17) out of twenty (20) cases chosen (85%) for examination. The station prints periodically a report of Arrears of Revenue and records the dates when letters to call are sent to individuals. No further action seems to be taken to trace physically the weapons and collect balances due.

  - The last action taken as per files relating to an outstanding balance of Lm129 *(€300)* is dated April 2005. The owners of the weapon have signed an indemnity guarantee in favour of the Commissioner of Police stating that three of the weapons owned could not be found and that they had no objection to transfer the fourth one to another person.

Compliance Issues

Incorrect procedures applied

A file documenting the transfer of an Air Rifle from a dealer to a licensed person had not been processed as per Legal Notice 177 of 2006 notwithstanding that the application was received by the District Police Station after the relevant legal notice came into force. No documentation was found in file showing that:

- the applicant is a member of a target shooting club licensed as such under the Act, set up for the practice of target shooting disciplines;

- the applicant has been interviewed by the Weapons Board and all necessary documentation has been verified; and

- the applicant has been approved by the Weapons Board for the issue of a licence.

Recommendations

Key Issues

Outstanding Balances

The Department is to consider the possibility of enhancing the software in order to keep track of various other details such as action being taken, relative documentation and references, date of when letters to call are sent etc. An exercise is to be carried out by the Department to extract the ageing of all population currently in the database.

Adequate and timely action is to be taken to trace the owners and the weapons. If such action proves to be unsuccessful the necessary authority is to be sought in order to write off balances of long outstanding and time barred licences. Action taken in such cases is to be adequately documented and kept for future reference.

Examination of record details against 'CdB'

Long outstanding records are to be thoroughly checked for correctness. Particular attention is to be given to those licensed persons who are found to have passed away, since in these cases the weapon may have changed ownership without an adequate license. Proper examination is to be carried out to identify the heirs of the deceased persons and the relevant movements of the weapon.

Control Issues

- Adequate procedures are to be clearly set up in order to ensure that a standard system is undertaken by all the police stations when amounts due are followed.

- The Weapons System is to be duly enhanced to cater for various reporting needs that may arise from time to time including requirments related to public security.

- Adequate and timely action to trace the owners of the Weapons is to be taken. It is also important to rationalise the return of arrears by writing off amounts, particularly if these are time barred. This is not to be interpreted as recommending the writing off of the weapon. A serious attempt is to be undertaken to tackle the "Fictitious Identity Card numbers".

- The Department is to ensure that cases with balances due are periodically followed up and monitored in order to take the necessary action in a timely manner. Where follow up is not possible through letters to call, onsite inspections are to be carried out to trace the relevant individual and the weapon. Where the person is found to be dead, heirs are to be traced and adequate follow up is to be carried out.

Compliance Issues

Incorrect procedures applied

The correct procedures as per the new regulations are to be applied by all Officers in charge of weapons records in all District Police Stations especially in case of transfers of weapons.

Management Comments

Management concurred with all our findings and will be taking the necessary actions in order to follow NAO's recommendations.

Management is also considering the possibility to enhance the current weapons software both as regards the ageing of balances as well as reporting facilities.

Courts of Justice Division
Information Technology Audit

Background

The Information Technology audit that was carried out between October 2007 and June 2008 is a review of two (2) areas: Entity Level Controls in terms of IT strategies, policies and procedures; and Business Continuity planning with respect to IT at the Courts of Justice Division **(CJD)**. The Legal Case Management **(LECAM)** IT system and the online resources made available to the public are the most important software applications in use.

Audit Scope and Objectives

The scope of the audit covers IT Entity Level Controls and Business Continuity Planning from an IT perspective.

The objectives of the audit were to:

- determine whether Entity Level Controls (through IT Governance) are supported by an IT strategic plan, IT policies and procedures that regulate IT operations; and

- evaluate IT Business Continuity planning.

Control Issues

IT Entity Level Controls

IT Strategy

- The IT strategy that is being followed at CJD has not been formally documented. CJD's IT strategic direction has not been translated into specific objectives. The future IT resources that CJD will need to achieve its objectives have not been defined in a document, and communicated across the organisation. The strategy is not periodically reviewed and updated to reflect possible changes in operations and available technologies.

Risk Assessment

- The identification and assessment of risks associated with CJD's use of IT resources has not taken place and there was no clear corresponding approach to manage those risks.

Process Documentation

- The various procedures that handle the flow of information have not been defined in a document that specifies the flow of the information being processed, the internal controls that apply, the applications in use and the personnel authorised to handle such information.

Business Continuity

Business Continuity Plan

- A Business Continuity plan designed to reduce the impact that disruptions might inflict on the operations of the Courts of Law is not in place at the CJD.

- As discussed with respect to Governance, a risk assessment has not been carried out, making it impossible to design a Business Continuity plan. Risk assessment is a prerequisite for designing such a plan.

- A disaster recovery plan documenting the procedures to follow in the event IT facilities become inoperative due to extreme incidents is not in place.

- The availability of electric power is being addressed by a standby generator capable of supplying the Law Courts, including the server. This generator is tested on a regular basis. The server machines are also equipped with Uninterruptible Power Supply units.

System Restore

- The latest versions of the LECAM IT system are stored with the Government's IT service provider, making it possible to restore the system in any location equipped with the necessary hardware should a system restore be required following a major disruption.
- Back-ups are taken on a daily basis. Daily, weekly and monthly back-ups are securely stored in fireproof safes.
- User manuals of the LECAM modules are not available, but information can be sought through the Help menu of each module.
- Documents explaining the organisation of the information in the LECAM are in place, in the form of data dictionaries.

Security Features

- The increase in use of portable devices such as laptops, palmtops and pen-drives, has not been regulated by a portable devices policy.
- The server room is adequately equipped with a security camera, a climate control unit, fire retardant materials, and fire detection and extinguishing apparatus.
- A reputable anti-virus software is utilized and updated on a regular basis.
- An effective email and internet usage policy is in place.

Recommendations

- CJD should articulate its IT strategy into a document that includes its IT direction, objectives for IT activities and the resources needed to achieve these objectives. The strategy should be aligned to CJD's business plan and be reviewed regularly and updated as necessary.
- Risks associated with CJD's IT operations should be identified and categorised according to their potential impact.
- The flow and the procedures that process information should be documented so as to enhance CJD's ability to identify risks and plan for operational resumption in the event of disruptions.
- CJD should design, test and implement a Business Continuity plan, including Disaster Recovery, that documents procedures to follow should any of the threats identified in the risk assessment occur. The resources needed to carry out these procedures should also be specified.
- Awareness about Business Continuity should be instilled amongst the Law Courts employees through training and familiarisation with the Business Continuity plan.
- A portable devices policy should be drafted and adopted so as to compensate for the extra risk that such devices convey. Such a policy should contain special security procedures and rules that staff should observe when using mobile devices.
- These plans and policies should be reviewed and tested on a regular basis.

European Refugee Fund

Background

The European Refugee Fund **(ERF)** is a decentralised financial instrument which is managed by a National Authority (appointed in each Member State) on behalf of the European Commission. In Malta, such Fund is managed by the Ministry for Justice and Home Affairs. The Fund was established in the year 2000 (Council Decision 2000/596), and was superceded by the second generation, titled ERF II, in 2004, as per Council Decision 2004/904/EC. A third generation, titled ERF III, was introduced in 2007 (as per Council Decision 573/2007/EC) and is applicable from 2008 to 2013.

The fund aims to promote solidarity within the European Union in matters of asylum, by supporting and encouraging the efforts of Member States in receiving and bearing the consequences of accepting refugees and displaced persons.

Key Issue

Overpayment to a beneficiary

The examination of the total costs incurred by a particular beneficiary on a project initiated during the year 2005 and completed in 2007, against the payments made by the Ministry, resulted in an overpayment of Lm4,932 *(€11,489)*.

The invoices/documents presented by the beneficiary supporting the costs incurred showed a total of Lm21,959 *(€51,151)* while the Ministry paid an amount of Lm26,891 *(€62,639)* in two (2) instalments.

Control Issues

Opportunities for improvement were identified in the following areas:

- The expenditure documentation presented for the four (4) projects under review revealed that in a number of cases no fiscal receipts were included with the invoices issued by the supplier. Three (3) of the beneficiaries undertaking the ERF projects were not VAT registered. In accordance with the VAT Act a fiscal receipt should have been issued by the supplier. In the case of the remaining beneficiary, which is VAT registered, it emerged that in a number of cases a tax invoice showing the VAT registration number of the customer was not requested.

- During the examination of the documentation showing expenditure incurred by beneficiaries the following limitations emerged:

    - No breakdown was submitted summarising the whole payments effected, thus making it difficult to outline the total amount paid by the beneficiary unless all the invoices are analysed individually.

    - Where a breakdown was submitted, in a number of cases it lacked information relating to the payment document issued by the beneficiary to pay relative suppliers.

- In two (2) of the projects reviewed the expenditure documentation included the same invoices in more then one (1) instance. In other cases, there were adjustments carried out to invoices that were omitted from the total cost of the project as shown in the breakdown prepared by the beneficiary.

Compliance Issues

Audited Financial Statements

The financial statements for the previous financial year submitted with application by a beneficiary were found not to be audited as per Application Guidelines requisites. The documentation available for examination did not include any Audit Report giving an independent opinion on the final accounts drafted by the organisation applying for the project.

Recommendations

Key Issue

Overpayment to a beneficiary

Any amounts paid in excess are to be further verified and overpayments are to be refunded by the relevant beneficiary. Further checking is also to be carried out to ensure that such shortcomings are not present in other projects.

Control Issues

- Invoices presented by beneficiaries are to include fiscal receipts issued by suppliers on purchases as per Chapter 406: VAT Act. In the case of VAT registered beneficiaries it is to be ensured that tax invoices are issued showing the VAT registration number of the customer together with all the necessary details as indicated in the Twelfth Schedule of the VAT Act.

- The Ministry is to follow Council Decision 2004/904/EC – Article 11(2e) and Article 21(2) and ensure that expenditure documentation is presented by beneficiaries. Possibly, copies of payment document issued by the beneficiary to the supplier and relative invoices are to be presented together with a final breakdown summarising all the transactions involved.

- Copies of invoices submitted as proof of expenditure incurred on ERF projects are to be thoroughly checked for correctness before submission. It is to be ensured that each invoice is included only once and that all the necessary details are included supporting the expense.

Compliance Issues

Audited Financial Statements

The Ministry is to ensure that all necessary documentation is submitted by applicants both on application and during the course of the project in a correct manner as per established guidelines. Any shortcomings are to be noted immediately to both applicants and project's beneficiaries.

Management Comments

Management concurred with the recommendations put forward by NAO in view of the findings outlined.

Furthermore Management explained that the original management and control system which was adopted in the projects launched in 2004 and 2005 was primarily based on the European Commission funding concept whereby beneficiaries were granted advance payments. Such system entailed also that checks and requests for recovery of payments were carried out following final certification by the European Commission.

Such (and other) shortcomings within the ERF II management and control system were identified following an exercise carried out in conjunction with the Ministry of Finance and addressed by the introduction of a new system, applicable for the ERF III programme (2008-2013), in which there will be no advance payments to beneficiaries. Accordingly payments will be effected on the presentation of individual invoices and following the necessary checks. In this regard the new system entails the introduction of four levels of verification that will ensure that ineligible requests will be identified thoroughly and expeditiously.

In view of the overpayment mentioned, Management also stated that necessary action has already been taken to recover the overpayment made to the beneficiary. The matter is being followed up to secure the beneficiary's early compliance.

With regards to the provision of VAT receipts, Management stated that action has already been taken to contact the beneficiaries concerned to provide copies of VAT receipts issued by suppliers when providing goods/services.

Furthermore, the Ministry has indicated that, in line with NAO's recommendations, since the launch of ERF III it is now performing more thorough checks on the accounts presented by beneficiaries, thus ensuring that instances such as those identified also in the audit exercise do not occur in the future.

Ministry of Education, Youth and Employment

Education Division
School Transport

Background

The Education Division provides school transport to all eligible mainstream students residing beyond the walking distance of 1.6km (1 mile) from school. The transport for students in the mainstream schools was entrusted to three (3) service providers, namely the Public Transport Association, the Unscheduled Bus Services and Coop Services Limited.

Key Issues

Budgetary Provision

The actual expenditure on school transport for Financial Year 2007 was Lm1,380,329 *(€3,215,302)*, covering Primary and Secondary Operations as against a budget of Lm1,250,000 *(€2,911,717)*.

Lack of Segregation of Duties

The School Transport Section **(STS)** was being run by one (1) non-public service employee, whose duties included, organising the transport requirements, planning and setting routes, determining the rates payable per trip, acting as liaison officer with the transport service providers, carrying out inspections, receiving complaints from schools and parents, and certifying correct the invoices sent for payment by the transport service contractors. His work was not being independently checked.

Overpayments made to Service Providers

A number of overpayments were made to service providers. These resulted from errors made by the Accounts Section, discrepancies in the number of vehicles and/or routes between different route registers held by the various sections within the Department, as well as incorrect recording of the number of days when transport was required.

Lack of Knowledge

A number of officers in charge of transport at various schools were not fully knowledgeable as to how the school transport system actually works.

Shortcomings in the Contract of Service

The contract of service signed by the ex-Education Division and the different service providers gives five (5) different rates for different trips without indicating on what basis the various rates should be applied.

The contract was based on school buses with a seating capacity of thirty-six (36) passengers instead of the forty-five (45) and fifty-four (54) seater vehicles, as were in fact being used. This gave rise to various routes being amalgamated when the contract itself did not cater for the financial impact of such circumstances.

Control Issues

Opportunities for improvement were identified in the following areas:

Allocation and Utilisation of Vehicles

- Contractors were being paid daily to perform on call stand-by duties in order to replace any possible absent drivers. No records were made available as to the number of trips performed by the stand-by vehicles.

The expense for Financial Year 2007 amounted to over Lm17,000 (i.e. approx. *€40,000*).

- The allocation of two (2) Education buses to two (2) schools was not necessary as the total vehicles provided by the contractor were more than enough to cover their requirement.

- Theoretically, the average seating capacity was not being fully utilised though schools filed a number of complaints due to buses being overcrowded.

Amalgamation of Trips and Partial Trips

- Certain amalgamation of trips (i.e. two (2) separate allocated vehicles replaced by a coach) from different schools resulted in girls being taken on board boys' buses and students making the whole journey standing up.

- Inconsistent or no deductions were made for regularly amalgamated trips.

- Specific approval indicating why and which routes are being regularly amalgamated was not evident.

- Service providers were being paid for picking up six (6) students by separate minibuses from relatively remote locations and dropping them off at pick-up points to join others boarding school transport. Evidence of such requirement and of the number of students actually making use of such transport was not available from the Transport Requirement Sheet submitted to the STS by the respective schools.

Provision for Missed Trips

- Contracts with the service providers stipulate that penalties are to be inflicted when trips are not performed. However, no penalties were incurred during the year under review, thus rendering this clause superfluous.

Pick-up of Students

- Nearly all the schools in the audit sample had several complaints for untimely transport pick-up. Although most of these complaints were forwarded in writing to the STS, the necessary deduction in payment was not effected.

Procedural Irregularities

- Occasionally, certain deductions initially made for trips not performed and/or amalgamated trips were invoiced again by the service provider at a later stage, and subsequently paid.

- Documents necessary for route planning and for payments to be effected were either inadequately prepared by some schools or, on other occasions, not drawn up at all. On the other hand, although adequate information is being passed on for route planning purposes by a number of schools, the buses allocated to the respective schools was not reflecting the number of students using the particular routes.

- Claims made by the service provider for untimely notification of changes in time and dates when transport was required were paid by the STS a year later, whilst a correct invoice issued by the service provider was overruled by the same section without any justified reason, resulting in a higher amount being paid.

Invoicing and Issuing of Payments

- Only one service provider issued fiscal receipts, and these were not filed to support payments. The other service providers were not reported to the tax authorities for non-compliance.

- Invoices issued by two service providers were incomplete and cannot be classified as proper invoices. Invoices from both suppliers did not bear any dates. Moreover, one of these suppliers' invoices were not numbered and in some instances did not even indicate the period to which they related.

- Payments effected were not always supported by invoices and 'Trips Not Performed Reports', which formed the basis for payment. The latter could be the only evidence from schools for the provision of transport.

- Various instances were encountered where the number of vehicles and/or rates listed on certain documents varied from those indicated on other documents. This resulted in inaccurate payments.

- Due to a union directive of 1993, invoices relating to school transport were not reaching the schools for proper verification, in spite of NAO's recommendation following the Performance Audit of 2002. The STS signed the invoices and forwarded them for payment.

Recommendations

Key Issues

Budgetary Provision

Whilst the transport budget line as initially approved is to be respected and possibly never exceeded, internal controls are to be enhanced to prevent unnecessary and avoidable expenditure.

Lack of Segregation of Duties

The school transport management is to be delegated to a number of employees, each responsible for a portion of the process, so as to avoid full dependency on one (1) officer.

Overpayments made to Service Providers

Double checking of one's work by an independent officer at the Accounts Section is recommended to ensure accuracy of payments, and that no overpayment is incurred for service not actually needed.

Lack of Knowledge

Officers in charge of school transport in their respective schools are to be given adequate training on the school transport system, stressing the importance of accurate documentation to be maintained.

Shortcomings in the Contract of Service

Proper parameters to which the quoted rates relate, ideally grading rates based on mileage covered, are to be clearly indicated on the formal contract. A Global Positioning System **(GPS)** would be a potential affordable tool to support the route management system where the distance covered by each route could be accurately measured.

Management is to address the inherent risk arising from the loose allocation of vehicles' seating capacity in the next contract. Amalgamated trips are expected to be authorised by the Director responsible for school transport beforehand. The upcoming contract is to clearly outline the financial implications of such eventualities.

Control Issues

Allocation and Utilization of Vehicles

- The allocation of stand-by vehicles is to be eliminated.

- The provision of Education buses is to be taken into account and indicated in the Bus Route Register when this service is provided to the respective schools.

- The STS is to plan a route register, based on the School Transport Requirements sent by schools, which manages to achieve a targeted and pre-determined optimum utilization rate. A review of such register by the Director responsible for school transport is recommended.

Amalgamation of Trips and Partial Trips

- The amalgamation of routes, especially in case of different schools, age groups and sex, is to be avoided in line with the Directorate's policy.

- A provision in the contract of service should properly cover the financial aspect in cases of amalgamation of trips.

- In instances where in practice amalgamation is feasible, the necessary written approval from the Directorate for Educational Services is to be obtained. Moreover, the contract of service should provide for the financial aspect of this eventuality.

- The requirement of transport from remote locations is to be indicated in the School Transport Requirement Sheet. In such instances it is recommended that STS plans transport to start from such areas and continues to pick up students en route to school in order to use the main school transport all the way through.

Provision for Missed Trips

- In the contract of service it is to be clearly stated that if any bus does not turn up at the school premises on time, that trip will not be paid for.

Pick-up of Students

- The necessary penalties are to be deducted from the respective payments in cases of complaints for untimely pick-up.

Procedural Irregularities

- Payments requested by the service providers are to be supported by adequate documentation and confirmation from the school that the service has been received.

- Before the start of each scholastic year, Heads of School are to be urged to submit in more detail their requirement for transport in respect of their eligible students so that routes are planned in an economic way with maximum vehicle capacity utilised for each vehicle.

- Payment claims from service providers are to include all transport details. When further payments, in addition to the original invoice, are requested these are to be backed up by proper documentation. Verifications are to be carried out before payment is processed.

Invoicing and Issuing of Payments

- Officers are to ensure that they are invariably issued with a fiscal receipt by their suppliers. This is to be attached to the relative original payment voucher. Any defaulters are to be reported to the VAT authorities.

- Payments are to be temporarily withheld until invoices are correctly issued and contain all the relevant information. Errors in invoices received from the service providers are to be amended by the latter and an updated copy of the original invoice is to be obtained before payment is made.

- The Accounts Section is to ensure that all necessary documentation is obtained before any payments are issued. Subsequently all documentation is to be safely stored for further referral as required.

- The information with regards to tariffs and number of vehicles listed on all documents is to be consistent.

- Invoices are to be forwarded to the Accounts Section when sufficient confidence is obtained that these reflect correctly the service rendered during the month.

Management Comments

Management initiated a process of review of the whole transport system with the remit of providing a way forward to implement the recommendations set by the audit in the shortest time possible.

Whilst corrective action is being taken to recover most of the overpayments, management stated that greater checks are being introduced and a new mode of operation is being put in place. In fact, a new reporting system is being piloted to ensure efficient transmission of information on school transport by educational establishments to the Accounts Section.

Education Division
'Special' School Transport

Background

Besides the normal school transport, the ex-Education Division also provided 'special' transport for students with special needs attending mainstream schools. This type of transport includes vans with lifters and taxi service.

Key Issues

Budgetary Provision

In Financial Year 2007, the budget for 'special' school transport under Cost Centre 05 – Student Services and International Relations (including schools for students with special needs), stood at Lm200,000 *(€465,875)*. However, this was exceeded by Lm62,674 *(€145,991)*.

Extension of Tender Document

The tender document allowed for the extension of up to one (1) year from the termination of contracts with the three (3) service providers of 'special' transport. This implies that a maximum extension could have been granted till 31 December 2006. The Department of Contracts, however, further extended the contracts in question to cover up to the end of scholastic year 2006/2007 without issuing fresh calls for tender.

Conflicting Contracts

Although a new contract was entered into with a service provider, concurrently, the previous contract was extended. This service provider invoiced the ex-Education Division with the rates pertaining to the original contract, which were higher than those indicated in the new agreement.

Additional Routes

Twenty-one (21) routes, not included in the Letters of Acceptance with the service providers, were being paid for, totalling Lm357 *(€831)* daily. Procurement regulations were not followed for the provision of these routes. Furthermore, the cost of these routes was considerably higher than those originally awarded by tender.

Use of 'Special' Transport

In certain cases where the provision of 'special' transport was provided to students in mainstream schools no justified reason was provided.

Rates Quoted on Invoices

Even though invoices were certified correct by the School Transport Section **(STS)** falling under the responsibility of the ex-Education Division and processed for payment by the Accounts Section, both parties were not knowledgeable of the rates to be charged by the service providers. Consequently, no checks were performed in this regard.

Control Issues

Opportunities for improvement were identified in the following areas:

Overpayments made to Service Providers

- The STS was not always informed on the number of school days when transport was not required. This resulted in payments to the service providers for trips not performed.

- Agreements with the service providers did not cater for the instances when the students report as being sick and therefore do not attend school for consecutive number of days. In fact, in all cases in the sample reviewed, the service providers were still paid in such instances.

- Due to a union directive, invoices for school transport were not reaching the schools for their proper verification. The STS signed the invoices and forwarded them for payment.

- Two (2) invoices in the sample were incorrectly submitted by a service provider and amended by the STS to rectify the inaccuracy. However the payment effected by the Accounts Section was still incorrect, resulting in overpayments.

- A taxi service provider was paid Lm16 *(€37)* daily for the entire scholastic year 2006/2007, allegedly for transporting a student residing in Siggiewi who attended school in B’Bajda. The foregoing student only used this service till December 2006. In November 2006 another student from Hamrun started making use of this transport till 21 May 2007. However the same rates were being applied for barely one (1) kilometer distance. Furthermore, payment continued to be unnecessarily disbursed up to end of June 2007.

Other Issues

- A standard procedure was not in place for requesting ‘special’ transport. Out of forty (40) students making use of such transport, only five (5) formal written requests were traced. None of these requests was backed by supporting evidence.

- Various inconsistent data, in the different documents, indicating the number of students making use of special transport, rendered such information unreliable.

- The tender document for the provision of ‘special’ transport fails to indicate what course of action is to be taken in cases of late pick-up.

Recommendations

Key Issues

Budgetary Provision

The transport budget line as initially approved is to be respected and possibly never exceeded. Internal controls are to be enhanced to prevent unnecessary expenditure.

Extension of Tender Document

Whilst the provisions in the tender document are to be abided with, such tenders are to be awarded on a scholastic period basis rather than calendar period so as not to disrupt transport during the scholastic year.

Conflicting Contracts

The Department is to be more attentive to abide with the last applicable contracts. Proper controls are to be put in place for the correct checking of invoices, particularly the rates being charged by the service providers.

Additional Routes

In cases of additional routes, the Department is to follow standing procurement regulations, and the route register is to be updated accordingly.

Use of ‘Special’ Transport

The provision of transport for students with special needs is to be resorted to only when students cannot make use of the normal means of school transport due to justified reasons.

Rates Quoted on Invoices

Officers are to be provided with the necessary information to help them perform checks effectively. They are to be made aware that by certifying the correctness of the invoice, they are also assuming responsibility for such payment.

Control Issues

Overpayments made to Service Providers

- Schools are to report to the STS the actual number of days and trips performed by the service provider, especially since most of the time ‘special’ transport is used by only one (1) student and if he/she does not attend school, the trip would not be performed. The invoices sent by the service providers are to be more thoroughly scrutinized. Furthermore, an exercise is to be carried out to recoup all overpayments.

- Schools are to inform the STS of any absenteeism of students using ‘special’ transport. It would also be worth considering introducing a clause in the agreements suggesting either no payment or only partial payment for services not actually performed when students report in sick.

- Invoices are to be forwarded to the Accounts Section when sufficient confidence is obtained that these reflect correctly the service rendered during the month.

- Double checking of one's work by an independent officer at the Accounts Section is recommended to ensure accuracy of payments. Overpaid amounts are to be recouped.

- Proper channels of communication are to be set up between the schools and the Department so that changes in route will be reflected in the rates charge for the respective trip. Moreover, any overpaid amounts are to be recouped.

Other Issues

- Requests for transportation of students with special needs are to be supported by a formal letter from the respective Head of School, as well as by medical certification or court case orders, as applicable.

- The STS is to keep an updated list of the students using the routes in operation. Schools are also required to keep the STS informed of any approved changes to the initial routes that may occur.

- The contracts with service providers are also to include a clause stating the action to be taken against cases of late pick-up. Whenever complaints are forwarded by schools to the STS, the official 'Complaint/Incident Form' is to be used.

Management Comments

Most of the observations and the respective recommendations were accepted by management and the necessary action has already been taken to comply accordingly.

However the Ministry expressed reservations on a few issues. It was also remarked that the budget allocated for 2007 was the same as that allocated for 2006 when expenditure in 2006 exceeded the budget by Lm46,725 *(€108,840)*.

Education Division
Transport Pool

Background

The actual Government expenditure from Recurrent Vote 29 on transport for the ex-Education Division for Financial Year 2007 stood at Lm96,592 *(€224,999)*, as against a budget of Lm100,000 *(€232,937)*. The fleet consisted of nine (9) hired self-driven cars, fifty (50) Government-owned, four (4) ex-impressed and seven (7) fully-expensed vehicles as per Performance Contract.

Control Issues

Opportunities for improvement were identified in the following areas:

- Although the Fleet Management System was in place, information requested for audit purposes was retrieved from an Excel database prepared by the officer in charge of transport.
- Eight (8) College Coordinators were assigned by the Education Division to co-ordinate the pilot phase of the schools networking project. These were provided with a hired self-driven car, including fuel consumption of one hundred and fifty (150) litres per month while the call for application entitled them to an adequate car allowance.
- Nine (9) out of a sample of eighteen (18) log books presented for audit purposes indicated journeys not terminating at base since vehicles were retained by the officers concerned after office hours.

Compliance Issues

Vehicles not equipped with Milometer

The two (2) coaches chosen in the sample for verification, pertaining to the ex-Education Division, were not equipped with a milometer. Consequently, only a pre-established distance covered for the trips performed was recorded on the respective logbooks.

Shortcomings in the Logbooks of Government-owned Vehicles

Shortcomings noted in the logbooks maintained for Government-owned vehicles included: incomplete mileage readings; illegible details of journeys performed or purpose of journey omitted; logbook not dated consecutively; unclear or no signature of the official making the journey and lack or inadequate monthly certification on logbooks.

Recommendations

Control Issues

- Since the Fleet Management System is intended to be the main tool for management control of all the vehicles utilised within a particular entity, full use of this application is to be put into effect to enable better monitoring of transport costs in real time.
- Authority for the provision of all new allowances is to be sought from MPO and Ministry of Finance, Economy and Investment **(MFEI)**, as required in terms of the Public Service Management Code **(PSMC)**.

- Vehicles are not to be retained after office hours unless these are included with the provisions in the contract of service. If the retention of such vehicles after official hours is absolutely necessary, authority is to be sought from the MFEI. In such cases, the Fringe Benefit Tax is to be deducted, where applicable.

Compliance Issues

Vehicles not equipped with Milometer

Heads of Department are to ensure that all Government-owned vehicles for which they are responsible are equipped with a milometer in good working order, as stipulated in the PSMC.

Shortcomings in the Logbooks of Government-owned Vehicles

Logbooks are to be adequately maintained, as per standing regulations.

Management Comments

Full and complete use is now being made of the Fleet Management System. Management also intended to issue a circular to all Heads of Section responsible for transport and to drivers to address the shortcomings on the maintenance of Logbooks for Government-owned vehicles.

Regarding the provision of a hired vehicle for the College Co-ordinators, Management stated that this was considered as a temporary measure and of an administrative nature. College Co-ordinators have now been replaced by College Principals and receive an allowance much higher than that primarily envisaged for the former.

Reservation has been made on the Government-owned vehicles retained after office hours. Management re-iterated that, without making exceptions for such cases, one risks disrupting the Ministry's and the Directorates' programmes. It was also stated, however, that these instances have now decreased.

With reference to the installation of a milometre, Management stated that there are no garages which have the required permit to install such metres and even if this were not the case, it would probably not be economically feasible to have them installed.

Education Division
Information Technology Audit

Background

An Information Technology audit was held at the Directorate for Educational Services and the Directorate for Quality and Standards in Education within the Ministry of Education, Culture, Youth and Sport. The audit was carried out between October 2007 and June 2008. The two (2) Directorates were originally the Education Division. This was, however, re-organised during the course of the audit.

The critical dependence of information systems and the associated risks, benefits and opportunities they present have made IT Governance an important aspect of overall Governance. This audit reviewed the IT Entity Level Controls at the Directorates in terms of IT strategy, policies and procedures, as well as Business Continuity Planning in respect of IT.

The most widely used software application within the Ministry is the Student Teachers System **(STS)** which includes a variety of modules that handle specific operations. Other tailor-made applications, general applications used throughout other Government entities and mainstream office applications are also used.

During this audit the two major IT Systems at the Ministry of Education, namely the Student Teachers System **(STS)** and the Evening Courses Systems, were considered.

Audit Scope and Objectives

The scope of this IT Audit was the review of two (2) areas: IT Entity Level Controls and Business Continuity planning from an IT perspective at the Directorates.

The objectives of the audit were to:

- determine whether Entity Level Controls (through IT Governance) are supported by an IT strategic plan, IT policies and procedures that regulate IT operations; and

- evaluate IT Business Continuity planning.

Control Issues

IT Entity Level Controls

The IT audit aimed to establish the overall strengths and weaknesses in the control environment surrounding IT.

IT Strategy

The Directorates have no formal and documented IT strategy that is aligned with the business needs of the operations under their management.

This may lead to a lack of direction in IT development and uncoordinated project initiation. Furthermore, this could lead to inappropriate technology being implemented, as the direction of IT may not complement the overall objectives of the Ministry.

Risk Assessment

- Risk assessment related to the Directorates' use of IT resources has not been documented and there was no clear formal approach to managing risk. Risks that may disrupt operations have not been identified, potentially resulting in the Directorates being ill-prepared to counter the occurrence of such threats.

Process Documentation

- Processes and procedures through which information is handled have not been documented. These should include the specifications of the flow, processing, the internal controls that apply, the applications in use and the personnel authorised to handle such information.

Business Continuity

Business Continuity Plan

- The Directorates within the Ministry of Education should have a Business Continuity plan designed to reduce the impact that disruptions might inflict on the operations.

- An analysis and assessment of IT risks has not been carried out, although this should be a prerequisite for designing a Business Continuity plan.

- Consequently a disaster recovery plan documenting the procedures to follow in the event the IT facilities become inoperative due to extreme incidents has not been documented.

System Restore

- The current versions of the IT Systems, namely the Student Teachers System **(STS)** and the Evening Courses Systems, are stored at the Government's IT service provider, making it possible to restore the system in any location equipped with the necessary hardware should a system restore be required following a major disruption.

- Programming / User manuals of both the Student Teachers System **(STS)** and the Evening Courses Systems were not fully available. However, the Directorates using these systems have compiled some basic documentation explaining some of the processing being done with these systems. This documentation is used in training new users.

Security Features

- The Student Teachers System has a comprehensive login and password framework which enables the system administrator to create access roles and assign users as need be. This system also has a complete audit trail which records all functions carried out.

- Access to the evening classes system is also controlled by a login and password framework. The system has a number of different access levels through which users are assigned appropriate access rights.

- Fire extinguishers were installed and are duly inspected and maintained by a third-party supplier, as a preventive measure in case of fire.

- A reputable anti-virus software is utilised and updated on a regular basis.

- An effective email and internet usage policy is in place.

Recommendations

The Directorates should formally document their respective IT strategies and include their IT direction, the objectives for IT activities and projects, as well as the resources needed to achieve them. The strategy should support their business plan and be reviewed regularly and updated as necessary.

Risks associated with the IT operations should be identified and categorised according to their potential impact.

The flow of information and the procedures that process this information should be documented so as to enhance the Directorates' ability to identify risks and plan for operational resumption in the event of disruptions.

The Directorates should design, test and implement a Business Continuity plan that stipulates procedures to follow should any of the threats identified in the risk assessment occur. The resources needed to carry out the recovery procedures associated with such a plan should also be specified.

The Business Continuity plan should include a disaster recovery plan that lays down the procedures to follow to recover the IT systems, should extreme case scenarios that bring down to a halt the operations at the Directorates occur. The plan should also include procedures to relocate operations to an alternative location.

Awareness about Business Continuity should be instilled amongst the employees through training and familiarisation with the Business Continuity plan.

Management Comments

Whilst accepting responsibility for IT in schools, respective Directorates stated that responsibility for IT within the Education Headquarters *per se* does not fall under them. They have also pointed out that the Directorate for Quality and Standards in Education has developed an IT Strategy for schools and this was presented to NAO at the end of the audit period.

A new strategy is being formulated with the eLearning process being the primary target for Education. The formulation of the strategy involves the key stakeholders, namely the Ministry of Education, the respective Directorates and the Ministry responsible for IT.

Ministry for Gozo

Inventory

Background

The portfolio of the Ministry for Gozo comprises the Department of Corporate Services, Department of Customer Services and Department for Projects and Development. As laid down in the revised inventory control regulations, the responsibility for monitoring the overall inventory management exercised by the foregoing three (3) Departments lies with the Director Corporate Services. This implies that the latter is also to ensure that Heads of the other Departments falling under the responsibility of the Ministry comply with the stipulated procedures.

Key Issues

Procurement of Fixed Assets

IT network accessories meeting the criteria of tangible fixed assets under MF Circular 14/99 were not included in the Ministry's inventory database. Audit trail of a number of other items purchased in 2006, from the budget cost centre of the Ministry on behalf of other Departments, was also lacking in the inventory records.

Control Issues

Heritage Assets

Assets whose nature could well be classified as 'Heritage' under the Revised Inventory Control Regulations, were not marked as such on the inventory database.

Damaged Inventory

A total amount of Lm30,160 *(€70,254),* being 11% of the total inventory value reported by the Department Corporate Services, was damaged. Some of these items had been in storage in such condition since 2002 and 2003. Up to date of audit late in 2007, apart from identifying the members to sit on the Board of Survey, no further action had been taken to initiate the process to write off these items.

Compliance Issues

Secretariat Transport Pool

Cars forming part of the secretariat transport pool were neither GVN plated nor displayed the name of the Department as required by MFEA Circular 2/97. Moreover, authority for non-compliance was not made available.

Replaced Vehicles

Up to the finalisation of the audit, two (2) vehicles which were replaced in December 2001 and March 2006 respectively, were still garaged waiting to be sold, contrary to standing regulations.

Valuation of Assets

A number of assets were shown in the inventory database at no value. These were neither marked as 'Donated' nor as 'Heritage' assets in the inventory records.

Validation of Inventory Records

Copies of source documents supporting acquisition of inventory items were not being kept by the officer in charge of inventory.

Statutory Returns

Statutory returns were never received by the NAO in respect of inventory held by the 'Directorate Customer Services' and the 'Projects and Development Directorate' showing total inventory under the respective responsibilities and additions to fixed assets, as required in terms of MF Circular 14/99. Moreover, notwithstanding the fact that an electronic copy of the inventory database should be lodged on a monthly basis to the Director Corporate Services, the officer in charge inventory reporting to the latter Director did not have a record of the inventory pertaining to the other two (2) Departments.

Recommendations

Key Issues

Procurement of Fixed Assets

A standard procedure is to be adopted where copies of the source documents are passed to officer in charge inventory immediately upon initiation of the procurement process. It is also suggested that both the original and copy of supporting documents are marked (e.g. stamped) 'Entered in Inventory Records'. Reconciliation of inventory and DAS records, ideally with predetermined line items e.g. 4130 – 'IT Equipment', 4150 – 'Other Equipment', etc., is also recommended to ensure completeness and accuracy of both sets of records. Furthermore, when purchasing inventory items on behalf of other departments from funds allocated to the Ministry, it is recommended that these are shown under a different 'Responsibility Centre' to segregate such items from those purchased for the Ministry itself.

Control Issues

Heritage Assets

The Ministry is to try and obtain expert certification of the inventory items in question in order to classify them as Heritage Assets in the inventory records and include them in the catalogue of Heritage Assets.

Damaged Inventory

Action is to be taken to initiate the disposal process. Following the recommendations of the board of survey, the items in question are to be written-off. The original entry in the inventory records corresponding to the disposed items should not be deleted or overwritten but neutralised by a reversing entry.

Secretariat Transport Pool

Official vehicles for general use should bear a GVN-registered number plate. Action is to be taken to ensure that standing regulations are adhered to.

Replaced Vehicles

Replaced vehicles that still have a market value are to be sold without further delay, while those with no market value are to be written off and subsequently disposed of as recommended by the Board of Surveyor.

Valuation of Assets

If assets are donated, they are to be indicated accordingly in the inventory records. In such cases, inventory should still be valued for record purposes, and such valuation should ideally be backed up by source documents.

Valuation of Inventory Records

It is recommended that the reproduced copies of the source documents are sequentially numbered and filed in numerical order, for cross-reference with inventory records.

Statutory Returns

Required returns as stipulated in MF Circular 14/99 are to be drawn up by all Departments on regular basis. Copies of these returns are to be submitted in due time to this Office.

Management Comments

Management has accepted and adopted most of NAO's recommendations. However, the issue in respect of procurement of IT network accessories was not adequately addressed in its response. The Ministry stated that such accessories were processed through the stock ledger system as management deemed that these were non-inventory items.

It was also not indicated whether the recommendations with respect to the secretariat transport pool will be taken on board.

Ministry for Investment, Industry and Information Technology

Personal Emoluments

Background

The Ministry for Investment, Industry and Information Technology **(MIIIT)** budget allocation in respect of Personal Emoluments for the Financial Year 2007 stood at Lm564,000 *(€1,313,767)*, covering both the Ministry and the Permanent Secretary's Office. However, the actual amount spent under Vote 41 was Lm594,167 *(€1,384,037*). The average number of employees falling under both cost centres during 2007 was in the region of seventy-six (76).

Control Issues

Opportunities for improvement were identified in the following areas:

Salary Overpayment

- The Treasury Department was not informed in time, or not informed at all, with the necessary amendments to the payrolls.
- An employee falling within the audit sample working on a reduced time-table with effect from 1 October 2007 was still in receipt of full pay up to end of December 2007.
- Two (2) other employees availed themselves of two (2) days sick leave on half pay each but the relative deductions were not made.

Overtime

- Overtime performed was not always supported by prior approval from the Permanent Secretary.
- Documentation supporting a claim by an employee for ninety (90) hours overtime, could not be traced.
- There were instances where the overtime hours claimed for payment were different from the hours recorded in attendance sheets. Other computation and the respective payment for overtime hours were incorrect.
- Cases where officers were paid for overtime while they were on vacation leave were also encountered.
- Two (2) messengers at the Private Secretariat were signing on the attendance sheet the normal winter departure time (i.e. 17:15) but on the overtime sheet they were signing as if performing overtime from 13:30hrs.
- From amendments carried out with correction fluid on the attendance records by officers at the Private Secretariat it transpired that the employees were possibly signing both the attendance sheets as well as the overtime sheets for a whole week in advance.

Attendance Records

- The automated attendance recording system in place is not being utilised.
- Shortcomings in the attendance sheets included: persistent late attendance; illegible time recorded or time covered with correction fluid; 'time-out' recorded in different handwriting than that of 'time-in' and 'time-in' and 'time-out' not recorded at all.

- Officers temporarily leaving the office during working hours did not always obtain prior official authorisation.

Leave Records

- On many instances, employees did not present a medical certificate to substantiate sick leave taken.

- Both the 'Vacation Leave Record Cards' **(VLRC)** and the 'Sick Leave Record Cards' **(SLRC)** were only being updated according to records on attendance sheets, if at all. None of the utilised vacation leave taken by the personnel engaged with the Private Secretariat was supported by a request.

- Most of the Secretariat staff were accumulating a considerable amount of unutilised vacation leave to be carried forward to the following year. For two (2) consecutive years, some of the officers did not utilise any of their vacation leave entitlement.

Full use of Office Car

- Procurement regulations were not followed to obtain a leased vehicle for use by an employee within the Private Secretariat as per his contract of employment.

- The foregoing employee made arrangements for the provision of the vehicle himself with the supplier and the Ministry was paying for this service without a formal contract with the supplier.

- Although it was agreed that the difference in the rate of the leased car (due to a better model) had to be borne by the officer concerned, the variance was still financed from public funds for nearly three (3) years.

Excessive Mobile Phone Bills

- A Policy Coordinator was excessively exceeding the mobile phone allowance entitlement. During the year under review (December bill was still outstanding), the total expenditure on mobile phone bills incurred by this officer amounted to Lm1,316 *(€3,065)*, as against an entitlement of Lm350 *(€815)*. Excessive expenditure appears to have been persisting even from previous years.

Compliance Issues

Misallocations and Unauthorised Virements

- The Ministry resorted to various misallocations and unauthorised virements from different Cost Centres, and at times even between Line Items as from the 9th pay period, when funds were not available, without consulting the Ministry of Finance.

Allowances

- The return providing information on the payment of allowances required by the Public Service Management Code **(PSMC)** was not being submitted by the MIIIT. Neither a certificate was being issued to confirm that the conditions pertaining to the allowances received by each officer were still applicable.

- A messenger was in receipt of an 'On Call Allowance' of Lm780 *(€1,817)* annually but the source from which this amount originated, which is not in compliance with the stipulated approved rates given in standing regulations, could not be traced. Moreover, NAO examiners were not provided with information related to the number of instances this officer was called home outside office hours during the year under review to justify this allowance.

- A Qualification Allowance paid to an officer within the Private Secretariat was neither supported by an approval from the respective Director of Corporate Services nor by an application of the officer himself. Moreover, this allowance was to be discontinued when this officer was appointed to an Officer in Grade 5, with effect from October 2006. However, he was still in receipt of this allowance up to the time of audit, by mid 2008.

Special Leave with Pay

- An officer availed himself twice of two (2) days sports leave with pay. However, on both occasions, the request which was to be approved by the Head of Department, after being endorsed by the Permanent Secretary responsible for Sports, and a copy of the official overseas invitation of international origin, were not provided.

Accumulated Leave

- Not all employees obtained prior authority from the Permanent Secretary to carry forward vacation leave from one year to the next.

Recommendations

Control Issues

Salary Overpayments

All amendments required to be made in the payroll are to be reported on the prescribed forms and submitted not later than the closing dates specified by the Treasury. Moreover, the Ministry is to recoup the overpaid amounts from the mentioned officers.

Overtime

Approval is to be sought from the Permanent Secretary before overtime is actually performed. Overtime pay claimed is to be accompanied by a certified extract of the attendance book. Overtime returns are to be thoroughly checked by the officer in charge of salaries before payments are processed.

Attendance Records

To implement controls on attendance, the automated attendance recording system is to be made use of.

Attendance records are to be supervised on a daily basis. Such records are to be verified and endorsed by the officer in charge. Action is to be taken in cases of persistent late attendance.

Temporary absence from work is to be authorised and documented as stipulated in the PSMC.

Leave Records

Days of absence on sick leave are not to be paid for unless supported by a valid medical certificate timely submitted to the Human Resources Section.

Except in emergency cases, a request for vacation leave is to be raised prior to utilisation of leave. Following the recommendation of such leave by the Head of Section, leave is to be timely approved by the Head of Department or a senior officer authorised by him.

As required by standing regulations, the personal leave records should invariably show any period of absence of each officer. Regular reconciliations between attendance sheets and VLRC/SLRC are to be performed by the officer in charge of personnel to ensure proper recording. Furthermore, management is to ensure that all vacation record cards are properly maintained and filed for the perusal of both the Ministry as well as external auditors.

Full use of office car

As per the Public Service (Procurement) Regulations, services costing more than Lm2,500 *(€5,823)* but not more than Lm20,000 *(€46,588)* should be procured after a departmental call for tenders.

A formal agreement with the service providers stipulating beforehand the terms and conditions agreed upon by both parties is to be entered into for any services received by the Ministry.

The Ministry should recoup the extra amount paid on behalf of the officer.

Excessive Mobile Phone Bills

The use of the most cost-efficient means of telecommunication should be encouraged, for example, using a landline when this is available instead of a mobile phone, and the use of Internet telephony **(VOIP)** for overseas calls from a landline. In exceptional circumstances, 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.

Compliance Issues

Misallocations and Unauthorised Virements

The aggregate allocation of budgeted expenditure is to be properly apportioned between the various line items and cost centres within the Ministry. Management is expected to liaise with the Ministry of Finance when virements are required to meet the actual expenditure.

Allowances

Authorised allowances are to be reviewed periodically. At the beginning of each calendar year the Director of Corporate Services is to obtain a certificate from the relevant Directors in respect of each officer receiving an allowance, confirming that the conditions pertaining to the allowances still apply. This certificate is to be forwarded to the Director, Finance and Administration and also submitted to the Ministry of Finance. Any changes in entitlement of allowances are to be immediately identified and reflected in the officer's salary.

Special Leave with Pay

Before granting Special Leave with pay, the Ministry is to see that the guidelines and regulations set in the PSMC are abided with, before allowing any employees to avail themselves of such leave. The PSMC stipulates that requests are to be approved by the Head of Department, after being endorsed by the Permanent Secretary responsible for Sports and apart from a copy of the letter of acceptance from the local sports organization, a copy of the official overseas invitation of international origin is expected to be filed with the application.

Accumulated Leave

Unutilised leave carried forward to the following year is to be authorised by the respective Head of Department.

Management Comments

Management has accepted and adopted most of NAO's recommendations. However, the following issues were not adequately addressed in their response and it was not stated whether the relevant recommendations will be taken on board:

- The lack of documentation supporting claims for overtime payments.
- Certain shortcomings in the attendance records.
- The inadequate approval for special leave with pay.
- The excessive mobile phone expenditure by a Policy Coordinator.
- Observations relating to the full use of office car and the qualification allowance enjoyed by an employee in the Minister's Secretariat.
- The 'On Call Allowance' paid to a messenger.

Ministry for Urban Development and Roads

Licensing and Testing Directorate
Registration Tax & Exemptions

Background

The Licensing & Testing Directorate **(LTD)** is responsible for the registration of new vehicles including vehicles which are entitled to either a discount or exemption in registration tax. Three (3) types of plates are issued to reflect these exemptions:

- TF plated vehicles refer to tax free incentive vehicles. These vehicles are generally used by individuals who suffer from a disability or else vehicles intended for the transportation of such disabled individuals.
- K plated vehicles refer to vehicles which are used exclusively as self-drive motor vehicles for an aggregate period not exceeding ninety days, except for GK plated vehicles which are used for Government long-lease vehicles.
- Y plated vehicles are entitled to a reduced rate of registration tax depending on the cubic capacity of the particular vehicle and the use to which the vehicle shall be put.

Key Issues

Lack of Physical Control and Enforcement Officers Headcount

According to the Directorate it is not in a position to control and physically verify the validity of the declarations sent by public service garage owners, in view of a lack of human resources within LTD.

Control Issues

Opportunities for improvement were identified in the following areas:

International Classification

The Official Journal of the European Communities lists vehicle categories as defined according to international classifications. Upon review, instances were noted whereby the EU category code recorded in VERA did not agree with the code listed in the Certificate of Conformity.

Lack of Authorisation and Documentation

Upon registration of a new/second hand vehicle, a registration declaration form and a licensing declaration form, properly signed, are to be submitted. In one (1) instance it was noted that the company's authorised signatory and the seller's signature respectively were missing.

A registration of a K plated vehicle requires an application of the intention of use of the vehicle registered by the owner. In one (1) instance, this application was not traced in the file, whilst in another instance although the application was filed, the section evidencing approval and the other signatures were missing.

Recommendations

Key Issues

Lack of Physical Control and Enforcement Officers Headcount

LTD has evaluated its practices and is proposing a revision in current legislation in order to reduce exemptions. Such revisions include:

i. Registration of K & GY vehicles at the full rates and thereafter one can apply for a rebate to the Ministry of Finance, the Economy and Investment **(MFEI)**. In turn, MFEI has the necessary competences and powers to conduct investigations as necessary.

ii. In the case of K plated vehicles the rebate is to be capped to vehicles having engine capacity less than 1500cc. In the case of GY plated vehicles engine capacity is to be capped at 2700cc.

iii. A maximum rebate capped at Lm600 *(€1,398)* in the case of K plates and Lm3,500 *(€8,152)* in the case of GY plates.

These proposals, have been passed to the responsible Ministry for consideration.

It is also advised that LTD increases controls and reviews as follows:

i. Random inspections on vehicles and public service garages to identify invalid registrations.

ii. Performance of physical spot checks establishing whether documentation confirming the usage of the vehicle, namely, a trip log book in the case of chauffeur-driven trips and a hire contract in the case of self-drive purposes, is maintained by the owner either in the vehicle or in the garage.

It is recommended that the competent Ministry takes concrete measures to allocate additional staff to solve the current problems being faced at LTD due to shortage in staff. In this way LTD shall be in a position to appoint enforcement officers to carry out spot checks and other necessary controls on a scheduled basis.

Control Issues

International Classification

Although these errors do not have any impact on total registration tax payable, it is advisable that responsible personnel familiarise themselves with the code structure to ensure complete and accurate information.

Management Comments

Management agreed with the majority of the issues and recommendations put forward. In addition management also added the following comments:

The Directorate intends to await direction from MFEI on the overall system with respect to the amendments to Registration Tax on K (Self Drive) and GY (Garage Hire) Vehicles. In the meantime, management intends to carry out physical checks as recommended.

Furthermore, management agreed that the Authority will make use of other enforcement officers within the organisation to conduct random inspections at the public service garage premises, until additional enforcement officers are recruited.

With respect to the incorrect international classification inputted in the VERA system, management confirmed that the cases identified during the audit are to be corrected. In addition, ADT is discussing the development of an automated profiling and validation system which would enable the VERA system to automatically assign the international classification based on certain criteria and information that is recorded for each vehicle.

Ministry for the Family and Social Solidarity

Social Security Department
Sickness Assistance Benefits

Background

Sickness Assistance **(SKA)** is regulated by Article 20 of the Social Security Act. A total of Lm6.68[1] *(€15.56)* million was disbursed to 14,712 beneficiaries[2] during 2007.

Key Issues

Review of files

There is lack of periodical reviews of files to check whether a claimant who has been granted Sickness Assistance is still eligible for the benefit.

The following situations were encountered during the audit based on a sample of fifty (50):

- A plot of land measuring 151 square metres owned by a claimant was valued Lm850 *(€1,977)* in 2001. No revaluation has ever been carried out since then, while the claimant is still receiving the benefit on the premise that his assets do not exceed the limit of Lm6,000 *(€13,976)*.
- A claimant was receiving Sickness Assistance even though the Common Database revealed that her partner was employed on a full-time basis.
- Investments declared in an application submitted in 1995 included cash held in a foreign bank account. No further information was requested to confirm any changes in foreign holdings. As a result, the entitlement to SKA could not be confirmed.

Control Issues

Opportunities for improvement were identified in the following areas:

Available Sources of Information

Although the Department may obtain sensitive information on claimants, this information is only requested in exceptional circumstances. Such information includes, among other things, the income tax declarations, any property held and the number of cars owned.

Information Supplied by Banks

No prompt action is being taken to identify and examine information available on the Department's information system **(SABS)** regarding loans taken by claimants. In a particular case, a claimant had a loan with a commercial bank of Lm200,000 *(€465,875)*.

Agricultural Land

The Departmental guidelines used for calculating the value and/or the income derived from agricultural land have not been reviewed for the past twenty (20) years.

Application of Policies and Procedures

There are no official guidelines to ensure that revised policies are adhered to across the board. Specific instructions are given in claimants' files by management and photocopies are kept by officers to ensure consistency in similar cases.

[1] DAS (Social Security Benefits) – 2007 Transaction Listing A/c 51505150 CC J01 (Medical Assistance) extract relating to Sickness Assistance;
[2] Statistics provided by Director (Benefits) Social Security Division via email dated 13/05/08.

The processing of information regarding claimants is carried out through experience and through consultation with colleagues. No adequate training is being given to officers responsible for the processing of applications.

Automatic Eligibility

SKA is granted automatically to claimants who are already in receipt of Social Assistance **(SA)**, Carers' Pension **(CP)** or Age Pension **(AP)** following medical panel review. No review of files is carried out prior to authorisation for payment. In fact, in one (1) instance, a claimant who was in receipt of SA was granted SKA automatically. Upon examination of her personal files, it transpired that the eligibility to both assistances was questionable as the claimant failed the means test.

Assessment of Files

Assessment of claimants' files by the Department was not always performed in a comprehensive manner. A particular instance involved a claimant whose assistance was stopped by the Department due to cash held in a local bank as at September 2007. However, cash balances were increasing at a substantial rate since July 2007. This could imply that the claimant had a source of income and thus the entitlement to SKA might have stopped earlier than September.

Integrity of Information

The database provided by the Department contained a number of anomalies. These included claimants with a zero rate, others with SKA rates not compliant with 2007 rates and claimants residing at St. Vincent de Paule Residence **(SVPR)**.

Medical Board Reports

Medical Board reports do not require the medical panel to state whether a medical condition is for life or whether the claimant is to be reviewed at a specified date. Once a patient is granted SKA, the assistance will be availed of even if the medical condition improves.

Compliance Issues

Collection of Overpayments

Overpayments are calculated from the date when the next payment is due, instead of being collected from the first Saturday following the date when payment is no longer due.

In addition, instances were encountered when overpayments were being recouped at the rate of 1% from each payment.

Over and Underpayments

Nine (9) out of fifty (50) Sickness Assistance beneficiaries examined were receiving an incorrect rate of benefit. Seven (7) of these were overpaid, whilst the other two (2) were underpaid.

The following overpayments were encountered:

- A claimant was paid an SKA rate of three (3) patients instead of two (2).
- Another claimant was overpaid for an additional patient even though his spouse was admitted to SVPR.
- A claimant was in receipt of SKA up to 2007 even though she had been admitted to SVPR since 2005.
- Another claimant was overpaid due to an incorrect employment date taken to calculate the amount to be recouped.
- Two (2) claimants were overpaid due to incorrect cut off dates.
- In another case, no action was taken to recoup an overpayment identified by the Department as the claimant had no live benefits.

The following underpayments were encountered:

- A claimant was paid at the 2006 SKA rate instead of that applicable for 2007.
- Another claimant was underpaid following the reinstatement of SKA, as he was not paid for the correct period.

Recommendations

Key Issues

Review of files

The Department should ensure that files are reviewed on a regular basis. During this review, all sources of information available both from within and outside the Department, as allowed by the relevant legislation, should be accessed to check for any possible changes in circumstances. This will confirm whether the claimant is still entitled to the benefit.

Control Issues

Available Sources of Information

The Department should not consider any claims unless 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 and underpayments.

Information Supplied by Banks

A list of loans taken up by SKA beneficiaries should be extracted from SABS and examined regularly. This would highlight claimants who have undertaken substantial loans to be investigated. Furthermore, the bank sanction letter should be obtained in respect of all claimants to confirm or otherwise the SKA entitlement.

Agricultural Land

The guidelines used for calculating the value and/or the income derived from agricultural land are to be updated and claimants owning agricultural land assessed accordingly.

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. This manual is to be updated as necessary to cater for changes in legislation, policies and procedures.

Automatic Eligibility

Claimants' files should be reviewed due to the possibility of a change in circumstances. This will confirm whether the entitlement to SA, AP or CP is still valid prior to authorising payment for SKA.

Assessment of Files

When assessing files involving unusual situations, it is to be ensured that these are reviewed in detail and all relevant information obtained to ensure better administration of SKA.

Integrity of Information

An exercise should be undertaken to examine the mentioned anomalies. This will help the Department eliminate persons who are erroneously considered to be SKA beneficiaries from SABS. Furthermore, this exercise will adjust incorrect benefit rates and stop claimants from receiving undue benefit.

Medical Board Reports

The Department should consider including a date indicating when the claimant is to be re-examined by the Medical Panel. All cases could be reviewed at least once, to confirm the result of the first medical board. Furthermore, claimants with medical conditions which might improve over time are to be reviewed periodically to assess whether the entitlement is still valid.

Compliance Issues

Collection of Overpayments

Overpayments should be calculated from the first Saturday following the date of non-eligibility for assistance.

Furthermore, a more aggressive approach should be adopted towards the collection of overpayments. This will reduce the scope for claimants to make false declarations.

Over and Underpayments

The internal control mechanisms are to be enhanced to ensure that the incidence of such shortcomings is minimised. In addition, necessary action is to be taken to rectify the irregularities identified.

Management Comments

Management concurred with most of the findings highlighted in the report and will be taking the necessary remedial action. In particular, Tax Compliance Profiles will be obtained to confirm claimants' declarations. The Department is already in the process of updating the value and income derived from agricultural land in collaboration with the National Statistics Office. Furthermore, the Standard Office Procedures are in the final stages and will be available to the employees in the very near future.

Ministry of Foreign Affairs

Malta's Mission in Paris

Background

The main role of the Embassy in Paris is to offer consular assistance and promote Malta, the Maltese identity, as well as the Maltese culture in France.

During the Financial Year 2007 the net expenditure of the Embassy amounted to Lm239,128 *(€557,018)*, exceeding the budget of Lm222,740 *(€518,845)* by Lm16,388 *(€38,173)* .

Key Issues

Outdated Conditions of Service

'Conditions of Service for Officers Serving Overseas' **(CSOSO)** were drawn up in 1994 and has never been reviewed since. Benefits such as internet and telephone connection and mobile phone allowed to Malta Based Officers **(MBOs)** were not included in these guidelines. Lack of direction regarding the use of official cars owned by the Embassy was also noted.

Procedures Manual

Departmental policy and formal guidelines with respect to administrative and procedural issues were lacking. Moreover internal circulars issued from time to time by the Ministry of Foreign Affairs **(MFA)** were fragmented, thus rendered less effective.

Lack of Segregation of Duties

The senior public officer responsible for legal and consular matters was also in charge of the day-to day administration, as well as for the preparation of the Embassy's accounts. The lack of segregation of duties and absence of independent verifications resulted in undetected errors.

Control Issues

Opportunities for improvement were identified in the following areas:

Total Budget Overrun

- The overall budget was exceeded by over 7%. This excess was mainly due to an increase of personal emoluments in respect of temporary staff where the budget was exceeded by Lm18,842 *(€43,891)*.
- The amount of Social Security Contributions paid in 2007 also increased substantially over the previous year, an increase of 85%.

Overtime Payment

- Overtime payments were being debited to line item 1210 - 'Salaries', since no separate budget allocation under line item 1710 - 'Overtime' was being made.
- Calculations of overtime hours worked and overtime payments were not being effected in accordance with the provisions laid down by the 'Code du Travail' regulating employment. This resulted in extra costs for the Embassy.
- The basic rate used for the computation of the December 2007 overtime payment was that of 2008.

- During 2007, the driver was paid for 898 hours of overtime. Such overtime payments amounted to 78% of his annual basic salary for the year under review. Moreover, another 267 hours of overtime were paid to a replacement driver temporarily performing driving duties for a period of one (1) month.

- The number of overtime hours worked was computed manually. Errors in such calculations resulted in a net overpayment of forty-four (44) hours to a Locally Engaged Personnel **(LEP)**.

- Percentage overtime rates being applied differed from those quoted in the 'Code du Travail', without these being agreed upon and specified beforehand in the contract of employment.

- The Embassy did not have a policy of what constitutes a 'semaine civile'. Options for the definition of the foregoing term are specified in the 'Code du Travail' and are the basis for overtime payments.

- In addition to non-compliance with the law, overpayments were being effected, as Sunday pay was being doubled and also topped up by overtime rates.

Revenue

- Revenue from emergency passports reported as being issued by the Embassy in Paris could not be independently confirmed as no records of such documents were kept by the Passports Office.

- Pre-numbered emergency passport documents were submitted by the Passports Office to the Embassy. Stock records of such documents were not kept by the Embassy. Moreover, nineteen (19) documents which were not pre-numbered were traced on location.

- Services such as legalisations and translations were not backed up by application forms. As a result, completeness of revenue could not be confirmed.

Procurement Issues

- Request Forms and Purchase Orders intended to regulate purchasing authority were not being used.

- Though purchase acquisitions and payments thereof were verbally authorised by the Head of Mission, such authority was not evidenced on Payment Vouchers. Moreover, purchases and subsequent payments as well as the recording of such transactions in the accounts were in most instances effected by the same officer.

Fuel Consumption

- Stock records of prepaid fuel coupons acquired were not kept, and basic documents relating to the movement of stock were completely lacking. Counterfoils of utilised coupons were also disposed of. As a result, fuel consumption could not be determined.

- Records were not kept of coupons acquired from the Embassy by an MBO for his personal use.

VAT

- A full detailed register of VAT claims for tax credit refund was not being maintained by the Embassy. The register in use lacked invoice numbers and did not indicate whether claims were accepted or rejected.

- Errors effected when recording the VAT component in the Departmental Accounting System **(DAS)** by Head Office were not detected.

Rent of Chancery

- Notwithstanding a contract entered into in 2001 covering lease of premises up to 2013, in 2007 the Embassy had to be relocated as major refurbishment works were to be carried out on the original property. Such relocation will be costing the Embassy an additional expense of Lm3,872 *(€9,019)* per year (excluding VAT) until the Mission is relocated back to the original premises, at which point a revision upwards of the rent is expected.

- Officer at the Head Office checking and reviewing the Embassy's accounts had no knowledge of rent payments due. Moreover, contracts of premises were also not available at the Head Office.

Re-imbursement of Medical Expenses

- Eligible medical expenses that are reimbursed were not defined in the CSOSO. During 2007, Lm5,694 *(€13,264)* was refunded to an MBO, covering medical expenses of which Lm5,573 *(€12,981)*, i.e. 98% were claimed in respect of his spouse.

- In two (2) separate claims (by the officer mentioned above), where the extended treatment threshold was exceeded, no approval from Permanent Secretary was sought as required by the CSOSO.

Information System Security

- Awareness of basic Information System **(IS)** security was lacking and regular back-ups of important information were not being taken.

Communications

- Three (3) telephone lines being used for fixed line telephony, internet and TV were being paid for the Ambassador's residence. Telephone rent payments for the three (3) lines amounted to Lm39 *(€90)* each month. In addition, monthly rental payments of Lm11 *(€25)* and Lm36 *(€84)* were traced for internet and TV respectively.

Human Resources

- Availability of human resources had reached its minimum limit. In instances where both MBOs are out on meetings with the driver, nobody is present at the Embassy.

Compliance Issues

Non Compliance with Statutory Rates

- Certain rates applied by the Mission in 2007 for passports and visas were not in compliance with statutory regulations stipulating such rates. This resulted in both over and under charging for certain documents.

- Additional charge, stipulated by a Legal Notice in connection with the issue of emergency passports, was not being applied. This resulted in lost revenue for the Embassy.

- An administrative charge not covered by statutory regulations was being applied to visas.

Working Hours

Maximum working hours stipulated by the 'Code du Travail' were exceeded by an LEP due to excessive overtime performed.

Remuneration for Working on Sunday

Provisions laid down by the 'Code du Travail' in relation to compensatory rest and payment for hours worked on a Sunday were not complied with.

Inventory

Physical assets did not bear an Asset Identification Number. Inventory records lacked reference to source documents, such as invoices. Tags on inventory, with Asset Identification Numbers physically affixed according to MF Circular 14/99, could nowhere be evidenced. Room lists were also not evidenced as required by the foregoing circular.

The catalogue of heritage assets required in terms of inventory control regulations was not being maintained by the Embassy. Furthermore, no value was attributed to heritage assets. Assets that were acquired in the relatively recent past were wrongly classified as heritage.

Recommendations

Key Issues

Outdated Conditions of Service

The Ministry is to consider updating the 'CSOSO', taking the opportunity to include any benefits required for the efficient administration of operations.

Procedures Manual

It is recommended that MFA draws up one set of guidelines and procedures incorporating existing directives which are still applicable. Ministry may also consider adapting existing manuals currently in force by other countries to Maltese standards.

Lack of Segregation of Duties

Delegation of administrative duties will enhance internal controls and avoid full dependency on one (1) officer. It will also enable the officer concerned to be more effectively deployed in the political and diplomatic aspects of operations, which are expected to be the main roles of a diplomat.

Control Issues

Total Budget Overrun

- Budget lines as initially approved must be respected and possibly never exceeded.

- Material variances on any line item are to be immediately analysed.

Overtime

- MFA may liaise with Finance for adequate budget allocations for all material expenditure usually expected to be reported separately under the pertinent line items.

- Compliance with the provisions of the 'Code du Travail' is recommended. This should bring about immediate cost savings through more efficient and effective use of resources available.

- Basic overtime rate is to be set in accordance with the provisions laid down by the 'Code du Travail' as applicable in the respective year.

- Overtime is to be resorted to solely in crucial situations. Savings made from overtime may be used to employ a full-time administrative assistant.

- Independent officers should be involved in the computation of overtime payment as this would enable effective verification to be performed. Moreover, pay calculations are also to be vetted at Head Office.

- Divergence from the rates quoted in the 'Code du Travail' may only be allowed if these are clearly spelt out in the contract of employment of the employee concerned to avoid future repercussions.

- Clear, undisputable policies defining the 'semaine civile' are to be established in line with the 'Code du Travail'. This will then be used when calculating overtime payment entitlement.

- Payments for overtime are to be effected in line with the same provisions of the law.

Revenue

- Applications for emergency passports are to be raised in duplicate so that a copy may be forwarded to the Passports Office, thus enabling the latter to keep control of all Maltese passports issued. A reconciliation exercise may be carried out on a regular basis between the Embassy and the Passports Office.

- The Embassy is to ensure that all emergency travel documents in its possession are pre-numbered by the Passports Office.

- The Ministry may consider introducing application forms for all services. Ideally one (1) common pre-numbered application form should be maintained.

Procurement Issues

- A request form is to be drawn up by all staff requiring any goods/services, including a justification for the procurement. The form is to be endorsed by the authorised officers, according to their pre-determined level of authority.

- After ensuring that funds are available, a Purchase Order is to be raised. Certification of satisfactory delivery could be evidenced on this document by an authorised officer, who may be the person initiating the request. Payment Vouchers are also to be endorsed by the Head of Mission.

- Levels of purchasing authority are to be determined. Moreover, written approval from the Head of Mission is to be obtained prior to effecting purchases over a set amount.

Fuel Consumption

- Receipts and issues of fuel coupons are to be recorded via a Stock Control System. Proper procedures are to be in place for receiving, checking and recording coupons received. Any issues are to be duly authorised, evidenced and recorded. For every receipt and issue, the balance of stock items is to be recalculated. Moreover, counterfoils of used fuel coupons are to be stored for eventual verification as they are the only source indicating consumption of fuel.

- A sequentially numbered Transfer Note is to be raised when coupons are passed over to third parties acquiring fuel coupons from the Embassy.

VAT

- A proper register is to be maintained of VAT refund application for the Mission in its own right, whereby track is to be kept of successful applications. An indication of the reason for rejection is to be given on this register, where this is applicable.

- Regular reconciliation is to be carried out between DAS records and other source documents kept by the Embassy. This should help detect errors and correct them within the same financial period.

Rent of Chancery

- Given the extended period of the rent contract, Government has now sufficient time to consider whether financial benefits could be derived from owned property.

- Desk officers at Head Office are to ensure that they are in possession of the necessary documentation to be in a position to verify all payments effected.

Re-Imbursement of Medical Expenses

- Head Office may draw up a comprehensive definition of what constitutes a medical expense and medical treatment entitled under such benefit.

- Payment should not be effected unless approval from the right level of authority is sought and obtained.

Information System Security

Basic IS security practices are to be implemented particularly concerning backup procedures. Such practices should be documented, maybe as an integral part of the proposed Procedures Manual.

Communications

Similar communication services from other service providers, presently offered on the market at a lower cost, may be exploited.

Human Resources

The Ministry may consider allowing staff to 'temporarily fill in' until adequate staff are permanently employed.

Compliance Issues

Non Compliance with Statutory Rates

- An internal office circular, listing all applicable tariffs as established by statutory instruments, could be drawn up and circulated to all overseas missions.

- Where tariffs charged are below those specifically recommended in the law by means of legal notices, immediate action is to be taken to comply accordingly.

- Provided that the administration fee in connection with the issue of visas is justified, the Ministry may consider revising the Legal Notice regulating such fee with the concurrence of the Ministry of Finance in line with the 'Fees Ordinance – Chapter 35'.

Working Hours at the Embassy

Flexible working hours of LEPs are to be planned and determined on a regular basis according to the exigencies of the Embassy, thus reducing costs and preventing infringement of regulations.

Remuneration for Working on Sunday

Provisions stipulated in the 'Code du Travail' are to be abided with to avoid unwanted consequences.

Inventory

Reference to the invoice number or any other source document may be included in a separate column in the inventory database to enable the record to be verified from the outset. Code tags are to be affixed to the inventory. Full compliance with standing regulations where room lists are concerned is required. These are to be regularly updated following a physical verification by the staff. Such verification should be evidenced by a report signed by the officer in charge of inventory.

The catalogue of heritage assets is to be drawn up following a reclassification exercise of heritage items. Items certified as heritage are to be backed up by expert certification. A valuation for heritage items is to be sought in line with the terms laid down in MF Circular 14/99.

Management Comments

Most of the observations have been upheld by Management and action has been taken to apply a number of recommendations. However certain matters were not properly addressed.

The Embassy also expressed reservations on a few issues, especially those dealing with segregation of duties and overtime policy. While acknowledging the problems, it was remarked that due to human and financial resources constraints, not all recommendations can be taken on board.

Other Audits

Abbreviations

CCN CSI	Common Communication Network Common System Interface
CLO	Central Liaison Office
EU	European Union
NAO	National Audit Office
OMCTL	Automatic report that the CLO obtains from other Member States featuring, amongst others, erroneous VAT ID entered in the Recapitulative Statements
Recap	Recapitulative Statement
SCAC	Standing Committee on Administrative Cooperation
Regulation	Council Regulation (EC) No. 1798/2003
Tasks	Tasks of the Malta CLO
VAT	Value Added Tax
VAT ID	VAT Identification Number
VIES	VAT Information Exchange System

VAT Department
VAT Information Exchange System
Financial Year 2006

Background

With the introduction of the single market on 1 January 1993, fiscal customs based controls at internal frontiers were abolished. Moreover, with accession to the European Union **(EU)** on 1 May 2004, the local customs checkpoints were also relaxed accordingly.

Under the new VAT system, intra-Community supplies of goods are exempt from Value Added Tax **(VAT)** in the Member State of despatch, when they are made to a taxable person in another Member State, who will account for the VAT on arrival. Any taxable person making such supplies must be able to check quickly and easily that his customers in another Member State are taxable persons and do hold a valid VAT identification number **(VAT ID)**. For this purpose, each tax administration maintains an electronic database containing the VAT registration data of its traders.

A computerised VAT Information Exchange System **(VIES)**, mutually interconnected through the Common Communication Network Common System Interface of the EU **(CCN CSI)**, was set up to allow for the flow of data held across the internal frontiers. VIES enables companies to obtain confirmation of the VAT numbers of their trading partners and VAT administrations to monitor and control the flow of intra-Community trade to detect all kinds of irregularities.

The departmental unit responsible for the control of intra-Community trade in each Member State, the Central Liaison Office **(CLO)**, has a direct access through VIES to the VAT registration database of the Member States.

For the purpose of verification of a certain intra-Community transaction or acquisition or of other information related to a specific tax entity, through the use of the Standing Committee on Administrative Cooperation **(SCAC)** standardised form, tax offices send in electronic form, requests for information to the EU through their respective CLO. On the basis of these requests, they obtain information from the requested member countries, which they can use for proper assessing of VAT. This is possible since data obtained from Recapitulative Statements **(Recaps)**, to be filled in by all registered persons involved in intra-Community supply of goods on a quarterly basis in all Member States, is captured in the VIES.

Audit Scope and Methodology

A number of meetings were organised between NAO representatives and VAT officials in order to:

- obtain a basic understanding of systems and procedures in place at the VAT Department with regards to CLO operations and the use of VIES; and

- assess whether legal requirements and controls are actually being adhered to and whether these are effective to minimise any type of established risk.

Where possible, documents supporting statements were obtained. All meetings were documented and sent back to the officers concerned for their comments and further clarifications.

Key Issues

Information provided late

Affirmations made, vis-à-vis validation of VAT numbers **(VIES Level 1)**, Recaps received, OMCTL Supplies

Error Reports for the first quarter of 2006 and requests for exchange of information, were checked where possible through walk-through testing.

However, the scope of the audit was somehow limited as testing of procedures and controls supporting assertions made during meetings could not be performed, once the following documents were forwarded for auditing after the exit meetings:

- List of 2006 reconciliations by the Inspectorate Section vis-à-vis Recaps.
- List of registered persons who filled Exempt intra-Community supplies of goods **(Box 1 of the VAT Return)** and did not send the Recaps and the progress report of any actions taken thereon.
- Monthly reports showing the number of files concluded and progress status of the investigations.

Tasks commenced still not concluded

Reconciliations of Notice Forms with corresponding Declaration Forms submitted by persons registered under Register C[1] and matching of Box 1 data, which were initiated either by the CLO and/or the Inspectorate Section, were not concluded, hindering audit testing. Reasons given include lack of communication between the Sections concerned, human resources constraints and other priorities of the Sections.

The Inspectorate Section explained that the investigations carried out, and the procedure adopted by the Section regarding the latter exercise with the CLO, involved tasks which should ideally be carried out provided sufficient and adequate resources were in place. The Inspectorate Section, however, stated that audit procedures regarding the above exercise are still to be adopted.

Control Issues

Lack of monitoring of registered persons under Article 12 of the VAT Act

It is not a standard procedure for the Department to issue regular reports and take the necessary action.

- The CLO stated that it may request reports from the System Administrator to identify those persons registered under Article 12 of the VAT Act who are not paying the relevant VAT due on acquisitions. However, the only report issued during the year under review was dated 7 November 2006, with no action being taken against defaulters. CLO noted that: *"……compliance should be followed up by the Inspectorate provided that human resources are available."*
- The Inspectorate Section noted that reconciliations between VAT Forms 004/2004 **(Notice Forms)** and 005/2004 **(Declaration Forms)** submitted by registered persons under Register C have not commenced as other tasks within the Section have been assigned higher priority. *(**Appendix 1** refers)*

Lack of control over Recaps

The VAT Department:

- is made aware of registered persons who made intra-Community supplies only after it receives the VAT Return. Recaps are sent to all registered persons who either fill in Box 1 or Box 2[2] by mistake of the VAT Return; and
- does not maintain a record of Recaps submitted by registered persons. The only information available, as from the third quarter of 2006, is of those registered persons who filled in Box 1 of the VAT Return.

Lack of Reconciliations and follow ups regarding supplies and acquisitions versus Recaps, Intrastat Statements and VAT Returns

Matching of Box 1 and Box 2 against Intrastat Statements and Recaps (Appendix 2 refers)

The Inspectorate Section embarked on an exercise on registered persons whose VAT Returns for the period May 2004 to December 2006 showed amounts in Boxes 1 and 2 of the VAT Return. This exercise is at a standstill due to lack of resources and other Section priorities, resulting in wastage of time taken to put up the exercise and inefficient use of resources available. Furthermore, any differences are only indicative because of time reporting differences.

During a follow up meeting, the same Section stated that the matching of Box 1 in VAT Returns with equivalent Recaps' data is integrated in the Risk Analysis System. Intrastat data is not considered by the Risk Analysis System. Such data is available online at the VAT Department through the NSO server by the local system

[1] Exempt persons registered under Article 11 or registered persons whose economic activity is outside the scope of VAT when making intra-Community acquisitions. VAT numbers pertaining to these registered persons bear the MT prefix. Article 12 legislates the registration of persons who make intra-Community acquisitions.

[2] Supplies of goods and services where place of supply is outside Malta.

provider, users of which are however restricted, including the CLO.

Matching VIES versus Box 3 of the VAT Return (Intra-Community acquisitions of all goods where purchaser is liable for payment of VAT) and Intrastat Statement

- The Anti Fraud Unit does not regularly run the above report although it is an audit aid targeting traders for fraud investigations. This could imply that no tax assessments are raised for the respective tax periods.
- Limited work was carried out on a 2006 mismatch report. Largest discrepancies were given priority. *(**Appendix 3** refers)*
- The Unit could not confirm those registered persons who were being followed up.
- The Unit failed to confirm the established benchmark for the above report.

OMCTL Acquisitions Error Reports (Appendix 4 refers)

CLO claimed that although OMCTL acquisitions error report, *"…… can be issued ………… CLO office is not obliged to verify such errors. The obligation of each CLO is to check the errors on intra community supplies."* The Department remarked favourably that currently it is working on an exercise to identify registered persons who filled in Box 3 of the VAT Return and failed to submit an Intrastat Statement.

Unless there are adequate VAT number controls and VAT Return/Recaps reconciliations, traders who actually received the goods could forgo paying the VAT due.

No VAT numbers validation records maintained

The Department is failing to keep a trend/track record of persons declaring an invalid VAT number. The Anti Fraud Unit remarked that such a list is not maintained since it is perceived as being an integral part of audits executed. However, there is the risk that the same persons might repeatedly declare an invalid VAT number without the Department noticing this trend.

Lack of control over keying-in of Recaps

Eleven (11) Recaps sent by registered persons, representing 26% of Recaps received during the last quarter of 2006, were examined. The following shortcomings were revealed:

- Recap Statements received were neither registered by the VAT Department nor taken note of before being forwarded to the Batching Section on the basis that the system keeps an audit trail of the batch created and of the details inputted. However, registering of Recaps by batch number, handed over to the Batching Section, commenced on November 2006.
- Excel extracts utilised for mathematical calculations of Recaps to be keyed-in were not signed and dated by the officer after being compiled.
- Amounts as per excel extracts were being copied from the Recaps' totals as submitted by registered persons and any miscalculations adjusted at a later stage.

Negative figures, incorporating credit notes, are not accepted by the VIES during the keying-in stage. These have to be accounted for by a post 'office amendment/ adjustment' by another officer. Two (2) registered persons' credit notes in respect of the last quarter 2006 were still not inputted in the VIES system at the time of the audit.

Lack of evidence regarding validation of VAT numbers (VIES Level 1)

From the fifteen (15) validations audited, representing 12% of 2006 validation enquires, it was noted that in the majority of cases, validation requests replied to by fax were not supported by a 'sending confirmation' or a fax report, hindering verification of the time taken to send a reply.

Requests for Exchange of Information

- During the walk-through test, a second version of the list of 'Requests Received and Requested for 2006' was forwarded for auditing. This list had an additional five (5) requests to the version passed on to NAO. These five (5) requests were listed together with the requests for 2007. Prior to submitting statistical data to the European Commission, as required by Article 35 (3) of the Regulation, data is again checked by the CLO.
- From the first version of the list of 'Requests Received and Requested for 2006', four (4) requests, two (2) under Article 53 and two (2) under Article 194 (spontaneous) were still pending a reply. It was observed that a reply was forwarded within the stipulated time-frame as regards the remaining twenty-three (23) requests.

[3] Information to be forwarded not later than three (3) months following the date of receipt of the request.

[4] The Member State is not obliged to send a reply.

Compliance Issues

The penalty of Lm10 (€23) per month for registered persons who fail to submit the Recaps is not being enforced by the VAT Department

The VAT Department decided not to enforce the penalty stipulated in Article 38 (2) of the VAT Act, amounting to Lm10 *(€23)* for every month or part thereof when the registered person fails to submit the Recap, on the grounds that:

- this was a relatively new requirement on traders and the VAT Department wanted to inform and educate the taxpayers regarding the Recaps; and
- the taxpayers need ample time to get accustomed to Recaps' statements.

However, if it is decided to enforce the penalty on Recaps' defaulters, a manual exercise would first have to be undertaken by the VAT Department in order to identify such defaulters since the VIES does not have the facility of extracting an electronic Recaps' defaulters' list.

OMCTL Supplies' Error Report for the First Quarter of 2006 (Appendix 4 refers)

A sample of eleven (11) out of thirty-four (34) transactions (i.e. 32.35%) indicating VIES Error Codes on the OMCTL Supplies' Error Report for the 1st Quarter 2006 were examined. NAO noted that the Vies Error Code Excel Sheet was not complete in that not all the related adjustments were recorded. Immediate action was taken by the CLO to rectify the situation. Moreover, the CLO requested the local system provider to make the following maintenance on VIES:

- Each report extracted from VIES should bear the date of printing.
- OMCTL Error Report should have the facility to be extracted for a particular quarter and year.
- Level 1 Sent and Received Report (sales and acquisitions for a given quarter, including related adjustments if any) can be extracted with error codes only.

Following a walk-through testing on OMCTL Supplies Error Report, it was noted that two (2) entries, amounting to Lm879,052 *(€2,047,640)* and Lm463 *(€1,078)* were posted to an invalid foreign VAT No. This error did not feature in the OMCTL Supplies Error Report and was not amended by the time of the audit. According to the VAT Department, the system was not always accepting amounts with a negative sign and the system provider was informed to address the issue accordingly.

Recommendations

Control Issues

Lack of monitoring of registered persons under Article 12 of the VAT Act

- Stipulated internal procedures should incorporate adequate controls to warrant full compliance by registered persons.
- The Department should ensure that Sections within the Department communicate with the CLO.
- The Department should ensure the correctness and completeness of persons registered under Articles 11 and 12.

Lack of control over Recaps

- The VAT Department should carry out an exercise to identify those registered persons who are legally bound to fill Recaps.
- Electronic submission of Recaps would help improve the current system further.
- The CLO should maintain a database of all Recaps submitted to the VAT Department and compare such with the list of Recaps sent by the VAT Department.

Lack of Reconciliations and follow ups regarding supplies and acquisitions versus Recaps, Intrastat Statements and VAT Returns

- The VAT Department should strive to:
  - utilise and compare all information submitted by registered persons for VAT audit purposes;
  - pay increased attention when reviewing the differences between data declared by VAT payers and data included in the VIES system; and
  - verify and solve any differences on a regular basis.
- Established benchmarks should be documented for audit trail purposes.

No VAT numbers validation records maintained

A list of VAT numbers validated might aid the VAT Department to follow up registered persons who had previously declared an invalid VAT number.

Lack of control over keying-in of Recaps

- Recaps received at the VAT Department should be registered.
- All mathematical workings should be signed, dated and attached to the batch file.
- Recaps should be mathematically verified before being entered in the VIES.
- The VIES should cater for negative amounts.
- Clarifications due to office amendments should be settled with the registered person as soon as possible.

Lack of evidence regarding validation of VAT numbers (VIES Level 1)

All supporting documents of validation replies should be kept and filed for audit trail purposes.

Requests for Exchange of Information

The CLO should maintain a separate annual spreadsheet of the requests.

Compliance Issues

The penalty of Lm10 (€23) per month for registered persons who fail to submit the Recaps is not being enforced by the VAT Department

The VAT Department should:

- seek and obtain covering authority for not enforcing the penalty imposed by law; and
- be able to electronically extract a list of those registered persons who fail to submit the Recap through a facility within the VIES.

OMCTL Supplies' Error Report for the First Quarter of 2006

- The CLO should ensure that the local system provider carries out the necessary changes requested in connection with OMCTL Error Reports.
- The VAT Department should request the local system provider to make a facility in the VIES whereby OMCTL Error Reports generate only those transactions indicating VIES Error Codes and a report is generated with all the adjustments carried out.

Appendices

Appendix 1 – Notice Forms and Declaration Forms

Registered persons under Register C are required to fill VAT Form 004/2004 **(Notice Form)** whenever making intra-Community acquisitions on which VAT is due in Malta. Any VAT due should be settled with the VAT Department within fifteen (15) days from the date of acquisition. On an annual basis, the registered persons have to submit VAT Form 005/2004 **(Declaration Form)** showing the total value of intra-Community acquisitions effected during that particular year. The value in this Form should be equal to the total intra-Community acquisitions declared in Notice Forms compiled during that year.

Appendix 2 – Intrastat Statements

Supplementary Declaration is the system for collecting data on the trade in goods between the countries of the EU. The system known as Intrastat in most Member States, has replaced customs declarations as the source of trade statistics within the EU. Legal Notice 131 of 2004 provides for the Collection of Supplementary Information.

Economic operators whose value of annual gross merchandise arrivals and dispatches to and from Malta, is more than Lm300 *(€699)*, have to provide an Intrastat Statement. Any person who fails to furnish the Intrastat Statement is liable to a fine of not less than Lm300 *(€699)* and not exceeding Lm1,500 *(€3,494)* as stipulated in the VAT Act.

Appendix 3 – Mismatch Report

The Mismatch report compares data from three (3) sources, being VAT Returns, Intrastat Arrival Statement and VIES.

Through this report, the VAT Department can identify discrepancies among intra-Community acquisitions declared in the VAT Return by local registered persons with relevant intra-Community supplies to local traders as declared by foreign suppliers in their Recaps and with goods actually obtained in Malta as declared in corresponding Intrastat Arrival Statement.

Appendix 4 – OMCTL Error Reports

(a) OMCTL Supplies Error Report

The OMCTL intra-Community supplies report identifies errors concerning validation of foreign VAT numbers. It does not identify discrepancies between VAT Returns and

Recaps. The report consists of a list of registered persons' VAT numbers relating to supplies made to other EU Member States. The report may contain four (4) types of mistakes:

- Formally incorrect VAT ID.
- The VAT ID is not recorded in the given country or has never been assigned.
- The buyer with a certain VAT ID was not a VAT payer in the given quarter.
- VAT registration of the buyer was cancelled during the quarter.

(b) OMCTL Acquisitions Error Report

The OMCTL acquisitions report is similar to the above report. It indicates operators registered under Article 11 of the VAT Act who made intra-Community acquisitions during the quarter in consideration even though they are not entitled to do so once they do not have a valid VAT number for EU purposes.

Management Comments

Management submitted the following comments and action taken to address the above shortcomings and related recommendations:

Key Issues

Information provided late

The VAT Department does not agree that the limitations on scope of audit are congruent with the audit scope because the audit focused also on other issues not directly concerning the CLO.

Tasks commenced still not concluded

- The Matching exercise of Box 1 of the VAT Return against registered persons who did not send Recaps is an ongoing process, as is the case for reconciliations of Notice Forms with corresponding Declaration Forms.
- Lack of communication is caused by the extensive divergent functions within the whole Department.

Control Issues

Lack of monitoring over registered persons under Article 12 of the VAT Act

- An exercise relating to years 2005 and 2006 commenced in 2007 and is being compiled on a regular basis.
- Through verifications between Notice Forms and Declarations Forms, the system alerts any discrepancies which may arise. VAT due on intra-Community acquisitions is paid as per Article 12 of the VAT Act.
- Even though there is room for improvement, enhancements to the system are done through a group of people assigned to VAT Department by the system provider. Due to other urgent projects (such as the Euro changeover, the Eco Contribution and changes in system proposed by Ecofin as one-stop-shop and Business to Business **(B2B)** service), some enhancements cannot at the moment be done since others are given priority.

Lack of control over Recaps received by CLO

- Management generates reports according to the exigencies of the VAT Department. Data declared in Recaps submitted by the trader is compared with data declared in Box 1 of the VAT Returns.
- Electronic submission of Recaps is not possible at the moment due to priorities set by the VAT Department. Such priorities are communicated to the system provider.
- Maintaining a list of Recaps submitted to the VAT Department before the keying-in routine is not practical. Management is of the opinion that it should issue the report of defaulters of Recaps at the end of the year. Corrections are then made in the subsequent quarter.

Lack of Reconciliations and follow ups regarding supplies and acquisitions versus Recaps, Intrastat Statements and VAT Returns

Matching of Box 1 and Box 2 against Intrastat Statements and Recaps

- A report was generated covering the period May 2004 - May 2007 identifying those persons who failed to send the Intrastat Statement but also transacted intra-community supplies. At the end of August 2007, a letter was sent to those taxpayers who had a discrepancy between Box 1 of the Return and the Intrastat Statement requesting them to correct either the VAT Return or the Intrastat Statement, whichever is applicable.

- Intrastat Statements are indicative as they are based on an established benchmark. The Department is of the opinion that these Statements should not be embedded in the Risk Analysis system although they do help confirm the risk.

- During investigations carried out by the VAT Department, Intrastat Statements are verified. A discrepancy is investigated when a taxpayer is selected for an investigation. During an investigation, the Department uses data available and, where relevant, such data is matched with Intrastat Statements.

- To request taxpayers to submit Recaps on acquisitions would be a burden on the taxpayer besides going against European Community legislation. In addition, VIES does not cater for this information.

Matching VIES versus Box 3 of the VAT Return (Intra-Community acquisitions of all goods where purchaser is liable for payment of VAT) and Intrastat Statement

The VAT Department stated that:

- the priority of Anti-Fraud Section is the Missing Trader;

- the Anti-Fraud Section is not obliged and is impossible to follow-up all the taxpayers shown in the Mismatch report issued in 2006 since this is not within the remit of the Anti-Fraud Section;

- internal fraud are forwarded to the Investigation Section; and

- benchmarks are set by Top Management for each report.

OMCTL Error Reports

The CLO is obliged to verify errors on intra-community supplies only.

No VAT numbers validation records maintained

A list of invalid VAT numbers is maintained by the CLO, a copy of which is forwarded to the Anti-Fraud Section.

Lack of control over keying-in of Recaps

- Miscalculations made by registered persons on the Recaps are adjusted by the CLO, explaining why adjustments are not done at the keying-in stage. Any discrepancies between batching and keyers are referred to the CLO. There can be instances where the keyer calls the taxpayers in order to check and effect the necessary adjustments. In other instances, this task is carried out by CLO staff. The role of keyers is aided by pop-ups in the system.

- The VIES does not accept negative figures. Generally, negative figures in the Recaps refer to goods returned to the supplier (i.e. goods sent back to Europe). The negative amount has to be offsetted against a positive amount in the following Recap, leaving a positive amount.

- The officer-in-charge of the Excel extracts will be informed to start signing the Excel sheets.

- The VIES could not be amended to cater for negative amounts as the VIES is a tailored-made system devised by the European Commission and is shared between all EU Member States.

Lack of evidence regarding validation of VAT numbers (VIES Level 1)

- As from the end of 2006, the screen of ‘Validation of a VAT Number’ is being printed and attached to the request made by the taxpayer. Furthermore, the CLO started keeping the ‘sending confirmation’ fax sheet.

- When a VAT number is verified in the VIES the screen shows whether the VAT number was ‘not allocated’ implying that the number is ‘invalid’. This term is integrated in the VIES, which originated from the EU.

Compliance Issues

The penalty of Lm10 (€23) per month for registered persons who fail to submit the Recaps is not being enforced by the VAT Department

The VAT Department has considered enforcing the penalty manually, but this will create unfairness amongst taxpayers. The VAT Department is encountering the following problems:

- It is humanly impossible to check all the Recaps.

- No inbuilt automated system exists to generate the penalties.

- There are a lot of software applications to be developed and therefore the Department has to set priorities such as Euro changeover, changes in the 8th Directive Refund Application and new measures resulting from the Government Budgets.

The Department is of the opinion that:

- should penalties be enforced, it should be enforced on everybody through an electronic system; and
- the clause relating to the Lm10 *(€23)* penalty in the VAT Act should stand. A letter will be sent to taxpayers requesting them compliance vis-à-vis sending of Recap Statement(s) (approximate 400 taxpayers).

OMCTL Supplies' Error Report for the First Quarter of 2006

VIES Error Code Excel Sheet not complete

The previous Excel report extracted from the OMCTL Supplies' Error Report has been replaced by a new report availed of by the system provider in January 2007. This report indicates transactions with error codes only, showing the status of the error i.e. whether the error has been adjusted or otherwise.

Walk-through testing specific findings

The VAT Department stated that all the observations reported have been rectified.

Performance Audit Follow-up
Acquisition of Property by Government

Introduction

The acquisition of property is one of the functions of Government's overall management of its immovable property. Such acquisition enables Government to implement infrastructural works and other projects to the benefit of the Maltese society. The Land Department and the Estate Management Department within the Government Property Division **(GPD)**, which now falls within the responsibility of the Ministry for Finance, Economy and Investment, are the principal units involved in the process to acquire property on behalf of Government.

The main legislation regulating the acquisition of property by Government is the Land Acquisition (Public Purposes) Ordinance **(LAO)**. The LAO empowers the Commissioner of Land to acquire land that may be required for a public purpose. In the context of the LAO, the term 'land' includes any immovable property and related rights. The LAO stipulates procedures, which include compensation to third parties, that are to be followed in respect of the various types of acquisitions. Government can acquire property either by absolute purchase, or for possession and use for a stated period of time, or on public tenure.

In March 2004, the NAO published a report of a performance audit of the land acquisition function. The objectives of this study entitled 'Performance Audit – Acquisition of Property by Government' were to determine whether:

1. policies and procedures related to land acquisition were clearly defined and implemented;
2. Government Departments explored opportunities to minimise costs associated with land acquisition;
3. management of the land acquisition function by the Government Property Division **(GPD)** safeguarded the interest of Government, third parties, and society in general; and
4. management information related to acquired property was adequate.

The NAO's 2004 performance audit concluded that accumulated outstanding dues in respect of compensation payable to owners of land acquired by Government have been building up over time and will continue to increase, to the detriment of Government, for as long as the intrinsic value of land maintains a rising trend. Various factors contributed to the current situation, in particular the lack of reliable management information and accounting records, the lack of funds allocated for the acquisition of land, and costly delays in the acquisition process. Notwithstanding this scenario, an adequate debt management strategy was not in place.

This follow-up audit was carried out during the period April – May 2008. For the purpose of this review, the NAO followed up the extent to which recommendations proposed in the above mentioned report have been implemented by the GPD. The key recommendations proposed by the NAO in 2004 are reproduced as marginal notes in blue text.

The Role of the User Department

In the course of its project plans, a user Department would have identified land required for public use. User Departments are required to submit a formal request to the GPD so that the latter can proceed with the acquisition of land, if such land is not Government-owned.

Guidelines should be issued so that user Departments liaise with the GPD in order to identify opportunities to minimise land acquisition costs (NAO Report – 2004).

In 2004, the NAO recommended that guidelines should be issued by the then Ministry of Finance and Economic Affairs so that user Departments liaise with the GPD in order to identify opportunities to minimise land acquisition costs.

The GPD maintains that it is not aware that such guidelines were issued by any Department. The Division is of the opinion that project expertise lies with the sponsoring Department, and that all requests for acquisitions are endorsed by the sponsoring entity's Minister. Nevertheless, there were several cases where GPD input resulted in alterations/reductions in actual expropriations.

Although the amendments to the LAO in 2003 rendered the acquisition process more efficient, the role of the user Departments within the acquisition process could be rendered more effective. User Departments, to a large extent, still do not consult with the GPD during the early phases of project planning to explore opportunities to minimise acquisition costs. The GPD is generally faced with requests to expropriate land after project planning would have been concluded and procedures for the relative planning permits initiated.

Possession of private property should not be taken prior to the legal commencement of the acquisition process.

It is illegal for Government entities to occupy land intended for expropriation before the President's Declaration of expropriation is issued in terms of the LAO. In its 2004 publication, the NAO reported that there were instances where user Departments took possession of private property prior to the legal commencement of the acquisition process.

The GPD contends that, as far as it is aware, following the 2003 amendments to the LAO, and the relatively fast speed of subsequent expropriations, new occurrences of land being occupied before expropriation are not so common. Additional information requested by the NAO to substatiate this claim has, however, not been forthcoming to date.

A procedure should be introduced whereby, on completion of projects, user departments are to inform the GPD of any acquired land remaining surplus to their requirements.

A formal procedure which compels user Departments to inform the GPD of any acquired land which remained unutilised following the completion of public projects and works is still not in place.

The GPD maintains that it is not uncommon that the Division pursues user Departments for a survey showing the project as carried out. GPD's experience shows that in certain instances projects carried out differ in configuration from the related land expropriated.

The Land Acquisition Process at the Government Property Division

The Land Department is mainly responsible for the acquisition of private property for a public purpose, in accordance with the provisions of the LAO, acting as agent for other Government Departments. The process consists of a series of stages leading to a deed of contract, whereby ownership of the land acquired passes to Government against payment of compensation to the owner(s).

In its 2004 publication, NAO reported that the land acquisition process was characterised by delays in its various stages. Delays were due to many factors, such as process complexity and confirmation of owners' identity. Such factors led to delays in issuing Notices to Treat, thereby freezing the value of expropriated lands. During periods of high land value growth, this practice resulted in additional costs for Government.

Following the amendments to the LAO in 2003, ownership of expropriated property started being transferred to Government upon the issue of the President's Declaration of expropriation.

Appropriate time frames for all stages of the land acquisition process, as redefined by the amended LAO, should be established in order to ensure that the interests of Government and land owners are adequately safeguarded.

This recommendation was partly implemented by the GPD. Under the 2003 amendments to the LAO, Government is bound to deposit compensation funds into a bank account within fifteen (15) days. The remaining acquisitions stages are proof of ownership (that is entirely dependent on the private owners) and publication of contract for the payment of compensation rights. The latter depends on GPD but the process is relatively straightforward and delays here are practically non-existent.

The situation relating to expropriations prior to 2003 prevails as there are still no predetermined time frames for the various stages of the acquisition process. The GPD contends that funds available are below what the Division would be ready to pay in terms of completed procedures. This in spite of efforts having been made to increase budgetary allocation for such purpose in order to reduce pending arrears.

Implementation of appropriate management information systems should be addressed as a matter of priority.

The inadequate management information system at the GPD in 2004 was considered to hinder the Division's decision making process as regards prioritisation of work and in ensuring that the settlement process was transparent and fair.

The GPD acknowledges the benefits of a management information system. The Division, however, maintains that insufficient human and financial resources have hindered progress in this respect. The GPD, moreover, states that factoring in estimated changes in the value of property over time would require very time-consuming periodical re-valuations of expropriated property for which GPD is not equipped.

It is pertinent to point out that the GPD carried out considerable work in connection with a comprehensive IT system (Land and Estate Management Information System - **LEMIS**). In fact, a call for a submission of tenders was advertised in February 2003. However, no further progress in this regard can be reported. The GPD maintains that this situation is a result of insufficient funds. This resulted from the fact that other strategic IT related projects were given a higher priority within the Ministry for Justice and Home Affairs.

Land acquisition records should be adequately safeguarded against material risk (fire, deterioration and theft).

Land acquisition records consist of hard copies of maps and documents. Maps have been scanned and are stored electronically. Documents are stored in manual files with a copy of the main ones being stored in a deed packet at GPD's Property Terrier Unit. The latter are stored in fire retarding cabinets. Fire extinguishers are also available on site.

Compensation Issues

Prior to 1994, the practice was for all acquisitions to be funded from budgets allocated under a common capital expenditure vote, managed by the Land Department. However, this practice led to a situation where the budget allocated for land acquisition was never adequate to cater for all the expropriations carried out. In addition, it was the practice at the time for the Land Department not to issue Notices to Treat before confirming the identity of owners. The latter practice led to a delay in freezing the relative prices in connection with the expropriated land. Consequently, the delays in issuing Notices to Treat had serious repercussions for eventual funding requirements, due to the increase in land values over time.

Compensation for outstanding acquisitions up to 1994 continues to be funded through the Government's Property Division's capital budget.

In 1994, it was decided that user Departments were to henceforth finance land acquisitions out of their own budgets. The practices relating to the issue of Notices to Treat prevailed.

The 2003 amendments to the LAO was a significant landmark. Under the new procedure the valuation of the land is published as part of the President's Declaration. Furthermore, the relative sum is to be deposited in an ad hoc interest-bearing bank account to be subsequently withdrawn by verified owners on the basis of a contract to be entered with GPD. The verification of owners was also simplified through a formalised declaration of ownership submitted by the owners' lawyer. Owners' still have the right to challenge the compensation offered in front of LAB.

The GPD, together with the Budget Office of the Ministry for Finance, Economy and Investment (referred to as Ministry of Finance and Economic Affairs, in the NAO Performance Audit Report 2004) are to establish a strategy to settle outstanding debts related to acquired land. Such a strategy is to address issues relating to budget allocations and the prioritisation of settling outstanding cases.

No such strategy has been developed between GPD and Budget Office.

However, it is to be noted that expropriation funds in the last years have been increased. Funds made available to the Division to settle outstanding expropriation dues amounted to around Lm3.3 *(€7.7)* million, Lm6.2 *(€14.4)* million, Lm5.5 *(€12.7)* million and Lm1 *(€2.3)* million in 2004, 2005, 2006 and 2007 respectively.

The issue of escalating land values over time in cases where the Notices to Treat have not been issued has been partly resolved by amendments to the LAO in 2005. These amendments entailed that in the case of old expropriations, where no Notice to Treat was issued, the applicable date at which land is to be valued would be January 2005. This amendment would have the effect of freezing the date of valuation and market prices of land would be the applicable rates irrespective of whether compensation takes place beyond this date.

Furthermore, the GPD maintains that the issue of prioritisation of payment of outstanding dues to creditors is a complex one, and is influenced by the following circumstances:

- Land Arbitration Board decisions that impose a target date for publication of contract, and consequently payment in respect of the expropriated land. These have to take precedence irrespective of any other departmental priority;

- Ombudsman decisions also take priority when funds are available;

- Government's commitments for certain land is also very important. Non-finalised expropriations may prejudice large projects of critical national importance.

- Likewise, Government's policy to encourage home ownership may be hampered by its inability to sell residential premises built on land that is still in course of acquisition;

- Owners may not always be forthcoming with proof of ownership.

The current practice whereby architects appointed by the GPD to determine valuations of expropriated land also serve on the Lands Arbitration Board, *albeit* with regards to separate cases, should be curtailed.

The NAO proposed this recommendation in view of the potential conflict of interest that may result when architects involved in deliberating on valuation criteria are also appointed to serve on the Lands Arbitration Board. The GPD decided to retain this practice in view of the envisaged advantages this has. The experience gained on the LAB ensures consistency between GPD valuations and valuations made by LAB. At the same time, GPD contends that the risk of a conflict of interest is practically inexistent, considering that architects are professionally bound to excuse themselves from hearing a case in which any valuation of theirs is challenged in front of the LAB.

The GPD is to document criteria related to the valuations of expropriated land.

In its 2004 publication, the NAO contended that valuations of expropriated land determined by architects appointed by the GPD are to be backed by valuation reports indicating the relative factors which were taken into consideration. Such an approach would have contributed towards a more transparent process of valuations of expropriated land.

In terms of instructions issued in April 2008, all valuations undertaken by/for the GPD have to include the parameters taken into consideration in arriving at a value.

Moreover, the Division contends that each valuation requires ad hoc considerations. The LAO dictates that land is to be valued in terms of what is/is not a building site. In 2006 LAO was amended so that the definition of building site was made consonant with the provisions of the Development Planning Act.

Conclusions

The most significant changes in Government's land acquisition function since the publication of the NAO publication in 2004 have been the amendments to the Land Acquisition Ordinance. These amendments stimulated changes to render the land expropriation process more efficient and economical.

The business process involved to enable Government to acquire land has, to an extent been streamlined for post 2003 amendments. The LAO has imposed time frames relating to the various stages in the land acquisition process. Moreover, obliging Government Departments to deposit the monies due to third parties in ad hoc interest bearing accounts at the outset of the expropriation process ensures that acquisition costs will not escalate due to the increase in the value of land over time. The changes discussed in this paragraph are also considered to safeguard third party interests, particularly when it comes to timely compensation.

The 2005 amendments to the LAO to freeze the applicable land valuation rate ensure that Government dues to creditors do not escalate indefinitely. Nevertheless, outstanding dues in respect of acquisitions dating back before the 2003 amendments continue to pose serious challenges. Primarily it is a funding issue. An adequate debt management strategy is, however, still not in place. Moreover, the GPD still lacks a reliable management information system on its land acquisition function. Even if funds are available, the current staff compliment at the Division is probably insufficient to process the complex acquisition records expeditiously.

This follow-up audit has also shown that the land acquisition process could be rendered even more transparent and equitable. Documented policies and guidelines on various key aspects related to the land acquisition process, such as prioritisation of compensation, the role of user Departments and land valuation methods are still lacking.

Police Department
Salaries

Background

The Police Department employs three categories of personnel: Police Officers, Civil Servants and Immigration Officers. The Department has two Human Resource Sections; responsible for Police officers and civilian staff respectively.

The processing of payroll adjustments is carried out by both the Police Department and the Treasury Department on behalf of the Department through Payroll Personnel System **(PAYPER)**.

Police Officers are regulated by the Collective Agreement of Government employees covering the period from 2005 to 2010.

Key Issues

Sick Leave Half and/or No Pay

The examination carried out on sick leave availed of during the year 2006 revealed various discrepancies in deductions made from employees' salaries. Instances were noted where the dates of sick leave reported by the HR Section were not in agreement with the corresponding dates reported by the Salaries Section resulting in an incorrect deduction from the employees' salary.

Incorrect payments of Salaries

a) Payments effected to an officer interdicted with effect from January 2006 were incorrectly calculated. From the verification of relative records it emerged that there were cases where the salary was over or under paid. Furthermore, during the year 2006 Income Supplements and Bonus were paid in full notwithstanding that the Public Service Management Code **(PSMC)** states that an officer who is interdicted is to be paid half the basic salary.

b) Salary paid to an employee during February 2006 was overpaid by Lm235 *(€547)*.

c) Payments of salary for months of May and June 2006 were paid in full to a police officer notwithstanding that the employee retired during May 2006. Furthermore, during examination it emerged that the effective date of retirement of the Police HR Section and the Salaries Section were not the same.

The above shortcomings resulted in a total overpayment of Lm922 *(€2,148)* effected by the Department and in an underpayment of Lm116 *(€269)* received by one (1) of the same officers.

Manual Records

The Police Department lacks a proper automated system to maintain its payroll records. Adjustments to payroll are calculated manually by officers of the Salaries Section and subsequently communicated to the Treasury Department for inputting in PAYPER.

In the case of Overtime, Sundays, Public Holidays and Extra Duty payments, various manual forms are also to be completed by Police Stations/Sections and forwarded to the Salaries Section. Entries from these latter forms are then manually inputted into computer spreadsheets prior to the actual adjustment to payroll.

Control Issues

Opportunities for improvement were identified in the following areas:

- Salaries paid in April 2006 to officers promoted to another position during the same month did not include the relevant adjustment taking into consideration the effective date of promotion. In fact, salary adjustments within the new scale and point linked to the promotion were only effected as from next payment.

- Income Supplement payable in March 2007 to two (2) officers on reduced hours and on parental leave were paid in full and not pro rata according to the new conditions of employment.

- Electronic spreadsheets used in calculating Overtime, Sundays, Public Holidays and Extra Duty payments were not forwarded to NAO, even though such data was available.

- Various discrepancies emerged when comparing lists showing all employees of the Police Department issued by the Police HR Section and the Treasury Department:

  - Total employees included in the Departmental list amount to 1,831 while the Treasury list amounts to 2,131.

  - 289 employees listed on the Treasury list were not included on the Police HR list.

  - Fifteen (15) employees included on the Police HR list were not found on the Treasury list.

  - In three (3) particular cases the ID card number of the respective employees was different from one list to the other.

Compliance Issues

Overtime

From the analysis of PAYPER records in relation to overtime paid it resulted that:

- in fifteen (15) out of thirty-nine (39) cases of employees working on a reduced timetable during the year 2006, overtime payments were noted in the respective paylist history; and

- in fifteen (15) out of forty-two (42) Officers in Scale 6 or above, overtime payments were effected during the year 2006 as shown by the paylist history.

The above shortcomings are in breach of the PSMC that states that employees working on a reduced timetable are not entitled to payment of overtime work and overtime pay is not allowed to officers above the grade of Senior Principal and analogous grades.

Recommendations

Key Issues

Sick Leave Half and/or No Pay

Adjustments to salaries are to be thoroughly checked prior to being forwarded to the Treasury Department. Preferably calculations are to be checked by an officer other than the one who performed the computation. Moreover, efforts are to be made to ensure that proper liaison exists between the Salaries Section and the HR Section to ensure better communication.

Incorrect payments of Salaries

Any amounts paid in excess are to be further verified and action is to be taken to correct under or over payments. Further checking is also to be extended to years 2007 and onwards to ensure that salaries were correctly computed.

Manual Records

The Department is to evaluate the possibility to move to a completely automated system. The Salaries Section is to be adequately equipped with an ad hoc computerised system that enables officers to have instant access to employees' records and carry out any amendments and calculations electronically. Such system needs also to support the generation of any supporting documentation that the Section may require.

Control Issues

- Efforts should be made to ensure that amounts due are paid correctly and in a timely manner. Furthermore, all amounts paid are to be supported by adequate documentation and the relevant calculations.

- Payments/deductions are to be checked thoroughly prior to payment to ensure that any deductions to be made are actually taken into account as per conditions of work of each officer.

- Efforts should be made to ensure that all requested information by NAO is submitted in a timely manner to consent full examination of the samples.

- The Department is to have adequate and complete updated records for all employees within the Police Department. The HR Section of the Police Department is to ensure that proper coordination is carried out with the Treasury Department to have a unique updated list of employees. Backups of old documents are to be kept for each year in order to maintain a proper audit trail.

Compliance Issues

Overtime

The examples outlined are to be further verified to ensure that such payments were effectively carried out for overtime work. Furthermore, regulations listed in the PSMC are to be strictly adhered to, to ensure effectiveness within Departmental internal controls over funds being disbursed.

Management Comments

Management concurred with the findings, however, the following comments were made:

- The amount overpaid to an officer interdicted since January 2006 has actually been deducted from the subsequent payments in four (4) equal instalments.

- The deductions made in respect of Sick Leave for 2006 were made by the Treasury Department and the Police Department will be passing on an adjustment in the respective salary.

- Employees whose names featured only on the Treasury list, were found to have retired on pension or resigned from the Police Force. On the other hand, personnel whose names featured in the Civilian HR list only are employees who were transferred or seconded to other Departments.

- Amounts included under overtime have been checked and it resulted that in ten (10) cases an overpayment was effected. In the majority of the cases employees have either been paid for services rendered to third parties at a fixed rate for which they are entitled to or have received payment for additional hours worked in excess of their normal duty at the plain hourly rate.

- With regards to payments effected to Officers in Grade of Senior Principle or above it was stated that the respective amounts have been paid by third parties for services rendered at the appropriate fixed hourly rate. The only two (2) amounts that have erroneously been paid at overtime rate have been recalculated using the plain hourly rate and an adjustment will eventually be carried out in the respective salary.