NAO
National Audit Office
MALTA

Annual Audit Report

by the

Auditor General

Public Accounts 2008

Contents

List of Abbreviations

AAR	Annual Audit Report
ADT	Awtorita' Dwar it-Trasport / Malta Transport Authority
AFM	Armed Forces of Malta
AO	Administrative Officer
AOs	Authorised Officers
ARS	Accounts Receivable System
CBs	Commercial Bank(s)
CBM	Central Bank of Malta
CCN/CSI	Common Communication Network / Common System Interface
CdB	Common Database
CDO	Central Districts Office
CEO	Chief Executive Officer
CET	Customs and Excise Tax
CIO	Chief Information Officer
CJD	Courts of Justice Division
CLO	Central Liaison Office
COLA	Cost of Living Adjustment
CSF	Civil Society Fund
CSOSO	Conditions of Service for Officers Serving Overseas
CT	Computed Tomography
CTD	Capital Transfer Duty
DAS	Departmental Accounting System
DCS	Director Corporate Services
DDTA	Duty on Documents and Transfers Act (Cap. 364)
DG	Director General
DLG	Department for Local Government
DPF	Development Permit Fee
EB	Energy Benefit
ECCD	Elderly and Community Care Department
EO	Executive Officer
EU	European Union
FAAA	Financial Administration and Audit Act, 1962
FAR	Fixed Assets Register
FCCS	Farmers' Central Co-operative Society
FIFO	First In First Out

FME	Forum Malta fl-Ewropa
FMMU	Financial Management and Monitoring Unit
FR	Financial Report
FRC	Farmers' Registration Card
FSI	Financial Situation Indicator
FSS	Final Settlement System
GFRs	General Financial Regulations, 1966
GGH	Gozo General Hospital
GPP	Government Printing Press
GRTU	General Retailers and Traders' Union
GSPO	Goods Services Purchase Order
GWU	General Workers' Union
HCHS	Home Care Help Services
HMRC	Her Majesty's Revenue and Customs
HO	Head Office
HR	Human Resources
IACS	Integrated Administration and Control System
IAS	International Accounting Standard
IFRSs	International Financial Reporting Standards
IMU	Information Management Unit
INTOSAI	International Organisation of Supreme Audit Institutions
IRD	Inland Revenue Division
ISC	Infrastructure Services Contribution
IT	Information Technology
KIM	Koperattiva ta' Min Irabbi l-Majjal Ltd. (Pig Breeders Co-operative Society Ltd.)
LCA	Local Councils' Association
LEL	Lower Earnings Limit
LEPs	Locally Engaged Personnel
LES	Local Enforcement System
LPO	Local Purchase Order
M/D	Ministries / Departments
MADC	Malta Amateur Dramatic Club
MBOs	Malta Based Officers
MCC	Ministry for Competitiveness and Communications
MDH	Mater Dei Hospital
MDP	Malta Dairy Products

MEA	Malta Employers' Association
MEPA	Malta Environment and Planning Authority
MEUSAC	Malta - EU Steering and Action Committee
MFA	Ministry of Foreign Affairs
MFEI	Ministry of Finance, the Economy and Investment
MFIN	Ministry of Finance
MFSS	Ministry for the Family and Social Solidarity
MGOZ	Ministry for Gozo
MHCL	Malta High Commission, London
MIA	Malta International Airport
MIC	Malta - EU Information Centre
MITA	Malta Information Technology Agency
MITC	Ministry for Infrastructure, Transport and Communications
MJHA	Ministry for Justice and Home Affairs
MLO	Medical Liaison Officer
MMA	Malta Maritime Authority
MOBC	Mediterranean Offshore Bunkering Co. Ltd.
MPO	Management and Personnel Office
MRAE	Ministry for Rural Affairs and the Environment
MRES	Ministry for Resources and Infrastructure
MRI	Magnetic Resonance Imaging
MRRA	Ministry for Resources and Rural Affairs
MS	Member States
MSC	Main Sewer Contribution
MSD	Manufacturing Services Department
MSE	Malta Stock Exchange
MTA	Malta Tourism Authority
MTAC	Ministry for Tourism and Culture
MUDR	Ministry for Urban Development and Roads
NAO	National Audit Office
NBV	Net Book Value
NGOs	Non-Government Organisations
OPM	Office of the Prime Minister
OPRM	Oil Pollution Response Module
PAYE	Pay as You Earn
PMMS	*Pitkali* Markets Management System
POSs	Promise(s) of Sale
PR	Public Relations
PSMC	Public Service Management Code
PTSAs	Part-time Social Assistants

PVs	Payment Voucher(s)
RCS	Return Capture System
Recap	Recapitulative Statement
RV Nos.	Receipt Voucher Numbers
SABS	Social Assistance Benefits Scheme
SC	Street Contribution also known as Road Formation Contribution
SL	Sick Leave
SMPPMA	Special Market Policy Programme for Maltese Agriculture
SSC	Social Security Contributions
SSD	Social Security Division
SQM	Staff QuarterMaster
TCU	Tax Compliance Unit
TOIL	Time-Off-In-Lieu
TPS	Taxpayer Services (Virtual File) System
TQPG	Ta' Qali Producers Group
TR 1/09	Treasury Circular No. 1/2009 entitled 'End of Year (2008) Statements of Account - Stores Written Off and Cash Losses / Bank Balances'
UHM	Union Haddiema Magħqudin
UIF	Urban Improvement Fund
UK	United Kingdom
VAT	Value Added Tax
VIES	VAT Information Exchange System
VL	Vacation Leave
WSC	Water Services Corporation

Guide to using this Report

This Report summarises the conclusions reached following our Financial and Compliance and IT audits. We sought to spread our reviews across Government Ministries and Departments or across Government-wide activities in accordance with the NAO Annual Audit Programme drawn up from year to year. We have attempted to make this report as user friendly as possible and have tried to adopt common language, although this was not always possible due to the technicality of some of the issues raised.

This Report is presented by ministerial portfolios as featuring in the Government of Malta Financial Estimates 2008, each containing either the Ministry itself, or one or more Departments or Entities which were the subject of our review. 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 Ministry, Department or Entity 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 Ministry, Department or Entity.

Control Issues

Outline any shortcomings that came to our attention relating to the Ministry's or Department's internal control and internal checking mechanisms. These controls should exist so as to serve as an effective safeguard of public assets and resources.

Compliance Issues

Summarise instances whereby the relative Ministry, Department or Entity lacked compliance with effective legislation, standing General Financial Regulations and/or Circulars issued from time to time.

Recommendations

Outline our suggestions to the respective Ministries and Departments so as to encourage them to address any weaknesses that came to our attention as well as to consolidate and improve upon the management and proper discharge of public funds. In general, our recommendations are aimed at improving the internal control systems and promoting good practice in the best interest of the taxpayer.

Management Comments

Seek to include the Management's reaction to NAO's comments and action taken or planned to be taken, so as to address in a timely manner the issues and any shortcomings identified.

Values displayed in Lm are based on the rate of exchange Lm0.4293=€1 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**, incorporating Financial Statements and Accounts for year 2008, was 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, NAO noted that:

- a more detailed analysis of variations for 2008 was required by the Ministry of Finance, the Economy and Investment (MFEI) in respect of certain items of Revenue;
- formal variance analysis systems at Ministerial and Departmental levels, enabling effective, adequate and timely top management follow-up of resulting variances together with their cause, still need to be improved as evidenced by the substantial excesses of actual over revised budgets of certain items of Expenditure;
- debenture interests recorded as received from a Public Corporation were effectively paid by Government;
- various Court and Other Deposits Accounts, amounting to €2.9 million, experienced minimal movement or no movement at all for two consecutive years;
- an Advance of approximately €25.3 million was issued for the purpose of accounting for the 14th Social Security Benefits due in 2008;
- none of the €14.1 million budgeted funds, aimed towards paying Treasury Clearance Fund Advances, were actually utilised;
- the completeness of reporting of the Statements of Investments and Abandoned Claims, Cash Losses and Stores written off could not be ensured;
- Cash Book and Central Bank balances reported in the Financial Report 2008 still do not tally with corresponding figures in the December 2008 Bank Reconciliation Statement;
- the Public Account for the period June 1992 – December 2001 has not yet been reconciled since Treasury still contends that it is not feasible to embark on such a demanding exercise, considering cost and human resources requirements; and
- Letters of Comfort and Bank Guarantees reached €774 million (against €673 million in 2007). These constitute Contingent Liabilities for Government. *(page 16)*

Once again a number of Ministries, Departments and Entities failed to send their annual **2008 Return of Arrears of Revenue** to the Treasury Department as stipulated in Treasury Circular No. 2/2009 for onward transmission to NAO. Figures of some Departments had to be published as given. Some also lacked submission of detailed breakdown of figures hindering audit testing. *(page 42)*

Treasury collects information relating to **Bank Accounts held with the Central Bank of Malta and Commercial Banks** through an annual Treasury Circular forwarded to all Ministries and Departments. Following an examination of the Bank Accounts submitted by Commercial Banks, it was evident that these lists were incomplete, as 310 out of 475 Bank Accounts could not be confirmed by the Commercial Banks constituting a serious limitation on the original scope of the audit. Lack of liaison between Ministries/Departments, the **Ministry of Finance** and **Treasury** puts Treasury in a position of not being able to verify whether Bank Accounts operated by Ministries and Departments are being used for the purpose for which they were originally opened. Treasury relies entirely on information submitted by the Central Bank of Malta. Treasury, in liaison with the Ministry, is to co-ordinate a system whereby a comprehensive database is kept of all Ministerial and Departmental Bank Accounts for analysis and reporting purposes, thus creating an adequate audit trail. *(page 60)*

No Key Issues were identified following the compliance audit on **Expenditure** carried out at the **Armed Forces of Malta**. The approximately €4 million variance in the Operational and Maintenance Expenditure was mainly due to unforeseen circumstances resulting from the flow of irregular immigrants and related expenditure incurred representing 41.4% of the total actual item expense. Main Compliance Issues noted relate to lack of quotations for travelling abroad, VAT registered supplier paid by means of multi-payment and shortcomings within inventory records for vehicles. *(page 66)*

Following an audit of the **Local and Small Claims Tribunals***,* aimed at verifying that the remunerations granted to both the Commissioners and the Adjudicators were adequately controlled. It was noted that Commissioners were paid per Sitting irrespective of the number of cases heard. The **Courts of Justice Division** was limited in its verification over payments to the Commissioners due to lack of source documentation. *(page 72)*

Revenue arrears falling under the responsibility of the **Police Department** are composed of Weapons Licences, Services to Third Parties and Fines to Airline Companies. The system and current procedures in use need to be updated both to enable more reliable and comprehensive data facilitating the timely collection of revenue due to Government as well as to enhance the public security aspect through the inclusion of technical specifications of the weapons themselves. Such lack of adequate information is particularly evident in cases where weapons/firearms cannot be traced or located. The presence of fictitious ID numbers, as reported in previous years' NAO Audit Reports, is still evident both in the Weapons System and in related arrears due as reported in the Return submitted. *(page 76)*

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 82*. Furthermore, the following concerns were also noted:

- Fifty-two out of sixty-seven Financial Statements submitted, representing 77.6%, were qualified.
- Twelve Local Councils recorded a negative Working Capital in the Statement of Affairs.
- Twenty Local Councils registered a Financial Situation Indicator below the 10% benchmark.
- Twenty-four Local Councils registered a deficit in the Income and Expenditure Account.
- Thirty out of sixty-eight Audit Reports were delivered by 30 June 2009. Another twenty-six Local Councils submitted the audited Financial Statements by the end of July 2009, while the other twelve kept delaying the submission, including one Local Council which did not submit them by 13 November 2009.
- Twenty-seven Local Councils failed to submit a reply to the Management Letter by 13 November 2009.

During 2002, the Pensions Ordinance was amended by Act XV to provide further for the pensionability arrangements for public officers retiring from Public Entities. Following these amendments, the Ministry of Finance, the Economy and Investment undertook a comprehensive exercise to establish and claim **amounts owed to Government by the entities involved with respect to their share towards the cost of pension being paid out by the Treasury Division to retirees**, which at the end of 2008 stood at €7.38 million. The audit exercise revealed, that **MF/Treasury Division** lacked a consistent and periodical claims' system. Whereas claims raised to two entities covered up to 2008, claims to others date back to 2002, 2003 and 2005. *(page 112)*

Testing on internal controls presently in place to ensure completeness and correctness of data in respect of Contributions made by Self Occupied and Self Employed persons, referred to as **Class 2 Social Security Contributions (Post 1998)**, revealed that 28,810 taxpayers with an actual balance of €4.5 million based on Returns submitted for years 2002 – 2006 have fallen into arrears. This balance is exclusive of any estimates and/or interest generated by the system. Previous dues have since fallen statute-barred. *(page 115)*

The **Capital Transfer Duty Department** is responsible, amongst other tasks, for the administration of the Duty on Documents and Transfers Act. Subsequent to the Budget Speech 2004, the Act as amended by Legal Notice 7/2004, regulates the **Provisional Duty** that is paid when a Promise of Sale is entered into. During testing, NAO noted a discrepancy of €928,294 deriving from the difference between refunds issued during 2008 as per Capital Transfer Duty System as against refunds as per entries in the Departmental Accounting System for the same period. The results obtained, from the cut-off test carried out, did not suggest that the above-mentioned discrepancy was due to end-of-year transactions. Also noted were missing/incorrect property details in the Capital Transfer Duty System and undelivered refund cheques not accounted for in both systems. *(page 118)*

The Central Liaison Office, within the **VAT Department**, has a direct access through the computerised **VAT Information Exchange System (VIES)** to the VAT Registration Database of the EU Member States. A follow-up audit was conducted to enquire on the developments following the 2006 VIES audit including the extent to which NAO's recommendations have been acted upon by the VAT Department. *(page 122)*

An IT Audit was held at the **Malta Tourism Authority**. The audit focused on the review of two areas: **Entity Level Controls and Business Continuity Planning** with respect to IT. The audit identified shortcomings relating to lack of a formal written IT Strategy to support the Authority's business plan and lack of a risk assessment and management approach associated with IT operations. *(page 134)*

A regular Financial Audit could not be performed on the Accounts presented to NAO for Financial Years 2006 – 2008, in relation to the **Funds regulated under the Pilotage and Mooring Regulations, 1975**, since the Financial Statements were not prepared in accordance with International Financial Reporting Standards. NAO has been monitoring the situation and continued supporting the relevant administration with the aim of preparing accruals-based Financial Statements. Matters arising during a meeting held in June 2009, questioned the sustainability of the Mooring Fund, at least as it is being presently operated, since it is running at a loss and debts due, including the Mooring Men Personal Injuries Insurance cover, were settled from the Malta Maritime Authority's funds. *(page 140)*

The audit covering the procurement of **Operating Materials and Supplies** by the **Gozo General Hospital** was limited due to non-availability of certain source records necessary for audit purposes, coupled with the absence of a stock recording system on food provision. Various key irregularities, such as lack of control in the Food Provisions Section, were identified during this audit. *(page 146)*

Verification over the expenditure in relation to the **Home Care/Help Services Scheme**, designed to provide elderly or persons with special needs with non-nursing, basic domestic help and personal care at their homes, was carried out at both the **Ministry for Gozo** and the **Elderly and Community Care Department in Malta**. Common observations noted relate to the lack of means testing in the process of awarding of service, charging of a fixed nominal fee irrespective of the service given and lack of audit trail. *(page 151 and page 165 respectively)*

The current procedure for the free of charge **loaning out/in of Medical Equipment to/from Mater Dei Hospital (MDH) to Private Hospitals and Clinics** was reviewed. It is felt that clear responsibility and accountability for medical equipment loaned out by MDH must be delineated preferably in writing to ensure a transparent and accountable procedure. NAO strongly feels that the loan of medical equipment from MDH to private hospitals and clinics must not negatively affect the level of service at MDH. *(page 158)*

The **Main Sewer Contributions**, collected by the Malta Environment and Planning Authority (MEPA) are to be forwarded to Government each year after a deduction therefrom is made to cover the reasonable costs incurred in the determination and levying of the Contributions. Apart from observing that the 10% administrative fee charged by MEPA is not documented, it was noted that internal controls embraced by the then **Ministry for Investment, Industry and Information Technology** are not sufficient to ensure that all Contributions received by MEPA are in their entirety forwarded to the Ministry, leading in fact to approximately €2.7 million MSC collections by MEPA pending at year end. *(page 172)*

The **Agriculture Support Schemes** in relation to the **Pig Meat** and **Fruit and Vegetables Subsidies** were tested to establish whether subsidy payments issued during 2008 were in compliance with relevant Regulations and Circulars. Reports focus on the inaccuracies in effecting subsidy payments identified while conducting audit testing, as well as on any inefficiencies noted in the management processes in use and in the administration of both Schemes concerning these subsidies. *(page 181 and page 185 respectively)*

Procurement is central to the efficient and effective management of Government operations. Audits carried out by NAO on the subject matter over the years have consistently shown that in certain instances procurement systems and capabilities have not been adequate to ensure best value for money. This has prompted NAO to carry out, during the year under review, the Compliance Audits as detailed below. In addition, a Performance Audit study focusing specifically on *'Procurement Capability across the Public Administration'* examined the procurement capabilities and practices applied across the public administration. The latter report seeks to encourage the development and dissemination of good procurement practices.

As regards Corporate Issues, Compliance Audits in relation to the **Contractual and Professional Services** at the **Tourism Directorate** *(page 130)*, **Ministry for Rural Affairs and the Environment** *(page 176)* and the **Ministry for the Family and Social Solidarity** *(page 192)* noted the common observations overleaf:

- No agreements with service providers and/or Procurement Regulations not followed.
- Commencement of service prior to approval or prior to entering into a formal contract.
- No formal extension of existing agreements.
- Amounts charged by service providers not verifiable.
- Misallocation of expenditure.
- No tax invoices or fiscal receipts attached to Payment Vouchers.

The **Energy Benefit**, announced by Government as a 2007 Budget initiative, aimed to alleviate the effect of increasing oil prices on water and electricity bills for approximately 29,000 eligible households. Tests performed at the **Ministry for the Family and Social Solidarity** indicated weaknesses in the internal control mechanisms with some beneficiaries exceeding the applicable means limit. *(page 196)*

Verification of procurement and contracting activities, specifically payments issued to the four Social Partners and other Non-Government Organisations from the Civil Society Fund administered by the **Forum Malta fl-Ewropa**, concluded that in a number of instances source documentation (such as contracts and agreements) and evidence supporting payments were lacking. Various control issues identified weaknesses in the procurement process for security services and services rendered. *(page 202)*

The **Malta High Commission in London, Ministry of Foreign Affairs**, is in charge of the promotion of Malta's interest and the Maltese identity in the United Kingdom. Testing and verification was limited due to the fact that source records, such as vehicle log books, documentation specifying floor area applicable to the Mission and the basis for Sinking/ Reserve Fund charges, were not available for audit purposes. Lack of controls and segregation of duties were evident in various areas. *(page 208)*

Audit Opinion

Audit Report to the House of Representatives

Audit Mandate

In terms of Article 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 Article 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.

International Standards of Auditing and Guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI) 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 under review. 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 para. 5(ii) of the First Schedule of the Act, I am to report that, subject to instances referred to in the findings of the Report, I received all the information and explanations required for the carrying out of my duties.

Anthony C. Mifsud
Auditor General
2nd December 09

Financial Report

Analysis of the Financial Report 2008

Introduction

Statements of the Consolidated Fund Account, showing the comparative positions in 2007 and 2008, and the receipts and payments of funds created by law were laid on the Table of the House of Representatives during Sitting No. 100 on 20 April 2009 after being reconciled with Treasury Books by the Auditor General in accordance with Sub-para. 1(c) of the First Schedule of the Auditor General and National Audit Office Act, 1997.

The Financial Report Statements and Accounts for year 2008 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. 137 on 6 July 2009.

A comprehensive review of Government financial operations can be made by reference to both the Annual Financial Statements and the Financial Report for 2008.

Consolidated Fund Statement – 2008

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 2008 Budget (Original Estimates) for an Expenditure of €2,498,463,000 as authorised by Warrant No. 1 issued on 20 November 2007, and a further €402,559,001 as approved by Supplementary Estimates Warrant No. 2 dated 3 December 2008. Following the closure of the 2008 Accounts, it resulted that Expenditure had exceeded Revenue by €31,958,000 as detailed in Table 1.

Table 1 – Consolidated Fund 2008

		Estimated (Original & Supplementary)		Actual	
Opening Consolidated Deficit Balance as on 01/01/08	**€ 000's**				(55,933)
Revenue Ordinary (incl. Grants) Extraordinary	 **€ 000's** **€ 000's**	 2,410,818 218,758	 2,629,576	 2,302,145 319,052	 2,621,197
Expenditure Recurrent Public Debt Servicing [a] Capital	 **€ 000's** **€ 000's** **€ 000's**	 2,211,401 304,321 385,300	 2,901,022	 2,124,093 300,412 228,650	 2,653,155
Deficit 2008	**€ 000's**		(271,446)		(31,958)
Closing Consolidated Deficit Balance as on 31/12/08	**€ 000's**				(87,891)

(Source: Financial Report 2008 pg xxiv)

[a] These exclude €1,172,000 (Estimates)/€346,847 (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 2008, 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, the Economy and Investment (MFEI) are provided in Part 1 of the Financial Report 2008.

NAO again contends that in areas indicated in Table 2, a more detailed analysis of variations for 2008 was required by MFEI. A professional approach in variance analysis is lacking in that explanations given in respect of the below mentioned variances (produced in green text) were the same as the ones published in the 2007 Financial Report. This implies that the 2007 variances were not taken into consideration in preparing the respective 2008 budget figures.

Table 2 – Variances in Revenue for Financial Year 2008

Revenue		Budget Estimates	Actual	Variation	Reasons for Variation
Indirect Tax Revenue Customs and Excise Duties of which: Cigarettes	€ 000's	62,400	60,382	(2,018)	Actual receipts reflect activity under this item.
Petroleum	€ 000's	89,660	85,377	(4,283)	Actual receipts reflect activity under this item.
Licences, Taxes and Fines of which: Gaming Taxes	€ 000's	39,366	37,017	(2,349)	Original estimate included expected proceeds from the introduction of new activity under this item. The activity is expected to be undertaken at a later date.
Non Tax Revenue					
Fees of Office of which: Waste, rubble and container's deposit fees	€ 000's	3,260	1,800	(1,460)	Balance passed to the Consolidated Fund.
Reimbursements of which: Road formation (on Govt. land) Contributions	€ 000's	2,350	1,003	(1,347)	Balance passed to the Consolidated Fund.
Main Sewer Contributions	€ 000's	4,900	2,638	(2,262)	Balance passed to the Consolidated Fund.
Rents	€ 000's	22,536	20,348	(2,188)	Lower receipts than originally projected from rent on commercial premises and on property occupied by Government Departments.
Dividends on Investment	€ 000's	17,700	19,708	2,008	Increase due to payment of higher profits/dividends than projected being passed to Government.
Grants	€ 000's	116,112	30,223	(85,889)	Implementation of programmes financed by the European Union will continue in 2009.
Extraordinary Receipts					
Sinking Funds of converted loans	€ 000's	32,408	33,318	910	Actual proceeds from sinking funds on loans maturing during 2008.

(Source: Financial Report 2008 pgs xvi-xviii)

Expenditure

The appropriations for Expenditure during 2008 were authorised by the issue of Warrant Nos. 1 and 2 by the Prime Minister, then also Minister of Finance. These were appropriated under the following Statutes:

		€
(i)	Appropriation Act (Voted Services)	1,879,040,094
(ii)	In terms of Special Laws	1,009,670,420
(iii)	In terms of the Constitution	12,311,487

Analysis of Appropriations

i) Appropriation Act (Voted Services)

	€
Appropriated by Act XXV of 2007	1,596,053,093
Appropriated by Act XII of 2008 (Second Appropriation Act)	282,987,001

ii) Special Laws

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

	€
Expenses of the Electoral Commission – General Elections Act (Cap. 354)	700,000
Expenses of the Broadcasting Authority – Broadcasting Act, 1992 (Act XII of 1991 – Cap. 350)	606,000
Expenses under Re-letting of Urban Property Ordinance (Cap. 69) and Agriculture Leases (Re-letting) (Cap. 199)	37,000
Land Acquisition (Public Purposes) Ordinance (Cap. 88)	88,600
Social Security Act, 1987 (Act X of 1987 – Cap. 318)	630,649,000
Pensions Ordinance (Cap. 93)	77,730,000
Expenses of the Office of the Ombudsman (Cap. 385)	457,000
Expenses of the Permanent Commission Against Corruption (Act XXII of 1988 – Cap. 326)	58,000
Interest plus contribution to the Sinking Funds i.r.o. Local Government Stock – Registered Stock and Security Ordinance 1959 (Cap. 161)	174,628,852
Interest plus contribution to the Sinking Funds i.r.o. Foreign Loans (Cap. 213)	17,670,968
Malta Arbitration Centre (Act II of 1996 – Cap. 387)	70,000
Expenses of the National Audit Office (Act XVII of 1997 – Cap. 396)*	1,864,000
Refunds under V.A.T./C.E.T. Acts	816,000
Widows' and Orphans' Pensions Act (Cap. 58)	431,000
Personal Injuries (Emergency Provisions) Ordinance (Cap. 111)	58,000
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)	1,095,000
Short Term Borrowing – Treasury Bills Act (Cap. 133)	102,711,000
TOTAL	**1,009,670,420**

*The salary and allowances of the Auditor General and Deputy Auditor General are included in these expenses. As reported upon in previous Annual Audit Reports, respective salary and allowances should have been shown as permanently appropriated under Articles 107 and 108 of the Constitution respectively, as was correctly reported upon in the Financial Report 2008.

iii) In terms of the Constitution

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

	€
The President of Malta	57,038
The Attorney General	41,746
Judges and Magistrates	1,588,107
The Public Service Commission	142,416
	1,829,307
In terms of Article 106 (as applied to the Public Debt)	10,482,180
	12,311,487

Excess of Expenditure over Estimates

Excess expenditure over revised estimates exceeding €500,000 occurred in the instances shown in Table 3.

Table 3 – Excess of Expenditure over Revised Estimates

Vote, Item		Revised Estimates 2008	Actual 2008	Variation Actual 08/Rev Est 08	Variation Actual 07/ Rev Est 07
Vote 20: Treasury					
Item 5173: Expenses in connection with Malta Government Stocks	€	1,165,000	1,668,657	503,657	373,101
Vote 22: Public Debt Servicing					
Item 3639: Lm152,501,700 (c.€355.2m) 5.7% 2012 III Interest	€	20,248,304	24,169,686	3,921,382	1,452,949
Item 3644: Lm110,000,000 (c.€256.2m) 5% 2021 I Interest	€	12,811,554	14,912,444	2,100,890	-
Vote 41: Ministry for Investment, Industry and Information Technology					
Item 34: Incidental Expenses	€	5,000	732,168	727,168	(90,960)
Item 5401: Street Lighting and Other Services	€	11,640,000	13,526,123	1,886,123	166,389
Item 5463: Energy Support Measures	€	57,811,000	63,830,615	6,019,615	4,870,932
Item 6742: Grant to the Water Services Corporation towards the cost of water production	€	6,988,000	7,500,000	512,000	-
Vote 42: Ministry for Rural Affairs and the Environment					
Item 5014: Agricultural Support Scheme	€	10,310,000	10,890,678	580,678	(750,058)
Vote 46: Social Security Benefits					
Item 5141: Retirement Pensions	€	292,219,000	293,990,490	1,771,490	2,930,133
Item 5145: Widows Pensions	€	92,802,000	94,084,314	1,282,314	1,494,025

Capital Vote III: Ministry of Finance Item 7213: EURO I.T. Changeover	€	349,000	2,164,763	1,815,763	3,840,214
Capital Vote V: Ministry for Tourism and Culture Item 7070: Contribution to Malta Tourism Authority (Subvention)	€	24,458,000	25,158,000	700,000	400,000
Capital Vote VIII: Ministry for Gozo Item 7173: EU Structural Funds 2004-2006	€	464,000	1,106,707	642,707	3,369,420
Capital Vote XII: Ministry for Urban Development and Roads Item 7174: EU Cohesion Fund 2004-2006 (EU Post Accession Programmes – Cohesion Fund)	€	832,000	1,553,204	721,204	1,548,763
Capital Vote XIII: Ministry for the Family and Social Solidarity Item 7232: Equity Sharing (Subsidy)	€	1,165,000	1,824,880	659,880	-

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

NAO reiterates that, on a Government wide approach, Departmental Heads are recommended to 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 MFEI 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 accruals-based accounting system.

Assets

Table 4 represents the Statement of Assets. (Financial Report 2008 – Appendix I – refers).

Table 4 – Statement of Assets

	2008	2007
	€ 000's	€ 000's
Public Credit		
Share Holding	280,220	385,396
Other Investments	253,471	249,044
Loans	5,092	5,092
	538,783	**639,531**
Investments held on behalf of		
Sinking Funds (Local)	103,219	125,203
Sinking Funds (Foreign)	52,497	46,433
Trust Funds	1,226	1,117
Court & Other Deposits	295	788
	157,237	**173,542**
Advances		
Unallocated Stores	---	---
Advances	226,655	221,325
Loans	---	--
	226,655	**221,325**
Bank and Cash		
Banks	2,214	845
Cash at Treasury	---	---
C.B.M. – Public Account	96,216	165,645
	98,430	**166,490**
TOTAL ASSETS	**1,021,104**	**1,200,888**

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

Investments

The market value of direct investments as shown in the Financial Report as at 31 December 2008 stood at €280,220,012. The nominal value of shares denominated in US Dollars remained unchanged (USD11,147,455) from 2007.

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 2008 and the preceding year:

Investments Struck Off/Sold

- Maltese Libyan Arab Fishing Company Ltd. was struck off the Registrar of Companies on 25 October 2007. Government's direct shareholding amounting to €675,518 was written off by Treasury on 30 April 2008 after obtaining the appropriate MFEI authority.

NAO has already highlighted in past years' Annual Audit Reports concerns regarding the completeness of reporting of investments in Appendix H of the Financial Report. Transactions relating to a particular financial year are to be reported in the respective financial year's Financial Report and not a year later.

- Government's direct shareholding in Maltapost plc of 425,000 ordinary shares, representing a market value of €1,252,038, was sold during the year. The proceeds from the sale of these shares were utilised to repay two advances that the Government had originally taken to purchase such shares. These consisted of Advance Accounts Nos. 8689 and 8646 amounting to €349,406 and €786,164 respectively. The balance of €116,468 was utilised by MGI/MIMCOL to pay on behalf of Government a net exit dividend to the then-existing Maltapost shareholders.

Increase in Investments

- Following a Board resolution dated 26 October 2007, Bank of Valletta Ltd. capitalised its earnings for the purpose of increasing the current nominal and paid up value of each share from €0.58 to €0.75. The Government was also allotted a further 5,676,328 fully paid-up bonus shares at the new nominal value of €0.75 each with an effective date of 15 January 2008.

  Notwithstanding the increase in allotment of these shares to Government, the market value decreased considerably from €227,983,788 as at year end 2007 to €116,731,383 as at 31 December 2008. This was due to a depreciation in share value of €4.68.

- Last year, the direct investment in the Malta Stock Exchange (MSE) was erroneously reported in Statement H1 – Statement of Other Investments. This was reversed by Treasury during 2008 and substituted with a direct investment of 6,499,999 ordinary shares of €1 each in MSE (Holdings) Ltd.

Movements in Values of Existing Investments

- During 2008, the value of the investments in:

  - Council of Europe Resettlement Fund;
  - International Bank for Reconstruction and Development;
  - Malta Freeport Corporation;
  - Mediterranean Offshore Bunkering Co Ltd. and
  - Multilateral Investment Guarantee Agency.

  increased due to changes in USD exchange rate.

- The market value of ordinary shares in Malta International Airport Co. Ltd. experienced a decrease to €33,824,988 as at 31 December 2008 when compared to the market value of €43,492,646 as at the end of 2007. This decrease was due to the depreciation of the market price of €0.71 per share.

Investments unrecorded in previous years

Malta's subscribed capital in the European Investment Bank stands at €69,804,000, this being 4.375% paid up as at 31 December 2008. This investment was portrayed in the Financial Report 2008 with amounts paid towards Capital amounting to €10,771,773. Total contributions towards the increase in this investment totalled €3,077,650 during 2008.

The nominal value was erroneously reported in the Financial Report 2008 as €12,310,598. This should read as €69,804,000 as the nominal value of subscribed capital and a further nominal amount of €7,717,848 relating to Malta's contribution towards the Bank's reserves and provisions. Notwithstanding the above, the market value of this investment was not affected. Treasury confirmed that the proper classification, together with the nominal value of such investment, will be reported correctly in 2009.

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
	€	€
CBM Deposit Accounts	98,476,437	52,496,966
Malta Government Stocks	4,742,141	-
TOTAL	**103,218,578**	**52,496,966**

(Source: Financial Report 2008 pgs 192-193)

Other Investments

Investment in Industry

A return submitted by MGI to the Accountant General showed that the total cost of investment in thirty-three companies amounted to €20,935,661 as at 31 December 2008.

MGI estimated that the net book value of these investments amounted to €12,725,944 after an accumulated provisional loss of €8,209,717. Further details are provided in Table 6.

Table 6 – Investments through MGI Ltd.

Investment Type	No. of Companies	Cost	Provisional Loss	Net Book Value
		€	€	€
Subsidiary Companies	19	19,385,890	6,660,659	12,725,231
Associated Companies	2	1,549,059	1,549,058	-
Other Companies	12	713	-	713

The return also pointed out that four of these companies were undergoing liquidation procedures and two never commenced operations.

At the end of 2008, the total of investment in industry, as reported by Treasury, amounted to €23,216,219 as against €23,647,901 on 31 December 2007, a decrease of €431,682 over the previous year.

This decrease works out as follows:

- Magruvision Ltd. with an investment valued at €431,684 was struck off.
- The share capital of Mediterranean Offshore Bunkering Ltd. is denominated in US Dollars (two shares). Treasury Books erroneously recorded this investment as Lm1 in its 2007 books. This has been amended to €1 following the conversion of Dollars into Euros as at year end, leading to a reduction of €1.33 compared to 2007.
- MIMCOL Co. Ltd. capitalised its reserves resulting in the allocation of an additional three shares to MGI Ltd. at a nominal value of €1 each. Following the changeover to Euro, the share capital of the company was reconstituted with the result that MGI Ltd. holds five shares at €1 each. This resulted in an increase in value of €2.67 in Treasury Books over last year.
- MGI Ltd. subscribed to one share in Malta Electronic Certification Services Ltd., a new company registered on 28 January 2008. Since the share was 20% paid up, its value was recorded in Treasury Books as €0.20.

It is to be noted that indirect investments at year end, as reported by Treasury amounting to €23,216,219 do not tally with MGI Ltd.'s balances reported standing at €20,935,661.

Although Treasury's and MGI's records do not tally, NAO satisfactorily noted that 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 €2,280,558 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
	€	€	€
Libma International Construction Ltd.	442,606	645,425	202,819
Dairy Products (Malta) Ltd.	-	349,406	349,406
Topwear Ltd.	-	22,362	22,362
Property Management Services Ltd.	-	0.47	0.47
Desalination Services Marketing Ltd.	-	0.47	0.47
Malta Electronic Certification Services Ltd.	-	0.20	0.20
Malta Freeport Corporation	-	2.33	2.33
Malta Government Investments	-	2.33	2.33
National Orchestra Ltd.	1,162	1,165	3
Maltapost plc[1]	-	1,705,954	1,705,954
TOTAL	**443,768**	**2,724,318**	**2,280,550**

Note: Total difference does not tally due to rounding up of figures.

[1]MGI's remaining 695,000 shares in Maltapost plc with a value of €1,705,954, were sold during the year. Treasury informed NAO that this indirect investment was not cancelled from Treasury Books. It was thereby confirmed, that this would be adjusted and correctly reported upon in the Statement of Other Investments for Financial Year 2009.

Movement in 'Other Investments'

Malta Stock Exchange

As reported in last year's Report of the Auditor General, the direct investment in MSE should have been recorded in Statement H – Statement of Investments – of the Financial Report 2007. It was confirmed that Treasury correctly reported such investment in the Statement of Investments for the Financial Year under review, with an amount of €6,499,999 in MSE (Holdings) Ltd.

Central Bank of Malta

During 2008, there was an increase in the Authorised Share Capital of the Central Bank of Malta (CBM) from €11,646,867 to €20,000,000 by virtue of Article 18 (a) of the revised Central Bank of Malta Act No.1 of 2007. This amendment came into force on 1 January 2008 by virtue of Legal Notice 339 of 2007.

Dividends/Interests Received

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

Once again, 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.

Loans made by Government and Repayments thereof

Balances and other details of all loans issued by Government as on 31 December 2008, as reported in Appendix E of the Financial Report 2008, are summarised as follows:

	€
I. Loans under Act II of 1956	23,099
II. Other Loans	5,068,505
	5,091,604

Other Loans at II consist of the following:

	€
Aids to Industries Scheme	3,718
Agriculture – Assistance to Co-operatives	96,902
Water Services Corporation	4,967,885

Loan Repayments

The loan to the Water Services Corporation which as at 31 December 2008 amounted to €4,967,885 is interest free and repayable either through any surpluses generated by the 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 €10,482,180. No loan repayments were made during 2008.

Court and Other Deposits

These Deposits form part of the Treasury Clearance Fund, which in terms of Article 32 of the Financial Administration and Audit Act, contains all those Funds and Accounts, the expenses of which are initially defrayable out of public funds and repayable, gradually or otherwise, out of the Consolidated Fund or from other sources. As at end 2008, Court Deposits amounted to €15,302,738, while Other Deposits, spread across the forty-nine Ministerial/Departmental Votes, totaled €37,840,725.

Following an examination of the Statements of Court and Other Deposits for the years 2006 to 2008, it was observed that:

Nil/Immaterial Variances

Twenty-seven Ministerial/Departmental Votes had numerous Court and Other Deposits Accounts with minimal movement or no movement at all, for two consecutive years. These amounted to €2,911,752, a breakdown of which is found in Table 8:

Table 8 – Court and Other Deposits

Vote number	Ministry/Department	Description of Account	2006/2007/2008 €
Court Deposits:			
12	Judicial	8207 Land Arbitration Board 8208 Regular Court Deposits	51,042 37,333
Other Deposits:			
07	Armed Forces of Malta	8598 Retention of Monies	606
11	Ministry for Justice and Home Affairs	8803 Information Technology 2005 (L.N. 254/98)	267,878
12	Judicial	8279 Refunds of Revenue	1,342
13	Local Government	8469 Local Councils Tribunal	2,092
14	Police	8574 Takings from confiscated amusement machines	14,009
16	Civil Protection	8598 Retention of Monies	738
17	Government Property Division	8598 Retention of Monies	16,718
19	Ministry of Finance	8546 MSA – UN Projects 8598 Retention of Monies 8834 Information Technology (L.N. 254/98)	17,317 299,594 12,915
22	Public Debt	8554 Unpresented Bearer Debenture Loans	9,317
23	Inland Revenue	8306 *Il-Monti*	16,173
24	Customs	8310 Deposits under Act V of 1928	99
26	Contracts	8598 Retention of Monies	629,625
28	Ministry of Education, Youth and Employment	8256 Sport Facilities 8392 T.E.F.L. Examinations 8825 Rehabilitation of Villa Bighi (L.N. 254/98)	122,433 11,470 16,341
32	Ministry for Tourism and Culture	8361 Heritage Park Development 8537 Funding of Getti Grant 8809 Surveillance, Security and Auto Ticketing System 2006 (L.N. 254/98)	604 9,418 83,857
33	Ministry for Competitiveness and Communications	8552 Wireless Telegraphy	2,329
34	Commerce	8337 Licences Appeals Board	77
36	Civil Aviation	8268 Reimbursements by MIA	3,682
37	Ministry for Resources and Infrastructure	8237 Enhancement of Public Areas (L.N. 254/98) 8598 Retention of Monies	665 1,106
38	Ministry for Gozo	8266 Proceeds from Sale of Stores 8399 Careers Convention 8838 Improvement to Agriculture and Fisheries Facilities (L.N. 254/98)	2,951 1,438 875,844
39	Ministry of Health, the Elderly and Community Care	8250 Maria Bugeja Cancer Foundation 8286 EWGLI Meeting 8347 ESEN Quality of Life 8366 Leonardo Da Vinci Programme 8403 Nurses/Patients Fund of SVPR 8415 Money Belonging to Patients - St. Luke's Hospital 8434 HIV Action Plan for Benghazi 8520 Gross VAT Output Tax (Health)	229,514 313 807 727 47,289 3,224 11,381 7,546

40	Elderly and Community Care	8346 Zejtun Home – Contributions by Residents 8364 Home Help Services	87 67,796
42	Ministry for Rural Affairs and the Environment	8387 Guidance and Guarantee Scheme, Beef 8598 Retention of Monies	1,609 710
43	Ministry for Urban Development and Roads	8266 Proceeds from Sale of Stores 8327 Regional Road Junction 8833 Psaila Street (L.N. 254/98)	1,771 6,038 993
44	Ministry for the Family and Social Solidarity	8340 Socrates Projects Funds 8374 National Alcoholic Policy – Twinning Programme 8573 U.N.D.P. Programme Women's Advancement	1,203 4,998 323
48	Housing	8453 Ground Rent of Requisitioned Premises 8456 Requisitioned Buildings (Disposal of Movables)	1,749 14,592
49	Ministry of Foreign Affairs	8843 Contribution to Constituted Bodies (L.N.254/98)	69
			2,911,752

Recommendation

It is recommended that Treasury informs all Ministries/Departments to review the utility of their Deposit Accounts. If they are no longer in use, they should be wound up, with their funds being transferred to the Consolidated Fund.

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 2008, in respect of advances made to various Government Departments, Agencies and Organisations.

Pending advances were reported as amounting to €226,654,582 as on 31 December 2008, as against €221,325,166 outstanding on 31 December 2007.

New Advances

According to the Financial Report 2008, Appendix L, the following three new Advance Warrants were issued during 2008:

- Two advances amounting in total to €40,700,024 for the settlement of the applications and related expenditure for the voluntary Early Retirement and Redundancy Schemes from Malta Shipyards Ltd.

  The relative Advance Warrants further stated that: *'the amount so advanced shall be accounted for and repaid, by not later than 31 December 2008, as directed by the Permanent Secretary within the Ministry of Finance, the Economy and Investment.'* These advances were in fact repaid by the end of the year, as stipulated in the same Warrants.

- An advance of €25,257,930 for the purpose of accounting for the 14th Social Security Benefits falling due in 2008.

  The Advance Warrant further stated that: *'the amount so advanced shall be accounted for and repaid by not later than the end of 2009 through funds made available in the appropriate Items of Expenditure within the Social Security Benefits Recurrent Vote.'*

Outstanding Advances

Outstanding advances, apart from advances forwarded to Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd., as at 31 December 2008 were the following:

Table 9 – Outstanding Advances

Description	€
MDC on 24 July, 1984 for the purchase of Verdala Hotel	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	3,572,431
Two advances made to Permanent Secretary, Ministry of Finance and Commerce, to enable him to support the operational cost of Enemalta Corporation during 1997	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	726,905
Accountant General, for the purchase of shares held by Sea Malta Co. Ltd. in Mediterranean Offshore Bunkering Co. Ltd. (MOBC). 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.	1,109,173
Permanent Secretary, Ministry of Industry, to effect payments required by the Malta Development Corporation for the construction of a new factory intended for Brandt International in 1991	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 plc in 1998	5,514,637
Permanent Secretary, Ministry for Economic Services, for the purpose of settling during 1999 and further servicing costs of Malta Freeport loans	15,177,644
Accountant General, for the purchase of Medigrain shares from Mid-Med Bank plc in 1999	2,014,927
Permanent Secretary, Ministry of Finance, for the purchase of shares held by Enemalta Corporation in MOBC Ltd.	9,317,494
Permanent Secretary, Ministry for Economic Services, to meet expenditure in connection with the privatisation process of the Malta Freeport operations	2,118,836
Permanent Secretary, Ministry for Economic Services, for the purpose of settling Malta Freeport equipment claims	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	6,988,120
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	727,929
Permanent Secretary, Ministry for Social Policy, for the purpose of accounting for the 14th Social Security Benefits falling due in 2008.	25,257,930

Observations

Enemalta Corporation 1997 – €13,021,197

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

Purchase of Verdala Hotel – €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 – €465,875

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

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 2008, €4,658,747 repayment was effected in respect of Malta Drydocks Corporation – 1997 advance. This repayment was effected from appropriated funds for 2007 which were transferred to another account following Ministerial authority as per Legal Notice 254 of 1998.

Pending advances to the above mentioned companies to be repaid out of the Consolidated Fund are listed in Table 10.

Table 10 – Pending Advances to Malta Shipbuilding Co. Ltd. and Malta Drydocks Corporation

	€
Construction of ships at Malta Shipbuilding	21,643,890
Malta Drydocks Corporation – 1997	5,925,002
Malta Drydocks Corporation – 1998	26,621,020
Malta Drydocks Corporation – 1999	18,634,163
Malta Drydocks Corporation – 2000	25,623,107
Malta Drydocks Corporation – 2001	29,987,336
TOTAL	**128,434,518**

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 €14,107,000. However, none of these funds were actually utilised.

Gozo Channel Company Ltd – €727,929

Originally, the Advance Warrant had to be repaid by 31 March 2005 as stipulated by the same Warrant.

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 €1,164,687 should be completely repaid by 2013.

In 2008, interest amounting to €34,941 and capital repayment of €145,586 were received from the company, as detailed in the schedule of payments.

Advances Repaid

The following Advances brought forward were repaid during the year totalling €6,801,186:

- Capital Investment – Malta Stock Exchange.
- 2004/2006 – Arrears due to EU Commission.
- Acquisition of shares in Maltapost plc.
- Purchase of Maltapost plc shares from Mid-Med Bank plc.

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 2008 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 members, namely the Chairperson, a MIMCOL representative and the Accountant General. All members were present for the meeting held on 29 April 2009 to inspect the investments held at the Treasury Division.

The Board verified the correctness of security details against documents including, where available, official Stock Certificates issued by the company concerned, MSE Statements and other related documents maintained by Treasury.

The Board remarked that since MITTS has changed its status from Company to Agency, now called Malta Information Technology Agency (MITA), a new Share Certificate in the name of MITA is to be submitted. Following enquiry by Treasury, MITA confirmed that MITTS is to be dissolved during 2009, after which the amount shown as 'Share Capital' will be repaid to Government. However, it is probable that the same amount paid to Government will be injected back into the Agency as 'Capital Contribution'.

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 values as at 31 December 2008.

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 30 January 2009 and 28 May 2009 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 tallied with the balance as 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 CBM. The Board was again informed that the Treasury was undertaking an extensive exercise in order to bring the reconciliation exercise up to date. According to Treasury, the main problem still lies with the recording of manual transactions since the automated process of reconciliation is up to date.

Bank – Central Bank of Malta Public Account

Developments regarding the Public Account Reconciliation – Electronic Bank Reconciliation (first cut)

The Electronic Bank Reconciliation reconciles approximately 75% of the total amount of all transactions. As in previous years, data uploads on the Reconciliation System are regularly being carried out on a monthly basis.

Manual reconciliation for the years 2002 till 2008 is being carried out, with the rate of completion for all years exceeding 99%.

Treasury has maintained the procedure, introduced in January 2005, whereby manual reconciliation is being conducted every month following the 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 problems with data submitted by CBM were encountered, particularly during the first quarter of 2008. This was due to the Euro change-over process which necessitated changes in the IT system operated by CBM.

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

As regards the start-off date of the new reconciliation exercise, Treasury still maintains that this should be January 2002. During the indicated almost ten-year period, there had been various changes both in the Government's accounting system and in that of CBM. This makes it difficult for Treasury to embark on any kind of reconciliation for the years 1992 to 2001. This decision is based on cost considerations and human resources requirements.

Treasury has maintained the practice to forward to NAO copies of the Monthly Bank Reconciliation Statements. Treasury contends that these Statements reflect decreasing amounts in the number of unreconciled transactions.

Treasury commented that the Bank Reconciliation System is shortly to be enhanced with a multiple matching facility and a new Bank Reconciliation Statement. According to Treasury, this facility will further reduce the possibility of human error in the matching process, while the new Bank Reconciliation Statement will ensure that reports printed on different dates will always reflect the same data. This Statement will also show both reconciled and unreconciled transactions and is being developed in line with Bank Reconciliation accounting procedures.

NAO is still concerned that the situation reported upon for Financial Years 2006 and 2007 prevails. Balances, as reported in Part 1 of the Financial Report 2008, do not tally with the respective balances featuring in the Bank Reconciliation Statement for the month of December 2008 prepared by Treasury. NAO is currently examining further the management comments submitted, in respect of the 2007 Audit Report, from an IT perspective.

The Financial Report 2008 states that: *"………resulting in an end-of-year Debit Book Balance of €96,216,411 against a Bank Balance of €80,512,061."* On the other hand, the December 2008 Bank Reconciliation Statement features €160,912,522 and €121,035,774 as Cash Book and Central Bank balances respectively.

Liabilities

Table 11 features the Statement of Liabilities (Financial Report 2008 – Appendix I – refers).

Table 11 – Statement of Liabilities

	2008	2007
	€ 000's	€ 000's
Public Debt	3,132,927	2,939,644
Treasury Bills	358,886	346,319
Deposits		
Court and Other Deposits	53,143	96,972
Other	23	23
	53,167	96,996
Funds		
Sinking Funds	155,716	171,636
Contingencies Fund	1,165	1,165
Trust Funds	1,280	1,175
	158,160	173,975
Accumulated Fund		
Cons. Fund at year end	(87,891)	(55,933)
Net Public Debt	(2,594,145)	(2,300,113)
	(2,682,036)	(2,356,046)
TOTAL LIABILITIES	**1,021,104**	**1,200,888**

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

Public Debt

Local Loans

On 31 December 2008, the local Public Debt, as reported in Appendix F of the Financial Report amounted to €3,377,742,446. This amount represents an increase of €212,987,156 over the corresponding reported figure for 2007. The closing Public Debt balance is inclusive of Treasury Bills outstanding at year end and ex-Malta Drydocks, Malta Shipbuilding Co. Ltd. Loans with local commercial banks amounting to €358,886,113 and €56,390,653 respectively.

This increase works out as follows:

	€
Total of New Local Loans	1,310,879,784
Total Repayment of Loan	(1,097,892,628)
Net increase in Public Debt	212,987,156

The opening balance of Public Debt relating to Malta Government Stocks as at 1 January 2008 differed from the closing balance as at 31 December 2007 by €32,972, such that local loans were overstated by this amount. Treasury commented that this difference resulted from the method adopted for the Euro conversion. This was done in accordance with the relative NECC Guidelines issued, following a consultation with all stakeholders involved in the change-over process. Each holding of every stakeholder was converted using the established Euro changeover rate and rounded up to the nearest Euro. This conversion was effected by MSE on 1 January 2008.

Foreign Loans

Audit Findings

- Payment by Draft

  - The practice reported in last year's Annual Audit Report still prevails. At reprint stage, the Departmental Accounting System (DAS) allows changes to figures quoted on the original Payment by Draft thus constituting an audit risk. Management had commented that 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. In all cases, figures quoted on the second ('reprints') Payment by Draft tallied with CBM Debit Advices.

  - The majority of second ('reprints') Payment by Draft were not endorsed by the officer carrying out the amended version.

- Details on CBM Debit Advice

  - No correspondence was found in the Treasury files relating to the rates of exchange applied by CBM on Debit Advices. As a result, NAO cannot conclude whether the below-mentioned practices reported in the Annual Audit Report 2007 relating to CBM Debit Advices, still exist:

    a) the Rate of Exchange as quoted by CBM did not tally with the value date of the CBM Advice; and
    b) 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.

    Management commented that any discrepancies in the Rate of Exchange applied during the year is eventually adjusted for by the currency revaluation at year end. These were verified by NAO and found to tally with year end exchange rates.

Recommendations

- Payment by Draft
  No action has been taken on recommendations provided in last year's Annual Audit Report. These recommendations are still valid.

- Details on CBM Debit Advice
  - Treasury should ensure that all information relative to exchange rates applied by CBM on Debit Advices is filed accordingly.

  - The Division must ensure that the concerns mentioned are formally discussed with CBM.

Statement of Abandoned Claims, Cash Losses and Stores Written off

In terms of the General Financial Regulations, 1966 and Treasury Circular No. 1/2009, Departments were to submit to the Accountant General an Annual Return of Abandoned Claims, Cash Losses and Stores Written off by not later than 30 March 2009. Nil Returns were also required. The column for 'Abandoned Claims' was included for the first time in the Statement attached to the Treasury Circular, as recommended by NAO in last year's Annual Audit Report.

Whilst examining Appendix M of the Financial Report, it was noted that amounts relating to the VAT Division and the Division of Inland Revenue, amounting to €303,510,193 and €305,781,413 respectively, related to cancelled assessments and claims, and hence do not fall under 'Abandoned Claims'.

As already reported in previous years' Annual Audit Reports, NAO cannot ascertain the completeness of Appendix M of the Financial Report. Figures quoted under 'Abandoned Claims' column amount to €429,968 (excluding figures declared by the afore-mentioned Departments). This figure differs substantially from the €16.4 million reported by various Ministries/Departments, in their respective Return of Arrears of Revenue, as amounts written off, following an examination of such Returns by this Office.

Upon examination, NAO noted the following shortcomings:

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

a) Unserviceable Items amounting to €28,024 did not have the relative approval attached to two Returns.

b) Lists of Unserviceable Items with no market value submitted by seven Ministries/Departments were also not covered with the appropriate write-off authority.

c) Even though it could be confirmed that the Permanent Secretary's approval was obtained for Unserviceable Items totaling €12,928, the full documentation relative to the authority was not attached to the respective Returns submitted by three Departments.

d) An item reported as missing by a Ministry amounting to €240 was excluded from the Statement.

e) Stolen items reported by two Departments amounting to €1,659 were excluded from the Return since no approval for write-off was available. Of this amount, the Permanent Secretary's approval for €434 although granted, was not attached.

f) A cash loss of €321 reported by one Department was not included in the Statement since no clear approval was available.

Reporting of Abandoned Claims

Amounts of Abandoned Claims submitted by two Departments: Rural Affairs and Cleansing Services Department, within the Ministry for Resources and Rural Affairs, amounting to €434,453 and €10,182 respectively, were excluded from the Statement since no clear approval was attached to the submitted Returns.

Returns not Submitted

Treasury reported defaulting Departments that failed to comply with Treasury Circular No. 1/2009. It is questionable whether there were any other Sections within the same Ministry/Department that did not submit the Return.

Lack of Verifiable Documents submitted by the Ministries/Departments

Notwithstanding efforts made by Treasury to request Ministries/Departments to submit copies of write-off approvals, numerous Ministries/Departments remained non-compliant, on the basis that the submitted documentation could not be verified by Treasury officials.

Recommendations

On the basis of the above findings, the recommendations provided in last year's Annual Audit Report are still valid. It is further recommended that Treasury informs all Ministries/Departments that write-off authorisations must be easily identifiable such that accurate information is reported in Statement M of the Financial Report.

Letters of Comfort/Bank Guarantees

The position of Contingent Liabilities as at 31 December 2008, as reported upon in Part I of the Financial Report 2008, is reproduced in Table 12, a breakdown of which can be found in Table 13.

Table 12 – Contingent Liabilities – 2008

	€
Government Guarantees:	
Local	334,273,257
Foreign	368,404,841
	702,678,098
Letters of Comfort	70,985,878
TOTAL	**773,663,976**

Table 13 – Letters of Comfort/Bank Guarantees

Beneficiary		**31 Dec 07**	**31 Dec 08**	**Remarks**
Air Malta Co. Ltd. (Local)	€	18,867,925	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	€	11,646,867	10,598,638	This Letter of Guarantee, originally amounting to €11,646,867, was issued to secure loan facilities available to Enemalta Corporation.
	€	210,000,000	110,000,000	This loan was taken up by Enemalta Corporation to repay all its existing Government secured facilities with local banks and foreign financial institutions.
	€	-	100,000,000	A Letter of Guarantee was issued for this amount to secure loan facility.
	€	-	30,000,000	A Letter of Guarantee was issued for this amount to secure short-term overdraft facility.
	€	-	45,000,000	This Guarantee secures loan taken on 13 December 2007 to finance part of its capital expenditure programme for the period 2007 to 2013.
		221,646,867	295,598,638	
Gozo Ferries Co. Ltd.	€	9,228,397	4,241,078	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 CBM. 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	€	53,676	1,526,836	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)	€	10,276,515	6,124,422	€1,522,069 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	€	64,172,506	59,286,176	Four Letters of Guarantee issued on 30 April 2007 in connection with Loan 1 and Loan 2 Facility, loan and overdraft facilities and general banking facility.
		-	5,000,000	On 30 November 2007, Water Services Corporation entered into a guarantee agreement with a foreign bank to undertake a project concerning investments in the sector of water supply and wastewater collection and treatment.
		64,172,506	64,286,176	
Malta Freeport Corporation Ltd.	€	25,508,574	20,563,233	a) €4,270,329 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) €4,010,747 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 year period. c) €44,733 Letter of Guarantee was issued in substitution of the Letter of Guarantee covering the balance on the loans of €18,052,644. d) The balance consisted of Letters of Guarantee to secure loan facilities.
	€	205,551,526	204,163,763	e) 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) *€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.
		231,060,100	224,726,996	

Malta Industrial Parks Ltd.	€	11,217,290	13,254,167	On 3 December 2008, Letter of Guarantee was issued to secure loan facility in replacement of Letter of Comfort for €25,623,107 dated 28 April 2005.
	€	6,988,120	6,988,120	Letter of Comfort issued on 5 March 2007 in connection with the expropriation of Land at Ricasoli.
	€	3,673,110	31,803,088	Letter of Comfort issued on 31 January 2007 in connection with the development of a specialised facility at Luqa Airport leased land.
	€	-	7,534,347	Letter of Comfort issued on 4 February 2008 to secure loan facility in connection with capital projects.
		21,878,520	59,579,722	
Malta Shipyards Ltd.	€	27,074,347	43,839,053	a) €2,750,000 Letter of Guarantee issued on 21 July 2006 to serve as temporary performance bond related to a contract won by Malta Shipyards Ltd. b) €2,995,611 Letter of Guarantee issued on 3 October 2006 for capital expenditure. c) €8,983,247 two Letters of Guarantee issued on 18 September 2007 and 26 March 2008 to secure banking facilities to fund conversion works on vessels Fairmont Fjord and Fairmont Fjell. d) €18,966,670 three Letters of Guarantee issued, one on 14 March 2008 and two on 14 June 2008 to secure overdraft and loan facilities.
Mediterranean Offshore Bunkering Co. Ltd.	€	157,363	-	-
Malpro Ltd.	€	698,812	465,875	Letter of Guarantee issued on 23 January 2001 to secure loan facility.
Malta Government Investments Ltd.	€	24,255,451	5,697,155	Two Letters of Guarantee issued on 23 December 2005 to cover working capital and other financing requirements.
Malta Tourism Authority	€	2,770,212	1,697,533	Two Letters of Guarantee issued on 15 October 1999 and 9 April 2003 to secure loan facilities.
Foundation for Tomorrow's Schools	€	31,646,329	40,160,094	Three Letters of Guarantee issued on 29 August 2003, 23 July 2004 and 20 January 2006 to secure overdraft and/or loan facilities.
Malta Maritime Authority	€	8,855,733	6,852,473	Letter of Guarantee issued on 10 December 2002 to secure loan facility. This was reduced by €4,658,747 to cover potential exposure of €13,976,240.
TOTAL	**€**	**672,642,753**	**773,663,976**	

The above €773,663,976 Letters of Comfort and Bank Guarantees may translate into dues by Government should the companies call upon the Government to make good for their debts.

Concluding Remark

In general, NAO is satisfied that documentation relative to the Statements was again available upon request at Treasury. In addition, Treasury and MFEI staff were cooperative at all times during the conduct of the audit. Although there are still areas necessitating improvement, NAO satisfactorily noted that some of its recommendations were acted upon, with corrective action being taken, where possible.

Management Comments

Revenue/Excess of Expenditure over Estimates

The Treasury Division replied that comments on variances in Revenue for the Financial Year 2008, together with those on excess Expenditure over revised estimates, are to be forwarded by MFEI.

Assets and Liabilities

Management confirmed that since the DAS system is cash-based, the Statement of Assets and Liabilities represents a 'balancing of accounts'. A complete Statement may only be compiled when financial reporting is accrual-based.

Investments

Every effort is made by the Treasury Division to obtain information on new or cancelled investments. However, sometimes it proves difficult to obtain the required information in time to be included in Treasury Books in the proper Financial Year.

Other Investments – Discrepancies between Treasury's and MGI Ltd.'s records

Management stated that the difference of €202,819 relating to Libma International Construction Ltd. consists of an amount always shown in Treasury Books which was never confirmed by MGI Ltd. On the other hand, the investments relating to Dairy Products (Malta) Ltd. and Topwear Ltd. are always reported by Treasury since these investments belonged to Malta Enterprise Corporation and not to MGI Ltd.

Court and Other Deposits

MFEI had already given instructions to wind up a number of accounts following an exercise carried out by same in the last two years. Management commented that this exercise should be continued either by MFEI or Treasury so that unused balances during the last two or three years will be used for their proper purpose or else transferred to Revenue, if possible, before the end of Financial Year 2009.

Inspection of Securities/Investments

Action is being taken by the Division through various reminders sent to MITA to obtain the new certificate following MITA's change in status. Management informed NAO that MITA has not confirmed to Treasury whether the changes mentioned have in fact taken place during 2009.

Corporate Issues

Arrears of Revenue 2008

Background

The timely collection of revenue and control over arrears of revenue is the responsibility of Accounting Officers. Treasury Circular No. 2/2009 states that: *"………Since the collection of monies due to Government is a fundamental need for the execution of Government's fiscal programme, Accounting Officers will be held accountable for any shortfalls."*

In terms of Article 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 2009, for transmission to the Auditor General. The requirement to forward a copy of the Statement of Arrears to the Budget Office, Ministry of Finance, the Economy and Investment (MFEI), was again stated in Treasury Circular No. 2/2009.

In terms of Article 49 (ii) the Return should show the state of arrears on 31 December but remaining unpaid up till the end of the following January. However, Treasury Circular states that the position of Arrears as at the end of 2008 should be indicated.

Returns

Details of arrears of revenue included in the Table on page 58 have been compiled only from Returns forwarded to the National Audit Office (NAO) by the Treasury Division. The following Ministries/Departments/Entities submitted 'NIL' Returns:

- Office of the President
- Office of the Ombudsman
- Office of the Prime Minister (OPM)
  - Public Service Commission
  - Electoral Office
- Ministry for Justice and Home Affairs
  - Department of Local Government
  - Civil Registration
- Ministry of Finance, the Economy and Investment
  - Economic Policy Division
  - Public Lotto Department

   - Tax Compliance Unit
   - Privatisation Unit

- Ministry for Competitiveness and Communications
   - Consumer and Competition

Treasury published a list of defaulting Ministries/Departments in Part I of the 2008 Financial Report. The following Ministries/Departments submitted the Annual Return of Arrears following the stipulated deadline (i.e. 1 April 2009).

- Ministry for Justice and Home Affairs
   - Citizenship and Expatriate Affairs
   - Police Department
   - Civil Protection

- Ministry of Finance, the Economy and Investment
   - Lotteries and Gaming Authority
   - Social Security Contributions with effect from 1998

- Ministry for Competitiveness and Communications
   - The Ministry
   - Malta Communications Authority
   - Civil Aviation

- Ministry for Gozo
   - Judicial Courts
   - Public Cleansing Department
   - Works Department
   - Agricultural Department

- Ministry for Urban Development and Roads
   - Road Formation Contributions
   - Valletta Accessibility Measures
   - Malta Transport Authority
      - Roads Directorate
      - Licensing and Testing, Network Infrastructure Directorate

- Ministry for the Family and Social Solidarity
   - The Ministry
   - Social Security Division – National Insurance Contributions Pre-1998
   - Social Security Benefits
   - Department for Social Housing

- Ministry of Foreign Affairs

The Annual Return of Arrears of the following Departments, was not submitted:

- Ministry for Justice and Home Affairs
   - Correctional Services

- Ministry for Tourism and Culture
   - Mediterranean Conference Centre

Notes and Comments on Arrears of Revenue

Office of the Prime Minister

The gross closing balance of €54,765 due from individuals is made up of €10,933 newly accrued arrears and a balance of €43,832 which has been outstanding between one and two years. Out of the latter amount, €19,868 is in dispute and is considered as not collectable.

Armed Forces of Malta

The difference of €94 in the opening balance for 2008 compared to the 2007 closing balance is due to a claim erroneously recorded in the prior year's return.

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

	€
a) Patrol Craft Conveyances/Hire of Vehicles & Machinery	4,201
b) Security Duties rendered at Commercial Banks, a Corporation and Government Departments/Entities	555,786
c) Services rendered by AFM/Helicopter and Sundry Services	11,973

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

	€
Arrears outstanding for one year or less	565,306
Arrears outstanding over one year but less than two years	1,451
Arrears outstanding over two years but less than five years	2,934
Arrears outstanding over five years but less than ten years	154
Arrears outstanding over ten years	2,115

Amounts reported as *'Estimated Arrears considered as Not Collectable'* mainly relate to dues from Malta Maritime Authority (since 2002) and Posta Ltd. (since 1997) amounting to €7,609 and €2,174 respectively, apart from refunds of wages under contestation (1994 – 1995) amounting to €4,150.

Government Printing Press

The net closing balance is in respect of:

	€
a) Jobbing	107,258
b) Revolving Fund	54,073

The net amounts are classified as follows:

	€
Outstanding for less than one year	85,743
Outstanding over one year but less than two years	59,499
Outstanding between two years and five years	16,089

Courts of Justice Division – Malta

The difference of €38,685 in the opening balance for 2008, compared to the gross closing balance of the preceding year, is due to three pending fines which were inadvertently omitted from previous returns under Judges Court Fines.

Court Fines – Judges

Two of the foregoing fines imposed in 1996 and 2005 amounting to €414 and €3,330 respectively were found by the Courts of Justice Division (CJD) to be omitted from previous returns. Another fine amounting to €34,941, imposed in 2007 was also discovered as being inadvertently omitted. The latter was detected by NAO whilst matching the information submitted by the Division against the LECAM computerised system.

As stated by CJD, the Division is not in a position to indicate from whom the Net Collectable Balance is due since if a Department is guilty of a breach of law and is fined accordingly, the fine is inflicted on the Director and not on the Department. Hence the records show the Director's personal details including his private address.

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

	€
Arrears outstanding for one year or less	83,200
Arrears outstanding over one year but less than two years	15,789
Arrears outstanding over two years but less than five years	1,149,476
Arrears outstanding over five years but less than ten years	7,917
Arrears outstanding over ten years but less than fifteen years	3,761,214
Arrears outstanding over fifteen years but less than twenty years	73,729
Arrears outstanding over twenty years	190,852

Court Fines – Magistrates

Testing previously carried out by NAO on the 2006 Return, revealed that figures from the LECAM system were unreliable. In 2008, a proposal was made by CJD, in collaboration with Malta Information Technology Agency (MITA), to amalgamate the CORTEX system (Court Fees) with the LECAM system (Court Fines). This project under the name of CAPEX, which cost was estimated at €42,000, intended to tackle flaws in the current LECAM system. Though this was not approved by MFEI, CJD are aiming to resubmit their proposal due to the potential advantages had the project been implemented.

In the interim, Magistrates' Fines are still being maintained on manual registers and then inputted in the LECAM system. However, due to the ongoing massive number of records involved, together with the records of the past, this exercise is expected to take very long in order to have a complete scenario of Arrears of Revenue.

Court Fees

Arrears of revenue in respect of Court Fees are currently extracted from the CORTEX system. Testing in the past revealed that this information was also not reliable. Material variations were noted between the closing balance of one year and the opening balance of the next year. However, until approval is granted for the CAPEX project to materialise, CJD maintain that any information regarding arrears of Court Fees cannot be submitted.

Police Department

The state of arrears of the Police Department within the Ministry for Justice and Home Affairs is being reported upon separately on page 76 of this Report.

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 2008:

	€
a) Rural	285,787
b) Perpetual	136,730
c) Residential	1,149,502
d) Non-Residential	805,764
e) Commercial	8,563,318
f) Encroachments	44,013
	10,985,114
g) Debtors: Below-the-Line Accounts	2,716,106
	13,701,220

The amount of €2,716,106 was included in the Division's Return of Arrears for the first time, representing amounts due from Government Departments/Entities for expropriations.

NAO noted that, as in the previous Return of Arrears for 2007, the Government Property Division did not declare any amounts estimated as not collectable. Moreover, during a meeting held at the Office of the Permanent Secretary, MFEI, on 11 June 2008, the Division agreed to allocate resources and intensify its efforts towards the collection of arrears of revenue. Up to the writing of this report, no comments were submitted to this Office by the Division, when requested to provide information on initiatives taken to collect overdue amounts.

Land and Public Registry

The situation as reported upon in last year's Annual Audit Report still prevails. NAO was not in a position to verify the 2008 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 amount of past arrears collected *(€5,996)* does not represent the actual amount collected by the Department. This Department arrived at this figure by subtracting:

  (a) the *'Newly 'Accrued Arrears*' from the *'Estimated Amount Considered as not Collectable';*
  (b) the *'Net Collectable Arrears'* as at 31 January 2009 from the *'Gross Arrears'* as at 31 January 2008; and
  (c) the result of (b) from the result of (a).

This calculation cannot be correct on the basis that, when checking the difference between outstanding arrears for 2007 as quoted in the 2007 Return, as against the 2008 Return, it resulted that the arrears collected during the year 2008 are understated by €2,544.

- The figure of net collectable arrears as at 31 January 2009 in the submitted Return is mathematically incorrect.

- The Department cannot take further action to collect outstanding claims amounting to €36,039. The outcome of a test case which is presently being heard at Court, will determine the action to be taken against defaulters in the future.

NAO recommends the Department establishes adequate systems and control to ensure that future arrears are accurately recorded and reported in the Return of Arrears. Efforts must be intensified to collect all outstanding arrears before these become time-barred as prescribed by Law.

Ministry of Finance, the Economy and Investment

The gross closing balance as at 31 December 2008, as provided by the Ministry, consists of:

	€
a) Corporate Services Directorate	15,587
b) Accountancy Board	1,420

An amount of €14,620 is owed by two Government entities, relating to reimbursement of personal emoluments paid to two employees who performed duties at the two entities during 2008.

MFEI could not provide a breakdown of *'Past Arrears Collected'* of the Accountancy Board amounting to €1,141 since the template used for cash collections is updated on an ongoing basis hindering the reporting of its position at a particular date.

The total of the list of warrant holders still owing regulatory and registration fees for 2007 and 2008 provided to NAO, does not reconcile with the figure declared in the *'Newly Accrued'* column in the Return.

It is recommended that MFEI should maintain hard copies of all reports relating to the Arrears of Revenue Return submitted to the Treasury Division. Moreover, the system should be enhanced enabling the user to generate a report that reflects the arrears' position at any particular time.

Treasury Division

The state of arrears of the Treasury Division falling under MFEI is being reported upon separately on page 112 of this Report.

Inland Revenue Division

On IRD's request, two meetings were held with NAO representatives on 17 September 2009 and 16 October 2009. The scope of these meetings was to inform this Office of IRD's intention to re-classify taxpayers and portray the collection efforts of the Division. At the end of both meetings, NAO clarified which documents needed to be prepared by IRD to enable this Office to verify the Arrears of Revenue for 2008. These consisted of:

- arrears collected for each Year of Assessment up till the year end 2008;
- gross balances of arrears as per revised Categories (with reference to previously reported Categories);
- breakdown by Category of the balances and Suspences still outstanding as at 2008;
- list of Foreign Currencies featuring totals for all Years of Assessment, including Year of Assessment 2008;
- the opening figure of €71,317,731 (representing denominated arrears in Foreign Currency up to Year of Assessment 2007) to be adjusted with balances relating to Trading Companies in the Financial Sector, currently being processed by the International Tax Unit (ITU);
- breakdown of arrears (ITU Companies from non-ITU Companies);
- estimations according to the revised Categories for the Self-Assessment System; and
- confirmation of whether gross closing balances were netted with negative debit balances.

The above-mentioned information was forwarded to this Office. It is to be noted that NAO is planning to perform a detailed compliance audit on breakdowns of reported figures fowarded by IRD. Observations noted will be reported seperately in a stand-alone report during 2010.

Capital Transfer Duty

NAO satisfactorily noted that Capital Transfer Duty (CTD) implemented its recommendation put forward in last year's Audit Report, regarding the compilation of arrears pertaining to Death and Donation Duties (Malta and Gozo) and Penalties, from a manual system to a computerised one.

Notwithstanding this, as already reported last year, differences were noted between figures quoted in the CTD's Return of Arrears and figures as per breakdown of arrears submitted by same. These mostly consisted of differences in opening balances, which however resulted into immaterial discrepancies in the gross and net balances, since such differences were compensating in amount.

The gross closing balance can be analysed as follows:

	TOTAL €	MALTA €	GOZO €
Duty on Documents:			
Inter Vivos	29,808,996	28,156,975	1,652,021
Causa Mortis	2,083,502	1,846,957	236,545
	31,892,498	**30,003,932**	**1,888,566**
Death and Donation	5,171,458	4,974,607	196,851
Penalties	263	263	–
	5,171,721	**4,974,870**	**196,851**

During a meeting held at the Office of the Permanent Secretary, MFEI, in June 2008, the Division agreed to enhance its efforts, allocate more resources and undertake further initiatives for the collection of overdue amounts. In a communication to NAO dated 27 October 2009, Management commented on a number of initiatives being taken by CTD to expedite the collection of overdue amounts, mainly:

- Steps taken between MFEI and the Ministry for Justice and Home Affairs so that Appeals which were previously brought in front of the Board of Special Commissioners, are now to be dealt with by the Administrative Review Tribunal.

- Strengthening of the Collection and Refusal Sections in respect of *Inter Vivos* and *Causa Mortis* cases.

- Amendment of the judicial letter by the Office of the Attorney General in order to comply with the Civil Code. Almost 500 cases have been forwarded for legal action to be taken by the Attorney General's Office, and where applicable for the issuing of Garnishee Orders.

- Reduction of the time span (by nearly seven months) between the issuing of the notice of assessment and any action to be taken by the Attorney General's Office, thereby eliminating the various reminders and final notices.

- Initiated talks with MITA for the enhancement of the *Causa Mortis* IT system, in order to automate the collection procedure. Action has already been initiated by MITA to address this matter.

Customs Division

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

		€
a)	Import and Export Duties	27,874,044
b)	Licences, Taxes and Fines	11,488
c)	Fees of Office	2,602
d)	Reimbursements	823,714

- The amount of €44,500 which was shown as *'Estimated Amount considered as Not Collectable'* in the 2007 Arrears of Revenue Return was actually declared by the Division as being written off during 2007. Therefore, the gross opening balance for 2008 is correct.

- The newly accrued amount of €21,263,929 of the Fuel Section includes €6,831,703 which were not accounted for in the 2007 Return since these were not yet considered as arrears. Previously, amounts showing as unpaid, but still within the credit period, were not considered as arrears of revenue.

- The amount of €6,772,737 newly accrued arrears of the Excise Section, represents estimates of excise duty due on beer, spirits, manufacturing tobacco, cigarettes and mobile telephony. These estimates were extracted from the Customs Electronic System as due by the major companies as at 31 December 2008. This figure included an additional amount of €23,088 following the adjudication of a court case on cigarettes.

- Write-offs of €79,164 included an amount of €65,898 concerning the Fuel Section. The Division lost the appeal presented in the Courts relating to the first sentence delivered in 2005.

VAT Division

The opening balance for 2008 as presented by the VAT Division differs from the gross closing balance for the previous year mainly due to the omission of €833,470 in the 2007 Return relating to ECO Contribution. The following is a sub-classification of the gross closing balance of arrears as reported by the VAT Department in its Arrears of Revenue Return ending 31 December 2008:

		€
a)	VAT (1998)	302,879,943
b)	VAT (1994)	14,879,114
c)	CET	6,766,108
d)	Refunds to Govt. on stocks – 1997	607,274
e)	ECO Contribution	1,685,432

Following NAO's comments in previous years' Audit Reports, during November 2008, the VAT Division embarked on an exercise to provide a detailed breakdown of reported figures in its Return of Arrears, leading to a more realistic computation of *'Estimated Amount considered as Not Collectable'*, which amounted to €300,455,820 as at 31 December 2008. As a result of this exercise, the Division forwarded an updated version of the Arrears of Revenue Return for 2007. A meeting was also held between Division's officials and NAO on 10 June 2009 to discuss the new procedure.

During a Public Accounts Committee meeting held on 15 June 2009, the new method adopted by the VAT Division was discussed. In this respect, NAO has examined the data provided by the Division in establishing the *'Estimated Amount considered as Not Collectable'* leading to a realistic figure of *'Net Collectable Arrears'*, to the extent that such figures tallied with corresponding figures reported in the 2008 Return of Arrears.

Upon examination of the Arrears of Revenue Return of 2008, this Office brought to the attention of the Division the fact that, the amount declared under Column (b) - '*Past Arrears Written off and/or Adjusted'* exceeded the opening balance as at 1 January 2008 for VAT (1998) figures. Subsequently, the VAT Division carried out a second exercise, with the assistance of MITA, to identify those cancellations relating to assessments/levies/interest generated and cancelled in 2008. This amount was then deducted from Column (b). The same figure was also deducted from Column (c) - *'Newly Accrued Arrears'* as this was also inflated with the same amount of assessments/levies/interest generated and cancelled during 2008.

During October 2009, the VAT Division provided NAO with data relating to the afore-mentioned exercise for all revenue categories, which was also verified to the extent that the necessary adjustments were properly executed in the revised 2008 Return of Arrears. An electronic breakdown of all figures reported in the Return was provided to NAO, where it was confirmed that such breakdowns tallied with declared amounts. Detailed testing could not be carried out due to time constraints.

Contracts Division

NAO noted that the only movement in arrears during the year related to the write-off of €17,919, leaving the net closing balance of arrears in respect of Penalties and Damages of €457,828. As reported in previous years, the 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 to date not been collected. This concern has been raised by NAO since 2006. In a letter dated 28 February 2007, sent by the Ministry of Finance to the Public Accounts Committee, it was claimed that *"…the department will be* *making extra efforts to collect these arrears of revenue"*. Notwithstanding this, no collection efforts have materialised. In a communication to NAO dated 25 May 2009, the Division stated that a substantial amount of cases still await the Court's decision.

Vis-à-vis the lack of newly accrued arrears being reported in the Return for the past years, the Contracts Division stated that as from 2007 disputes between Departments and Contractors who fail in their contractual obligations are now being referred to the Department involved for the eventual recovery of all liabilities.

Ministry of Education, Youth and Employment

The following is a sub-classification of the gross closing balance of arrears as reported by the Ministry in its amended Arrears of Revenue Return ending 31 December 2008:

		€
a) Ministry of Education, Youth and Employment	*Allowance Overpayment*	1,862
b) Education	*Breach of Contract*	118,253
	Overpayment of Salaries	194,718
	Running of Tuck-shops	7,851
c) Institute of Tourism Studies	*B/L Running of Institute*	302,514
d) Examination Department	*External Examinations Fees*	1,020
e) Maintenance Grants Section		
- MCAST	*Stipends Overpayments*	23,421
- University		115,094
- Junior College & Upper Secondary		6,243
	Total	***770,976***

A difference of €72,054 was noted between this year's opening balance and last year's closing balance, which was primarily due to an extensive exercise carried out throughout the Ministry, following various shortcomings highlighted in previous reports by NAO.

The University's Stipend Office made every possible effort to address the deficiencies noted last year and testing carried out by this Office revealed that the amount shown as *'Arrears Newly Accrued'* in 2008 is correct. However, due to lack and/or incomplete records relating to past arrears, accuracy of figures submitted could still not be ascertained.

Gross Arrears of Revenue due to Government as at end December 2008 can be analysed as follows:

	€
Amounts outstanding for less than one year	202,510
Amounts outstanding over one year but less than two years	166,529
Amounts outstanding over two years to five years	140,590
Amounts outstanding over five years to ten years	159,722
Amounts outstanding over ten years	101,625

Ministry for Tourism and Culture

As stated by the Department, the difference of €921 in the opening balance of 2008 compared to the 2007 gross closing balance is due to:

a) cancellation of receipts due to dishonoured cheques; and
b) amendments on invoices and/or credit notes for prior period.

The gross outstanding arrears of €1,410,652 is made up as follows:

		€
a)	Malta Tourism Authority – Ex HCEB and Police Licenses	1,122,462
b)	Ex White Rocks Complex	78,458
c)	Tourism – due from Local Council in respect of beach cleaning services	202,588
d)	Tourism – refund of salary	7,144

Dues from the Local Councils *(€202,588)* in respect of beach cleaning services, as well as those from the Ex-White Rocks Complex *(€78,458)* are still shown under *'Estimated amounts considered as Not Collectable'*, notwithstanding that these have been outstanding for over ten years. No legal action has been taken to date to collect these amounts.

The amount of €70,760 shown as 'Not Due' is in respect of licences invoiced to individuals and entities that have closed down their business.

A complete analysis showing the Ageing of Debtors was not provided by the Tourism Directorate, since this information was not available for amounts due to the Malta Tourism Authority in respect of Licences.

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

The 2008 Arrears of Revenue Return submitted by the Ministry for Competitiveness and Communications (MCC) was incomplete as regards TV Licence Fees' arrears falling under its responsibility.

The Department declared that the amount in Column 3(a) – Past Arrears (Debtors) Collected as 'Not Available'. Following NAO's enquiry, MCC explained that *"the term 'Not Available' purports to convey that the specific information is not readily extractable from the TVLU's database. The missing information relates to*

(a) *the amount of arrears collected in the reporting year from arrears due for the previous year; and*
(b) *the non-identification of the amounts that were written off or otherwise adjusted for errors."*

As previously stated by the Ministry, the missing amount in the Arrears of Revenue Return is due to software limitation issues as inherited from the original administrator of TV Licences (Public Broadcasting Services Ltd). Such missing information regarding TV Licences has been reported regularly in the Auditor General's Annual Audit Reports since 2004.

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

As at year end, amounts due "over 5 years old – Statute Barred" amounted to €2,938,110. (Source: Footnote in Statement of Arrears 2008) As reported last year, NAO is still of the opinion that those prescribed arrears contested by means of an official letter should have been reported as 'written off' during the year.

Collection efforts

In the past, MCC contemplated carrying out system enhancements to improve the reporting of TV Licences' arrears. However, the Ministry stated that *"In the light of Govt's electoral promise to abolish TV Licences altogether, a cautious approach was adopted so as not to undergo substantial effort and expenses to improve the reporting mechanism of a system that seems destined for dismantling."* The Ministry still maintains that the non-availability of the figure for arrears collected from previous years is not seen to have a significant effect on the TVLU's ability to manage the arrears collection process. Nonetheless, MCC has taken a number of measures to improve the collection of TV Licence arrears.

During 2008, under the Ministry's initiative and following advice sought through the Attorney General, a Legal Notice was issued to ensure that affidavits relating to TV sets which are considered beyond repair, would come into effect only from the day they are taken. In parallel with the legislative initiative, during the last quarter of 2008, MCC undertook an arrears collection drive during which no less that 35,000 reminders were sent to defaulters.

As from 2009, the Ministry for Infrastructure, Transport and Communications (MITC) has adopted administrative mechanisms to allow for:

(a) a proper identification of amounts written off or declared not due during the year via *ad hoc* manual records; and
(b) the identification of total past arrears collected via a deductive assessment exercise.

In a communication to NAO dated 17 June 2009, it was stated that *"The MITC Permanent Secretariat is planning a fresh, more rigorous, collection drive that contemplates penalties and legal action against persistent defaulters. Government direction is currently awaited on the recommendations proposed."*

Conclusions and Recommendations

Even though the Ministry has taken a number of steps to improve the collection process, NAO is still not in a position to verify the amounts stated in the Arrears of Revenue Return for 2008. The recommendation put forward in the Annual Audit Report for 2007, regarding the establishment of adequate systems and controls that record arrears accurately, still stands.

Commerce Division

The following is a sub-classification of the gross/net closing balance of arrears as reported by the Commerce Division in the 2008 Arrears of Revenue Return:

	€
a) Licences, Taxes and Fines	4,619,424
b) Penalties paid by Students	7,549
c) Miscellaneous Receipts	1,908

The opening balance for 2008 as reported by the Division could not be verified against the closing balance as at 31 December 2007, since the *'Newly Accrued Arrears'* and *'Estimated Amount considered as Not Collectable'* for 2007, in respect of Licences, Taxes and Fines, were not provided by the Commerce Division. In the 2007 Return, the Division remarked that these figures *"…cannot be estimated due to fee revision and pending Ministerial directions."*

On 7 April 2009, the Division forwarded to NAO complete revised versions of the 2006 and 2007 Return of Arrears. These revisions were a direct result of Legal Notice 366 of 2007 – Trading Licences (Amendment) (No. 5) Regulations, 2007. According to these amended Regulations, the fee for the issue or renewal of a trading licence is to be based on the ground floor area of the premises, in accordance with the Seventh Schedule of the same Regulations.

Whilst for new licences, applicants are being requested to present a site plan upon which the ground floor area is calculated, on renewal of an existing licence licencees are asked to declare the area and compute their own fee. This includes the option to pay the 'old' fee, if it results that the 'new' fee is higher.

Past Arrears Written off and/or Adjusted

The amount of €414,290 reported under this column consists of €33,372 which was written off mainly due to closure of businesses. The remaining balance of €380,918 was an adjustment which is an additional amount being cancelled out by €231,595 actually received for 2007 arrears. This came about by the implementation of the amended Regulations.

Newly Accrued Arrears

As a result of the new fee system, the Commerce Division arrived at an estimate of €1,737,854 of newly accrued arrears, this being the maximum amount that could be collected, based on the fact that a licencee can choose the lower amount between the 'old' fee, as against the newly calculated fee based on the ground floor area.

Estimated Amount considered as Not Collectable

Notwithstanding the revision of fees during 2007, the Division provided a 'Nil' balance under this column in its Return. It is recommended that Management carries out an extensive exercise in order to identify the collectability of pending arrears, focusing on those arrears prior to year end 2007.

Ministry for Resources and Rural Affairs

Following the amalgamation of the Ministry for Resources and Infrastructure (MRES) and the Ministry for Rural Affairs and the Environment (MRAE), a consolidated Return of Arrears was submitted for 2008 in respect of the Ministry for Resources and Rural Affairs (MRRA).

Testing carried out by NAO led to amendments to the MRRA 2008 Return of Arrears, particularly in respect of dues to MRAE (prior amalgamation) and dues to Manufacturing Services Department (MSD). A revised Return was submitted on 4 November 2009.

The difference in the opening balance amounting to €1,729, as compared to the 2007 closing balance, is due to the following:

- Dues by Local Councils (CDO) increased by €382.48 as two claims of €149.52 (2005) and €232.96 (2006) respectively were erroneously recorded as settled in the 2007 Return but were still outstanding.

- An amount of €1,347.12 relating to the MRAE – Paying Agency was added to the 2008 opening balance to reflect debtors up to 15 October 2008.

The net closing balance of €739,515 is made up of:

	€
• Breach of Contracts, Damages and Maintenance	87,152
• Dues to MRAE (Prior Amalgamation)	327,516
• Dues by Local Councils - Central Districts Office (CDO)	127,920
• Dues by Local Councils - Cleansing Department	153,532
• Dues from Deposits of Waste and Rubble	957
• Dues to Manufacturing Services Department (MSD)	42,438

Shortcomings that were observed during the review are noted below:

Dues to Ministry for Rural Affairs and the Environment (Prior Amalgamation)

Past Arrears Written off and/or Adjusted

- MRAE originally reported a total of €392,255.49 as "Past Arrears Written off and/or Adjusted". Subsequently, the Return was amended and the amount was revised to €399.980.14, of which €7,925.69 referred to adjustments relating to the Paying Agency. The remaining balance of €392,054.45 was confirmed as written off.

- Two amounts (€180.07 and €20.97) which were included as written off in the first Return submitted did not have proper approval in accordance with Article 80 of the General Financial Regulations, 1966.

The Return was amended to include these amounts under *'Estimated Amount considered as Not Collectable'*. The officer concerned was informed on 7 October 2009 to obtain the missing write-off approval.

Paying Agency Amendments to Reported Arrears

Debtors categorised under the Paying Agency represent defaulters who benefited under the Rural Development Plans (RDP 2004-2006 and RDP 2007-2013) from grants which consist of numerous EU funded schemes. A refund of a grant is requested when, following inspection, it is confirmed that no works have commenced or have not yet been completed.

Being co-financed funds, 20% of arrears collected are due to the Public Fund, whilst the other 80% is forwarded to the EU.

- Paying Agency arrears were amended since the original figures reported included the allocation due to the EU. Also, amounts were erroneously declared under *'Past Arrears Collected'* even though these had not been recovered.

- A further amendment was carried out by the Paying Agency, consisting of an additional amount of €1,347.12 which was added to the original list submitted, in order to reflect debtors up to 15 October 2008.

The revised Paying Agency Return of Arrears has been amended to reflect the 20% due to the Public Fund in respect of *'Past Arrears Collected'* and *'Estimated Amount considered as Not Collectable' 'Net Collectable Arrears'* as at 31 December 2008 represent solely the 20% element, except for one debt of €1,177.99 which if recovered, is fully payable to the Public Fund. The officer-in-charge has been instructed to appropriately transfer the amount in the 2009 Return.

In the 2008 Return only, adjustments totalling €7,925.69 include the 80% EU share and the total value of those no longer considered debtors, since these were erroneously reported in full in the 2007 gross arrears closing balance. The status of these debtors was changed from 'debtor' to 'beneficiary' following confirmation that application was not withdrawn. The officers concerned were informed that future returns should only incorporate the 20% Public Fund allocation due.

Past Arrears Collected during 2008

A sample of sixteen past arrears collected totalling €170,866.55 (74%) was selected from a population of seventy-eight amounting to €232,307.88. However, only two amounts collected, amounting to €2,078.15, were forwarded to NAO for examination.

- In one case, the receipts aggregate of €1,918.91 exceeded the amount reported as collected totalling €1,827.79. No explanation was given for this €91.12 discrepancy.

- Two amounts (€1,290.08 and €1,177.99) included in the sample and relating to the Paying Agency, were in fact not collected. It was stated that *"the amounts have been inserted under Past Arrears Collected, but actually nothing was collected"*. It was established that the former amount was no longer outstanding since the status changed, as mentioned earlier. The amount of €1,177.99 is still due, but is outside the Paying Agency's remit for recovery purposes. If collected, such amount is fully payable to the Public Fund.

Dues by Local Councils – Cleansing Department

Arrears Newly Accrued during 2008

Testing revealed that arrears newly accrued amounting to €23,019.46 from a sample of €65,897.70 is still outstanding, of which €17,551.46 is due by a Local Council for street sweeping services. A court case is in progress.

Dues to Manufacturing Services Department

Past Arrears Written off and/or Adjusted

- Arrears reported as written off and/or adjusted originally totalled €460,532 of which €441,844.04 were considered to be written off and €18,687.96 were adjustments. During testing, NAO identified an amount of €781.81 erroneously reported as collected instead of reported as "Adjusted". The Return was revised to indicate €441,844.06 as written off and €19,469.81 as adjustments.

- MFEI's approval dated 25 August 2008 authorised the write-off of €420,244.35 leaving a balance of €21,599.50 without the necessary approval. It was not possible to establish which individual claims the latter amount referred to. Up to the writing of this Report, no explanation was provided.

- On 31 October 2008, the MSD Director approved the write-off of arrears amounting to €96,035.36 *"which for some reason or other were left out from the previous statements to be written off"*. Testing revealed that €43,911.85 of this balance was excluded from the 2008 Return of Arrears. No explanation was provided as to whether this amount had been reported in the 2008 Return, or whether it would be included in the 2009 Return. In a reply received on 16 October 2009, the above-mentioned queries were not clarified, but it was explained that complications arose during 2008 amongst which, the write-off of all claims up to the end of 2007, and a change in the billing policy to write-off all labour charges from the pending invoices relating to Government Departments.

- During 2009, a payment in full settlement of a claim amounting to €1,472.95 was received by the Department, the amount of which was included in the list approved for write-off. The Officer-in-charge was informed by NAO to make the necessary adjustment in the 2009 Return.

Conclusion and Recommendations

The amendments that were required to correct the original MRRA Return of Arrears submitted, particularly relating to MRAE (Paying Agency), were carried out following a lengthy examination by NAO. In the case of MSD, such exercise proved to be inconclusive, with respect to verifying arrears written off reported by the Department.

Consequently, it is advisable that the MRRA considers performing a review of the process involved to compile the Return of Arrears, in order to identify and address the problems and shortcomings encountered.

It is also recommended that:

- every Section has a file separating each category of arrears in which an analysis of the amounts reported in every column and the supporting documentation are kept;

- complete records should be kept differentiating between the "Past Arrears Written off" and "Adjusted" amounts. The amounts written off should be substantiated with the relevant approval; and

- a coordinator should be appointed to oversee the proceedings and to thoroughly check the respective Returns and supporting documentation. This will ensure the accuracy and completeness of the Annual Return of Arrears before submission to the Treasury Division.

Health Division

The net closing balance of €1,797,910 is made up of the following:

		€
a)	Licences	18,134
b)	Hospital fees (St. Lukes Hospital/Mater Dei Hospital)	764,336
c)	Hospital fees (EU)	681,156
d)	Hospital fees (Sir Paul Boffa Hospital)	1,223
e)	Refunds/Resignations	250,284
f)	Overpayments	82,777

An ageing analysis of this year's gross closing balance amounting to €1,966,395 revealed that:

- €879,344 (45%) was newly accrued;
- €241,658 (12%) reflects balances due over one year but less than two years;
- €465,509 (24%) reflects balances which are from two to five years old; and
- the remaining balance of €379,884 (19%) reflects balances due more than five years and up to twenty-two years.

Whilst examining the Return of Arrears submitted by the Division, various mathematical errors together with incomplete breakdowns of arrears were noted. NAO had to provide considerable support in the compilation of the Return of the Health Division, in order to ensure that identified weaknesses were rectified.

The following observations were noted:

- In two instances, the list of Hospital Fees *'write-offs'* over €1,165 differed from the amount approved to be written off in the personal file.

- In seven cases, the approval to write-off Hospital Fees exceeding €1,200 was obtained from the Director General instead of the Permanent Secretary, in violation of Article 80 of the General Financial Regulations, 1966. These amounted collectively to €8,929.

- Breakdowns of *'Past Arrears Collected'* relating to arrears paid for Hospital Tests carried out in 2001, 2002 and 2006, amounting to €2,707 collectively, were not made available.

- The total list of outstanding Hospital Fees forwarded to this Office, did not tally with the figure reported in the Return of Arrears by €1,194.

- No explanation was provided on the basis used in calculating the Hospital Fees *'Estimated Amount considered as Not Collectable'*, except that this was *'based on an estimate compared to the previous years'*.

It is recommended that:

- The Health Division considers performing a review of the compilation process of the Return of Arrears, such that the problems encountered are drastically reduced.

- A folder separating each category of arrears should be created, and the figure under each column for every category is to be backed by supporting documentation.

- A clear distinction between *'Past arrears written off'* and *'Adjusted Amounts'* is to be made, ensuring that all write-offs have been properly approved.

- The Annual Return of Arrears together with supporting documentation should be thoroughly verified before submission to the Treasury Division. Ideally, such checking should be conducted by a different officer from the one compiling the information.

Social Security Division

The Gross/Net closing balance of €9,219,420 is made up of the following:

		€
a)	Social Assistance/Unemployment Assistance	4,303,218
b)	Non-Contributory Pension/Disability Pension/Age Allowance	769,921
c)	Sickness Assistance	675,272
d)	Unemployment Benefit/Marriage Grant/Injury Benefit	102,168
e)	Children Allowance/Maternity Benefit	757,842
f)	Supplementary Assistance	295,380
g)	Pensions	2,310,087
h)	Miscellaneous	5,532

An ageing analysis of this year's Gross/Net closing balance amounting to €9,219,420 revealed that:

- €2,782,379 (30.18%) reflect newly accrued arrears;
- €1,783,943 (19.35%) reflects balances due for more than one year till two years;
- €2,317,709 (25.14%) reflects balances which are from two to five years old; and
- the remaining balance of €2,335,389 (25.33%) reflects balances due for more than five and up to thirty-five years.

Amounts Written off

Write-offs for the year amounted to €20,680. Of these, an amount of €1,548.56 consisting of fifty-seven entries ranging in value from €11 to €44.74 is not backed by any write-off approval. According to the officer in charge, *"including very small non-performing amounts would have made the manual arrears report unworkable"* and these amounts *"are still included in SABS[1] awaiting an official write-off"*.

The remaining write-offs amounting to €19,131.17 consisted of twenty-seven entries. The following weaknesses were noted:

- The list of write-offs differed from the amount approved to be written off in the personal file in fourteen instances.
- No approval for write-off was made available in four instances collectively amounting to €968.16. A receipt for payment was provided for one of these cases when this amount was eventually settled late in 2009.
- In four instances, the write-off approval was not made during 2008. One approval was dated in 2007 whilst the others were obtained in 2009.

Adjusted Amounts

A sample of thirty-five adjusted amounts was examined out of a total population of seventy. NAO did not find evidence to justify ten such adjustments amounting collectively to €14,191.62.

Past Arrears Collected

The amount collected according to SABS[1] differed from the amounts included in the Return of Arrears for thirty-seven claimants out of sixty-seven. These discrepancies which varied from -€4,438.04 to €117.38 amounted in total to a negative discrepancy of €8,445.58.

The following limitations were encountered during testing *'Past Arrears Collected'*:

- In one instance, although the amount collected of €1,762.87 according to SABS tallied with the amount in the Return of Arrears, the copy of the receipt was not made available and could not be traced to Departmental Accounting System.
- In three instances out of sixty-seven the amount collected could not be confirmed. Amounts said to be collected totalled collectively to €10,666.57.

Conclusion

Overpayments mainly arise from incorrect or inaccurate declarations made by claimants, failure to report changes in circumstances by beneficiaries, or errors made during the assessment. The newly accrued amount of €2,782,379 represents 30.18% of the net collectable arrears as at 31 January 2009.

The 2008 Return of Arrears for the Social Security Division was not amended to reflect any of the above-mentioned audit issues. Figures are as per Division's Return.

[1] Social Assistance Benefits Scheme.

Ministries/Departments Arrears of Revenue 2008

Ministry/Department		Gross Outstanding on 31/12/2007	Collected during 2008	Written off 2008	Not due 2008	Arrears 2008
Office of the Prime Minister	€	45,516	1,684	0	0	10,933
Armed Forces of Malta [d]	€	156,384	135,797	0	0	565,306
Information Department	€	928	928	0	0	30,736
Government Printing Press	€	129,590	54,001	0	0	85,743
Ministry for Justice and Home Affairs: Attorney General	€	568	0	0	0	9,931
Notary to Government	€	242	242	0	0	29
Courts of Justice: Malta[d]	€	9,117,638	46,986	0	3,871,675	83,200
Gozo	€	348,479	b	b	b	b
Police Department	€	496,298	98,844	1,209	14,164	176,398
Correctional Services Department	€	0	b	b	b	b
Civil Protection	€	56,389	b	b	b	b
Government Property Division - Land Department	€	10,577,687	3,351,854	341,261	0	6,816,648
Land and Public Registry	€	c	c	0	0	7,836
Civil Registration [a]	€	0	0	0	0	0
Ministry of Finance, the Economy and Investment	€	2,597	1,141	0	0	15,551
Treasury Division [d]	€	3,820,623	23,656	0	0	3,623,650
Inland Revenue Division: Income Tax - Maltese Currency [g]	€	697,665,028	737,247,569	2,473,732	303,307,681	1,088,002,871
Income Tax - Foreign Currency	€	87,499,364	c	c	c	c
Social Security Contributions with effect from 1998	€	a	b	b	b	b
Capital Transfer Duty: Duty on Documents [d]	€	31,734,218	2,891,672	12,607,608	4,167,548	19,825,107
Death and Donation Duty (incl. Penalties) [d]	€	5,174,745	599	2,875	0	451
Customs Division [d]	€	14,864,989	14,711,413	3,303	76,839	28,638,414
V.A.T. Division [d]	€	281,139,824	213,463,898	0	125,873,175	385,015,120
Contracts Division	€	475,747	0	17,919	0	0
Ministry of Education, Youth and Employment: The Ministry and ex-Education Division [d]	€	736,124	151,891	142	15,625	202,510
Industrial and Employment Relations [a]	€	342,797	9,692	0	0	0
Ministry for Tourism and Culture [d]	€	1,319,184	409,617	0	70,760	571,845
Mediterranean Conference Centre	€	a	b	b	b	b
Ministry for Competitiveness and Communications: Malta Transport Authority [a]	€	11,350,165	b	b	b	b
Revenue Department (ex-Wireless Telegraphy Department)	€	6,116,682	c	c	c	946,434
Commerce Division [d]	€	3,619,322	314,005	33,372	380,918	1,737,854
Civil Aviation	€	1,277,752	b	b	b	b
Ministry for Resources and Rural Affairs [d,f]	€	2,213,988	784,977	842,281	29,194	442,320
Ministry for Gozo	€	283,138	b	b	b	b
Ministry of Health, the Elderly and Community Care: Health Division [d]	€	1,642,001	355,771	122,233	76,946	879,344
Ministry for Investment, Industry and Information Technology	€	2,361	2,361	0	0	3,806
Ministry for Urban Development and Roads	€	630,170	b	b	b	b
Ministry for the Family and Social Solidarity: Social Security Division: National Insurance Contributions Pre-1998	€	a	b	b	b	b
Overpayments of Benefits	€	8,157,773	1,548,495	20,680	151,557	2,782,379
Department of Social Housing	€	13,249	b	b	b	b
TOTALS [e]	**€**	**1,181,011,560**	**975,607,093**	**16,466,615**	**438,036,082**	**1,540,474,416**

a) Did not send Return of Arrears 2007.
b) Return of Arrears 2008 not submitted.
c) Information not available or incomplete.
d) Opening Balance 2008 does not tally with Closing Balance 2007 (vide comments).
e) Totals are incomplete in view of a) to d) above.
f) Previously reported under two separate Ministries: Ministry for Resources and Infrastructure and Ministry for Rural Affairs and the Environment.
g) Figures as per Return submitted by Division. No adjustment was carried out relating to adding back of the negative debit balances to the gross closing balance.

Gross Outstanding on 31/12/2008	Gross Variation	Amounts Est. as Not Collectable	Net Collectable Arrears as at 31/12/2008	Net Collectable Arrears as at 31/12/2007	Net Variation	Due from Govt. Depts. & Para. Bodies	Individual & Private Companies
54,765	9,249	19,868	34,897	45,516	-10,619	0	34,897
585,893	429,509	13,933	571,960	142,544	429,416	257,663	314,297
30,736	29,808	3,540	27,196	927	26,269	27,147	49
161,332	31,742	0	161,332	129,590	31,742	161,283	49
10,499	9,931	568	9,931	0	9,931	0	9,931
29	-213	0	29	242	-213	8	21
5,282,177	-3,835,461	0	5,282,177	9,056,576	-3,774,399	c	c
b	b	b	b	348,479	b	b	b
558,479	62,181	0	558,479	496,299	62,180	22,562	535,917
b	b	b	b	0	b	b	b
b	b	b	b	28,309	b	b	b
13,701,220	3,123,533	0	13,701,220	c	c	3,351,327	10,349,893
c	c	36,039	c	c	c	c	c
0	0	0	0	a	0	0	0
17,007	14,410	0	17,007	2,597	14,410	14,620	2,387
7,420,617	3,599,994	0	7,420,617	43,324	7,377,293	7,382,747	37,870
742,638,917	44,973,889	606,695,662	135,943,255	128,933,841	7,009,414	c	c
c	c	c	c	c	c	c	c
b	b	b	b	a	b	b	b
31,892,497	158,279	21,732,202	10,160,295	10,299,860	-139,565	0	10,160,295
5,171,722	-3,023	1,978,440	3,193,282	3,195,094	-1,812	0	3,193,282
28,711,848	13,846,859	0	28,711,848	14,864,990	13,846,858	12,031,019	16,680,829
326,817,871	45,678,047	300,455,820	26,362,051	15,248,325	11,113,726	0	26,362,051
457,828	-17,919	0	457,828	475,747	-17,919	0	457,828
770,976	34,852	75,508	695,468	664,067	31,401	192,135	503,333
333,105	-9,692	192,300	140,805	a	a	0	140,805
1,410,652	91,468	281,046	1,129,606	1,039,059	90,547	0	1,129,606
b	b	b	b	a	b	b	b
b	b	b	b	9,285,968	b	b	b
7,063,116	946,434	2,938,110	4,125,006	3,542,094	582,912	0	4,125,006
4,628,881	1,009,559	0	4,628,881	c	c	0	4,628,881
b	b	b	b	1,277,752	b	b	b
999,856	-1,214,132	260,341	739,515	1,691,959	-952,444	386,038	353,477
b	b	b	b	282,402	b	b	b
1,966,395	324,394	168,485	1,797,910	1,385,148	412,762	0	1,797,910
3,806	1,455	0	3,806	2,362	1,444	0	3,806
b	b	b	b	c	b	b	b
b	b	b	b	a	b	b	b
9,219,420	1,061,647	0	9,219,420	8,157,773	1,061,647	0	9,219,420
b	b	b	b	13,249	b	b	b
1,189,909,644	**110,356,790**	**934,851,862**	**255,093,821**	**210,654,093**	**37,204,981**	**23,826,549**	**90,041,840**

Audit of Ministerial/Departmental Bank Accounts

Background

In terms of Article 13 of the Financial Administration and Audit Act, 1962 (FAAA), the Minister responsible for finance may authorise Ministries/Departments (M/D) to operate Bank Accounts for specific purposes. The Article states that: *"No accounting officer shall open any public or official account in any bank....without the authority in writing of the Minister."*

Whenever the need arises for a M/D to open a Bank Account, a request is to be forwarded to the Ministry of Finance, the Economy and Investment (MFEI) for authorisation by primarily outlining the purpose. Approval is granted by the Permanent Secretary or Director Corporate Services (DCS). A list of all approvals given is kept by MFEI according to the year of approval.

In order to collect the necessary data for the compilation of the Financial Report (FR), Treasury collects information relating to Bank Accounts held with the Central Bank of Malta (CBM) and Commercial Banks (CBs) through a Treasury Circular forwarded to all M/D issued at the beginning of every financial year. By means of Treasury Circular No.1/2009 entitled 'End of Year (2008) Statements of Account – Stores Written Off and Cash Losses/Bank Balances' (TR 1/09), Heads of Departments and other Accounting Officers were obliged to submit 'Statement 2 - Bank Balances and Cash in Hand' ('Statement 2') by not later than 30 March 2009.

If properly completed, 'Statement 2' should feature details of all Bank Accounts held, the Ministerial Authority, including the balance as per Cash Book and Bank Statement as at year end. Each Bank Account quoted must also be supported by a copy of the relative Bank Statement as at 31 December 2008.

Each M/D is obliged to submit comprehensive and accurate data including Nil Returns. The Circular concludes by stating that, amongst others, *"Any bank accounts not included in the statement may lead to the closure of such accounts."*

Audit Scope and Methodology

The scope of this audit was to ensure that all Ministerial/Departmental Bank Accounts, whether with CBM or CBs, are reported upon in the FR and ascertain whether sound internal control systems are in place to ensure that M/D correctly submitted 'Statement 2'[1], as per TR 1/09.

In order to meet these objectives, meetings were held with officials of the Treasury Division and MFEI, to obtain an understanding of current procedures that M/D must follow to open, administer and report Bank Accounts held with CBM and CBs. These meetings were documented and confirmed by the officers concerned.

Following a request by this Office, MFEI contacted nineteen CBs requesting them information on all Bank Accounts operated by M/D as at 31 December 2008, in accordance with Article 48 of the FAAA. All 'Statement 2' submitted by M/D to the Treasury in terms of TR 1/09 were forwarded to the National Audit Office (NAO) and examined. NAO tested all seventy-three submissions representing a total of 475 Bank Accounts.

[1] Statment 2 -'Bank Balances and Cash in Hand' as per Treasury Circular No. 1/2009

Bank Accounts as listed in 'Statement 2' submissions were checked against the list of Bank Accounts which were provided by the CBs following MFEI requests. A similar checking was also carried out for Bank Accounts held by M/D with the CBM and which were listed in 'Statement 2' against the list published in 'Part 1' of the 2008 FR.

Key Issues

Incomplete Lists of Bank Accounts submitted by Commercial Banks

NAO was limited in achieving the full scope of its audit on the basis that lists of Bank Accounts forwarded by CBs were not complete. This limitation remained unresolved even after a second request was made by MFEI to the four main CBs to provide an updated and complete list.

It resulted that 310 out of a total of 475 Bank Accounts, representing 65.3% of total Bank Accounts reported by M/D, could not be confirmed by the CBs. Consequently, NAO was totally hindered from verifying details of numerous Bank Accounts which were listed in the 'Statement 2' submissions against the lists provided by the CBs.

Insufficient follow-up of 'Statement 2 – Bank Balances' submitted by Ministries/Departments

The Treasury Department is presently not carrying out an adequate follow-up of 'Statement 2' submitted by M/D, except for reporting defaulters in the FR. The only Ministerial/Departmental Bank Accounts reported in Part I of the FR relate to those accounts (including foreign Bank Accounts) held at the CBM, which list would be confirmed in writing to Treasury by the CBM. Bank Accounts of M/D held with CBs are excluded from the FR. By not verifying 'Statement 2' submissions, Treasury is not in a position to take action against defaulters as stipulated in TR 1/09, thus leading to incomplete financial data being reported in the FR.

Control Issues

Opportunities for improvement were identified in the following areas:

No liaising between Ministries/Departments, Ministry of Finance, the Economy and Investment and Treasury regarding Bank Accounts

Treasury is unable to verify whether Bank Accounts operated by M/D are being used for the original purpose for which they were originally opened. The lack of proper communication channels between M/D, MFEI and Treasury lengthens the process of identifying and analysing all Bank Accounts. Presently, once approval is given by MFEI to open a Bank Account, it is the responsibility of the M/D concerned to administer such account and liaise with Treasury for the appropriate accounting requirements, as necessary. Even though MFEI informs Treasury with the authorisation letters sent to M/D, no use is made by the latter of the information contained therein. Furthermore, M/D do not inform MFEI and/or Treasury with details subsequent to the opening or closure of a Bank Account.

No reconciliations between Bank Account balances at the Central Bank of Malta listed in the Financial Report and 'Statement 2' submissions

Treasury relies entirely on the information submitted by CBM, not making the best use of 'Statement 2' submissions, and is limited to reporting those bank balances held by M/D as submitted by CBM. This increases the risk of inaccurate amounts being reported in the FR, since proper accounting practice necessitates the reporting of book balances. In particular, there were two Departments that submitted a Nil Return in 'Statement 2', whilst an existing bank balance as at 31 December 2008 was reported in the FR.

Compliance Issues

'Statement 2' not submitted by Ministries/ Departments

- Ten M/D submitted 'Statement 2' to Treasury for the year ending 31 December 2007, but failed to comply with TR 1/09 for the year ending 31 December 2008. Six out of these ten M/D were reported in the 2008 FR, as part of the 'List of Defaulting Departments'.

- Twelve M/D that did not submit 'Statement 2' to Treasury for the year ending 31 December 2008, were reported as operating Bank Accounts with the CBM as at the same date. This issue emerged when checking the balances of Bank Accounts held at the CBM operated by M/D as listed in the 2008 FR. Only two out of these twelve M/D were correctly included in the 2008 FR, as part of the 'List of Defaulting Departments'.

- Eight M/D did not submit 'Statement 2' to Treasury for the year ending 31 December 2008, but were noted as operating Bank Accounts with CBs. This emerged during the verification of Bank Accounts held at CBs operated by M/D as listed by the same CBs. Only one out of these eight M/D was included in the 2008 FR, as part of the 'List of Defaulting Departments'.

Consequently, the lack of adequate follow-up, ensuring that M/D are complying with TR 1/09, led to an incomplete 'List of Defaulting Departments' being reported in the 2008 FR.

Bank Accounts excluded from 'Statement 2' submitted to Treasury by Ministries/Departments

Following a review of the lists of Bank Accounts provided by CBs, NAO noted that fifteen of these Bank Accounts, spread over seven Departments, were not reported in 'Statement 2' by the appropriate M/D. Due to the limitation on the scope of the audit mentioned earlier in this report, the possibility of having more Bank Accounts not reported by M/D cannot be excluded.

Incompleteness of 'Statement 2' submitted by Ministries/Departments

The following deficiencies were noted whilst examining 'Statement 2' submissions:

Bank Statement not Submitted

TR 1/09 required M/D to submit the relative Bank Statements supporting declared Bank Accounts. 315 out of a total of 475 Bank Statements, representing 66.3% of Bank Accounts submitted by M/D, were not attached with the respective 'Statement 2'. The majority of missing Bank Statements (300 out of 315 Bank Statements) related to the Educational Services Directorates. Excluding these Directorates, fifteen out of 175 Bank Accounts, representing 8.6% of the total Bank Accounts, were not supported with a Bank Statement.

MF Approval not Listed

A total of 431 out of 475 MF Approvals, representing 90.7% of total Bank Accounts submitted by M/D, were not listed in the respective 'Statement 2'. 300 or 69.6% of these missing MF Approvals related to the Educational Services Directorates.

'Balance as per Cash Book in the Return as at 31 December 2008' not Listed

The respective balance as per Cash Book of 146 out of a total of 475 Bank Accounts, representing 30.7% of total Bank Accounts submitted by M/D, were not listed in the respective 'Statement 2', having 107 of which relating to the Educational Services Directorates.

'Balance as per Bank Statement as at 31 December 2008' not Listed

The bank balance of 23.4% of total Bank Accounts submitted by M/D (111 out of a total of 475 Bank Accounts) was not listed in the respective 'Statement 2'. These 111 Bank Accounts belonged in their entirety to the Educational Services Directorates.

Attached Bank Statements not covering until year ending 31 December 2008

Fourteen out of a total of 160 Bank Statements submitted, representing 8.8% of total submitted Bank Statements, did not cover up to the year ending 31 December 2008.

Unclear or improper attached Bank Statement

Seven out of a total of 160 Bank Statements submitted, representing 4.4% of total submitted Bank Statements, were unclear photocopies that could not be verified. Other attachments did not consist of bank statements at all.

No identification of the Endorsing Officer on 'Statement 2'

In fourteen out of the seventy-three 'Statement 2' (19.2% of total 'Statement 2' submitted by M/D), a proper identification of the Endorsing Officer was not provided. These fourteen cases cover eighty-nine out of a total of 475 Bank Accounts, such that 18.7% of total Bank Accounts submitted by M/D were not endorsed by the Officer compiling the Statement. In these cases, Treasury cannot hold the responsible Officer accountable for any incomplete or inaccurate information submitted.

Recommendations

Key Issues

Incomplete Lists of Bank Accounts submitted by Commercial Banks

Upon request of information from CBs, MFEI should emphasise the importance that lists submitted by the former are to be correct and complete.

Insufficient follow-up of 'Statement 2 – Bank Balances' submitted by Ministries/Departments

Treasury should ensure that a proper follow-up of 'Statement 2' submitted by M/D is carried out. Treasury, in liaison with MFEI, is to co-ordinate a system whereby a comprehensive database is kept of all Bank Accounts held by M/D for analysis and reporting purposes, thereby creating an adequate audit trail.

Control Issues

No liaising between Ministries/Departments, Ministry of Finance, the Economy and Investment and Treasury regarding Bank Accounts

Treasury must ensure that it makes effective use of all information relating to Bank Accounts' approvals. Treasury can subsequently make use of the database and eventually analyse it by:

- checking the original purpose for which they were opened;
- identifying whether the accounts are presently being used for the same original purpose; and
- determining whether any funds in these accounts are due to Government.

Following the completion of this exercise, Treasury will be in a better position to determine whether such Bank Accounts are to be included within the Government Accounting System.

The Treasury Division through MFEI, if need be, could advise all M/D to provide details regarding the opening and closing of Bank Accounts. Treasury should analyse the possibility of amending Treasury Circular covering the 'End of Year Statements of Account' issued every year, to include the request for this information in 'Statement 2'.

No reconciliations between Bank Account balances at the Central Bank of Malta listed in the Financial Report and 'Statement 2' submissions

Treasury should ensure that any differences between bank balances reported by M/D and balances declared by the CBM are justified by means of supporting Ministerial/ Departmental reconciliation statements. This will drastically reduce risks associated with inaccurate details being reported in the FR, such that reported figures will reflect the book balances declared by M/D in 'Statement 2'.

Compliance Issues

'Statement 2' not submitted by Ministries/ Departments

Treasury should ensure that those M/D who fail to comply with TR 1/09 are duly reported in the FR as defaulting Departments. This may be achieved by carrying out appropriate checks with lists provided by the CBM and CBs through requests from MFEI.

Bank Accounts excluded from 'Statement 2' submitted to Treasury by Ministries/Departments

Following the set-up of a database of all Bank Accounts operated by M/D, Treasury together with MFEI must ensure that such a system is continuously updated. Treasury could liaise with MFEI to obtain the relative information. This would ascertain the completeness of information being submitted by M/D and eventually being reported in the FR.

Incompleteness of 'Statement 2' submitted by Ministries/Departments

Treasury should implement sufficient follow-up so as to ensure that all M/D submit correct statements. Appropriate and immediate action should be taken against defaulters, such as the closure of the M/D's Bank Accounts, upon failure to comply.

Management Comments

Management has accepted and will implement the majority of NAO's recommendations. Even though the Division is in the final stages of developing a database collecting information on all Bank Accounts held by M/D, at this stage, Treasury is not in a position to verify whether each Bank Account is being used for the original purpose for which it was opened, due to logistical and practical reasons. Nevertheless, the Division agreed that spot checks could possibly be undertaken.

As regards to CBM accounts, Treasury stated that it uses the daily position of accounts which it receives from CBM for financial reporting, and though M/D could fail to submit the 'Statement 2', information is available to Treasury from the main source.

As to the finding concerning fifteen Bank Accounts which were not reported in 'Statement 2' by M/D, but featured in the lists provided by CBs, Management confirmed that for the FR 2009, it will be requesting CBs to provide a status of Bank Accounts, indicating accounts closed during the year, for eventual reconciliation with information submitted by M/D via 'Statement 2'.

Treasury stated that it is not possible to investigate all movement of funds in each Bank Account, as the responsibility for the management of the account rests with the 'Accounting Officer' of the M/D. Whilst agreeing that in the future, the Government's system should include all those accounts held by Departments that are considered public funds, this will necessitate changes which the current system cannot entertain.

Management commented that it will ensure that all submissions are accompanied with the respective Bank Statements for the full accounting period, prior to the publishing of the Report, though Treasury cannot continue to chase M/D in view of publication deadlines. Moreover, the clear identification of the signatory of the ‘Statement 2’ and the legibility of documentation will be emphasised in the Circular that Treasury will issue in 2010.

Furthermore, Treasury will be taking up NAO’s recommendation to implement sufficient follow-up, to ensure that all M/D submit correct statements, so that appropriate action could be taken against defaulters, even the closure of such accounts.

The Treasury Division also pointed out that it is in continuous liaison with all M/D that operate accounts for electronic payments. Instructions are in place for sweeps to be effected depending on the volume of transactions involved, while the monitoring of such accounts is carried out continuously to ensure that balances are transferred to the Public Account on a systematic basis. M/D ranked as high revenue earners also operate these types of accounts, and Treasury monitors the movement of funds in these accounts for which M/D may only effect deposits. The only withdrawals carried out are those effected automatically by sweeps to the Public Account and any related Bank commissions.

Office of the Prime Minister

Armed Forces of Malta
Expenditure

Background

The Armed Forces of Malta (AFM) is divided into six main sections being Headquarters, 1st, 3rd and 4th Regiments, Air Wing and Maritime Squadron.

The Headquarters, being the main command centre of AFM, is divided into the following main areas of responsibility:

- Operations and Training Branch.
- Administration and Personnel Branch.
- Logistics Branch.
- European Union Security Defence Policy Branch.
- Public Information Cell.
- Intelligence Cell.
- Legal Office.
- Audit and Investigations Branch.

The 4th Regiment is AFM's support unit which also includes the Finance Section of AFM.

Audit Scope and Methodology

The objectives of the audit were to evaluate the present internal control system both from the accounting and administrative points of view and to verify that adopted procedures were adequate and complied with the relevant Financial Regulations and Circulars.

The expenditure transactions recorded within the Departmental Accounting System (DAS) Nominal Ledger for the year 2008 were analysed. A sample of ninety Payment Vouchers (PVs), giving a Confidence Level of 90% and a Confidence Interval of 8.64%, was chosen on the basis of the materiality of amounts paid and nature of expense.

The sample focused on transactions within the following accounts:

- Item 22 - Materials & Supplies.
- Item 23 - Repair & Upkeep.
- Item 27 - Transport.
- Item 28 - Travel.
- Item 30 - Contractual Services.
- Item 32 - Training.

The PVs selected were reviewed against relevant Regulations and the relevant files were examined. Information in relation to the vehicles and the fuel supply was also collected. The main inventory database, specifically records under Category 4 'Vehicles', held by AFM was analysed to ensure that it is in conformity with MF Circular No. 14/99.

Control Issues

Opportunities for improvement were identified in the following areas:

Operational and Maintenance Expenditure Variance of approximately €4 Million

The actual expense of Operational and Maintenance Expenditure for the year 2008 from AFM Vote amounted to €8,904,281 whereas the budgeted expenditure amounted to €4,979,000, resulting in €3,925,281 excess expenditure.

AFM stated that this variance was mainly due to unforeseen circumstances resulting from the flow of irregular immigrants and related expenditure incurred amounting to €3,684,848, representing 41.4% of the total actual Operational and Maintenance expenditure incurred during 2008.

Fuel Records

Receipt Voucher Numbers (RV Nos.), used by the relevant Section receiving the fuel supply in the respective ledger, did not match those on the Staff QuarterMaster (SQM) Main Ledger making corresponding entries difficult to identify at times since:

- the date of entry in the ledger was different from the date of the actual supply; and
- the same amounts of fuel were supplied during the same month on different instances.

During the month of July 2008, the Maritime Squadron received the amount of 11,500 litres of diesel on three different instances. In one instance, the dates of entry in the SQM Ledger and Maritime Squadron Ledger read 15 July 2008 and 18 July 2008 respectively.

Reconciliation of amounts paid against Rates as per Tender not possible

During the year 2008, the supplier for the service of cesspit clearance at various military locations administered by AFM was collectively paid €81,660.83. Such payments were covered by the tender awarded by AFM on 7 March 2008 at the rates of €7.00 for weekdays and €8.25 for Saturdays, Sundays and Public Holidays *per* 1,000 gallons.

This Office was not in a position to check whether payments made were in accordance with the tender rates as the invoices, some of which were uncertified, only indicated the particular month when the work was carried out and the respective location. Details of the cost of works during weekdays, weekend days and public holidays according to the number of clearances and gallons transported by the supplier were not available.

Policies and Procedures Manual

Although the AFM Finance Office adheres to Government Regulations, internal policies in respect of Adventure Training Allowance, Book and Equipment Allowance and Clothing Allowance were not documented.

There are also various directives relating to delegations' entitlements and subsistence allowances/allowances due in respect of the overseas training courses or attachments attended by AFM personnel. As information is scattered, there is an increased possibility of misunderstandings or non-conformity in the application of internal policies.

Extra Subsistence/Expenses paid without Prior Authorisation

In two particular cases, further amounts were paid to the officers on their return from a course held in Italy without AFM obtaining the same authorisation applicable to the original allowance forwarded.

Compliance Issues

GSPO dated after Invoice

In various instances, it was noted that the Goods Service Purchase Order (GSPO) was not dated prior to the invoice. Non-adherence may result in not having enough funds to honour the actual expense.

Payment Voucher Narratives lacking Details

Various PVs, issued for the supply of food in connection with third country nationals, included certain shortcomings which created difficulties in verifying the correctness of the payments and hindered the completeness of the audit examination in that:

- a proper narration was not included as to the different invoices being paid; and
- payment of €12,956, covering part of an invoice, could not be determined since the dates relating to the payment were not listed.

Lack of Quotations for Travelling Abroad

As required by MFIN Circular No.1/2008, air tickets procured from sources other than Air Malta must be backed by three quotations, one of which must always be from Air Malta. In four instances, these three quotations were not available. It was also noted that air tickets were purchased from the same travel agency for a total of €28,895.25.

An extra cost of €191.84 was incurred to purchase four air tickets as the deadline for the quote obtained expired by four days.

VAT Registered Supplier paid by means of Multi-payment

Forty-three air tickets costing €12,272.80 (VAT inclusive), in conjunction with an official visit of the AFM band to Italy from 19 July to 22 July 2008, were purchased following Office of the Prime Minister (OPM) approval obtained on 16 July 2008 and the relative invoice was issued on the same date. The tickets were purchased through the incorrect use of a multi-payment. The cost of one ticket was refunded by a relative of a band member who accompanied the group.

Shortcomings within Inventory Records for Vehicles

a) From an analysis of the inventory database, it was noted that:

- various items were erroneously included under the 'Vehicles' category even though they do not conform with the relevant description provided in MF Circular No.14/99;
- approximately 14,500 mandatory fields, as part of the asset details and location, were omitted;
- there were 212 instances where the word 'NEW' was written instead of a sequence number within the database field;
- four vehicles, showing the same description and bearing the same registration number, but having different dates of acquisition and Department Codes, were included twice in the database but under different locations; and
- in four cases, the asset description showed details for one asset while the quantity showed different entries, whilst in three cases the asset description was for multiple vehicles while the quantity shown was '1'.

b) The vehicles' entries within the inventory database matched against the list of vehicles submitted by the Audit and Investigations Branch of AFM revealed the following discrepancies:

- In nine instances, vehicles were shown to be in different locations in the two lists.
- Twenty-two vehicles could not be reconciled as the database entries did not include the respective registration number.
- Nine vehicles were included in the inventory database but not on the list while a total of 103 vehicles were found on the list submitted by the Audit and Investigations Branch and not on the database.

The observations outlined above bring into doubt the completeness and reliability of the inventory database maintained by AFM and hinders the proper monitoring of each departmental asset. The omission of asset valuations will create difficulties for AFM especially when depreciation will have to be charged when accruals accounting is eventually implemented.

Recommendations

Control Issues

Operational and Maintenance Expenditure Variance of approximately €4 Million

AFM is to make all possible efforts, through advice from the Ministry of Finance, the Economy and Investment (MFEI), to ensure sufficient funds are available to meet budgeted activities.

Fuel Records

Liaising between the SQM and the Section in receipt of the fuel supply is to be enforced as much as possible in order to register entries on the same date. This would ensure that records match and will eliminate doubts as to the actual entry involving same quantities of fuel delivered at different times.

Cross-referencing would ensure that a complete audit trail is available when checking quantities from the Main Ledger to the sub ledgers situated within the different sections. Management is to consider whether to include also the Section's RV No.

Reconciliation of amounts paid against Rates as per Tender not possible

Suppliers' invoices should include all the details necessary in order to be able to verify that the agreed rates as *per* tender are actually being applied, thus further eliminating the possibility of overpayments.

Policies and Procedures Manual

It is advisable to draw up a manual providing guidance for accounting policies and procedures particular to the AFM Finance Department, which should be updated periodically. Besides assisting the current personnel, this manual can be used in the orientation and training of new recruits.

Extra Subsistence/Expenses paid without Prior Authorisation

When additional subsistence allowance(s) are paid and/or expenses are refunded in relation to an overseas course or official visit abroad, authorisation has to be obtained through the same channels that approval was originally sought, before payment is effected.

Compliance Issues

GSPO dated after Invoice

Efforts are to be made by AFM in order to, whenever possible, issue GSPOs prior to invoices as *per* Government's policies.

Payment Voucher Narratives lacking Details

Whenever a payment voucher is generated, all necessary information in connection with the transaction being effected should be shown. Any invoices being grouped and paid by one voucher are to be attached to it and a breakdown of the amounts paid included. Part-payments of invoices are also to be indicated and marked appropriately on the respective documents.

Lack of Quotations for Travelling Abroad

It is recommended that AFM obtains and keeps a copy of quotations as applicable to ensure transparency of proceedings. Efforts should be made to confirm air ticket bookings prior to the expiry of the deadline thus securing seats at a cheaper rate.

VAT Registered Supplier paid by means of Multi-payment

All suppliers for goods and/or services, who are required to be VAT registered, are to be invariably paid through the issue of a PV after receipt of the relative invoice.

Shortcomings within Inventory Records for Vehicles

AFM is to ensure that the database is checked to identify any incorrect entries and/or discrepancies that do not comply with MF Circular No.14/99 and amend accordingly. Adequate liaising is to be carried out between the Audit and Investigations Branch and the Logistics Section maintaining inventory records to arrive at one complete database of vehicles.

Management Comments

Management concurred with the majority of the issues and will be taking action to implement the recommendations. The following comments were submitted:

- The excess over the budgeted vote for 2008 was anticipated at the beginning of 2008. Consequently on 28 April 2008, AFM notified OPM of the estimated additional funds required which were mainly needed to cover expenses incurred to care and cater for irregular immigrants.

- Entries at the Maritime Squadron sub-account ledgers carried the delivery dates while the Main Ledgers at the Staff QuarterMaster showed the actual invoice date.

- Invoices submitted monthly, by the supplier who provides the cesspits clearance service, are checked for correctness with the corresponding delivery notes by the Regimental QuarterMaster before being certified correct. Prior to effecting payment, invoices and delivery notes are again checked by Finance Office personnel.

  NAO was informed that following the receipt of the Management Letter, a random check was carried out on the 2008 documents. Picking September 2008, it appeared that the procedure was properly adhered to. In fact, in this particular case an error on the amount quoted on the invoice by the service provider was detected and the necessary adjustment was made prior to effecting payment.

- With regards to the issue of GSPOs, AFM confirmed that it follows the procedure in accordance with Government policies. In some cases, referring to payments for irregular immigrants' meals, procurement of fuel and emptying of cesspits service it is not possible to issue a GSPO prior to the invoice, but is issued at the earliest after receiving the invoice and confirming the correctness of the amounts quoted. *"Furthermore, there were cases when not enough funds were available to cover the whole invoice for irregular immigrants meals and thus an allocation of additional funds had to be completed prior to the initiation of the GSPO."*

- Most travel agencies request payment prior to the collection of the air tickets thus the use of the multi-payment procedure was resorted to in order to have the cheque issued prior to the collection of air tickets. In future, civilian persons travelling with AFM personnel on duty will be directed to make their own arrangements with the travel agency.

- AFM intends to review the whole electronic inventory database in order to ensure that same database is in compliance with MF Circular No.14/99.

Ministry for Justice and Home Affairs

Courts of Justice Division
Local and Small Claims Tribunals

Background

The Local Tribunal is an extension of the Courts of Law, whereby the Commissioner of Justice holds sittings to consider charges brought before him in terms of the Commissioners for Justice Act (Cap. 291). On the other hand, the Small Claims Tribunal, set up and legislated for by the Small Claims Tribunal Act (Cap. 380), is presided by an Adjudicator who decides claims not exceeding the sum of €3,494.06.

The Ministry for Justice and Home Affairs' budget allocation for 2008 in respect of the remuneration payable to the nine Commissioners of Justice stood at €116,000, whilst €46,000 were budgeted for the remuneration of the six Adjudicators. The fee payable to both Commissioners of Justice and Adjudicators is set at €58.23 per sitting. While each Commissioner shall not in one particular year exceed the sum of €11,646.87, no ceiling is imposed on remuneration to Adjudicators.

Audit Scope and Methodology

The scope of the audit was to verify that the remunerations granted to both the Commissioners and the Adjudicators were as stipulated by the pertinent Legal Notices and that they were adequately controlled by the Courts of Justice Division (CJD) who is footing the expenditure.

These objectives were achieved by means of meetings held with officers at the CJD, and in the case of the Local Tribunals, the Authorised Officers (AOs) were also contacted. Letter of appointment of all Commissioners of Justice and the Adjudicators, as well as the invoices issued by them during the period January till September 2008, were requested. In both cases, it was verified that the rate of payment was in accordance with the applicable Legal Notices and that the invoices presented for payment were independently checked and certified correct. Furthermore, a sample of invoices was verified against the *Prime Note*, so as to ascertain that the sittings for which payments were requested, were actually held.

Key Issues

Commissioners paid per Sitting irrespective of Number of Cases heard

Notwithstanding that during a meeting held in June 2003, the Chairman of the Local Enforcement System Management Committee pointed out that the maximum number of cases that can be allocated to each tribunal sitting is of 150, such ceiling was rarely being reached by a number of Local Tribunals. In fact on many instances the average number of cases per sitting was below 100.

Low Percentage of Cases over which Commissioners gave Jurisdiction

Out of an audit sample of 18,756 cases set for hearing at the Local Tribunals, the Commissioners gave their jurisdiction on 10,579 cases, representing an average of 56%. Out of these 10,579 cases, the Commissioners actually heard the accused defendants in only 1,408 cases, i.e. an average of 13%, since the rest did not show up for the hearing.

Seven out of Nine Contracts of Authorised Officers awarded to two Companies

AOs are appointed by the Joint Committee to manage the Local Wardens. Seven out of nine Local Tribunals awarded the contracts of these AOs to the same two main companies, one of them also forming part of the other company.

Authorised Officer working Dual Full-time Jobs

The AO of one of the Local Tribunals is also a full-time Security Manager employed by a Public Entity despite that, as per the contract of service, he was to dedicate a total of 2,450 hours *per annum* for the supervision and administration of the Warden Services Contract and to conduct Tribunals for two specific Local Councils.

Control Issues

Opportunities for improvement were identified in the following areas:

Limited Verification over Payments to the Commissioners of Justice

The CJD was not in a position to verify the accuracy of the claims in connection with the Commissioners of Justice remuneration due to lack of source documentation. Invoices submitted for payment, prepared by the AOs and countersigned by the Commissioner of Justice and another official on behalf of the Local Tribunal, indicated only the sitting dates, the number of cases and the name of the Commissioner who held the sitting.

No Independent Certification

The majority of invoices presented for payment were not being independently endorsed and certified correct by the Head/Chairman of the Joint Committee. During the course of the audit, NAO concluded that only one out of the nine Tribunals ensures that the invoices are signed by the Chairman of the Joint Committee before forwarding the bill for payment.

Lack of Attendance Records

Commissioners of Justice for Local Tribunals were not required to sign any form of Attendance Records as evidence of their presence and work performed. This limited the examiners' verification as to the accuracy and validity of payment due to the considerable amount of sittings held.

Adjudicators paid for Deferred Sittings

A total of €349 was overpaid to four Adjudicators for sittings that were not held on the dates indicated since they were deferred.

Incorrect Payment to a Commissioner

Despite that during the month of July a Commissioner conducted twenty-eight sittings at one of the Local Tribunals, he was paid for only twenty-five sittings.

Compliance Issues

Non-adherence to Fiscal Obligations

- The 18% Value Added Tax (VAT) rate was only occasionally charged by two Adjudicators on their services rendered.
- CJD deducted the VAT element from the honorarium paid to those Adjudicators who were charging the VAT on their service.
- No fiscal receipt was ever provided for this expenditure following receipt of payment.
- Proper invoices were not always issued.
- Commissioners and Adjudicators were being remunerated in the form of a multi-payment instead of a Payment Voucher.

Incomplete Invoices

- The invoices presented for payment by five out of the six Adjudicators were not numbered. Moreover, four of these Adjudicators also failed to include their VAT Registration Number.
- All invoices presented for payment by two Adjudicators, did not even bear the dates when the sittings were held.
- Two cases in the audit sample were encountered where the details of additional sittings held by the Commissioners were added on the invoices manually.
- On several instances, the Adjudicators were not using the Central Parity Rate for the Euro Conversion and invoices were being manually corrected by the Accounts Section prior to issuing payment.
- Besides failing to comply with fiscal obligations, invoices presented for payment by two Adjudicators bore the logo of the law firm whereby they exercise their private profession, even though they were appointed to perform duties in their own personal capacity.

- Two instances were noted whereby payment was still effected despite the fact that invoices were not endorsed by the Commissioner of Justice, as required by CJD.

Recommendations

Key Issues

Commissioners paid per Sitting irrespective of Number of Cases heard

It may be more appropriate if the Commissioners are remunerated on the basis of the number of cases that they actually carry out under their jurisdiction rather than being paid per sitting, thus ensuring more efficiency and effectiveness by the Local Tribunal concerned.

Low Percentage of Cases over which Commissioners gave Jurisdiction

When determining the number of cases per sitting that the Commissioner is to hear, one is to exclude the instances of fines paid prior to the hearing, in order to determine a realistic number of cases as possible.

Seven out of Nine Contracts of Authorised Officers awarded to two Companies

The Joint Committees may collectively consider alternative measures with respect to AOs. An option could be that AOs are recruited as employees of the Local Tribunals, on a contract basis. This will enable more transparency in the system and may turn out to be more cost-effective in the long-run.

Authorised Officer working Dual Full-time Jobs

The Joint Committees are advised to ensure that the AO, who is awarded the contract, can totally fulfil his obligations by performing the necessary checks with the competent authorities prior to engagement.

Control Issues

Limited Verification over Payments to the Commissioners of Justice

Since the Commissioners of Justice are providing a service to the Local Tribunals, it may be more fair and appropriate if their remuneration is borne by the Joint Committee representing the Local Councils.

No Independent Certification

The Head/Chairman of the Joint Committee, who works independently from the AO, is to be involved and thus certify correct or otherwise all invoices before they are presented for payment.

Lack of Attendance Records

An attendance register is a vital tool which helps to keep an adequate audit trail of the Commissioners' attendance. Records showing the sittings performed are to be further certified by a responsible officer.

Adjudicators paid for Deferred Sittings

Persons endorsing invoices (especially on behalf of the CJD) are to review the *Prime Note* dates to ensure that the number of sittings quoted on the invoices corresponds correctly. The invoices are only to be forwarded to the Accounts Section for payment when sufficient confidence is obtained that they reflect the sittings that were held during the month in question. Any overpayments are to be recouped or deducted from the next payment.

Incorrect Payment to a Commissioner

Double checking of one's work at the Accounts Section is recommended to ensure accuracy of payment.

Compliance Issues

Non-adherence to Fiscal Obligations

As indicated in the Fourteenth Schedule of the VAT Act (Cap. 406), invoices for services rendered by Commissioners and Adjudicators should include an element of VAT. Accounting officers are to ensure that they are invariably issued with a fiscal receipt by the service providers. These are to be attached to the relative original voucher for record purposes. While defaulters should be reminded of their obligation to comply with relevant fiscal legislation, these defaulters are to be reported to the VAT Division on a quarterly basis.

Incomplete Invoices

All invoices presented for payment, both by the Local Tribunals and the Adjudicators, are to be duly signed by the respective authorised officials before they are processed for payment. Errors on invoices or invoices lacking relevant information, are to be referred back to the service providers concerned. Payments are to be processed only following submission of the updated invoices.

Management Comments

Management concurred with most of the findings highlighted in the report and action has immediately been taken to comply with a number of recommendations.

CJD also agreed that it may be more appropriate if the Commissioners' remuneration is borne by the Joint Committee representing the Local Councils. However, Management stated that if it is felt that such remuneration is still to be borne and paid by CJD, every invoice submitted should be endorsed and certified correct by the Head/ Chairman of the Joint Committee before submitted to them for payment.

Police Department
Arrears of Revenue 2008

Background

Revenue collected by the Police Department is composed of Weapons Licences (Sporting Licences), Fines to Airline Companies (Miscellaneous Fines) and Services to Third Parties (Extra Duty). The total outstanding balance as at year end stood at €558,479.

Revenue from Weapons Licences relates to the fees charged upon the issuing and annual renewal of weapons licences in Malta and Gozo. Arrears due as at year end amounted to €428,309, an increase of €35,333 over the preceding year.

Fines are incurred by airline companies operating in Malta when at least one of the passengers entering the country on any of their carriers does not have the appropriate travel documentation required for the passenger's lawful entry into Malta. An amount of €68,134 was outstanding as at year end, an increase of €8,968 over the previous period.

Income from Services to Third Parties is derived from the provision of any form of police service offered to third parties outside normal duties. For the provision of one-off services, invoices are issued following the provision of service, in line with established fixed fees according to the respective grade of the officer offering such service. The fees charged are split five-sixths as payment to the respective officer(s) and one-sixth as administrative fee accounted for by the Department. €62,036 was reported due as at the end of the period, or €17,879 over the amount reported in the prior period.

Audit Scope and Methodology

The objectives of the audit were to evaluate the present internal control mechanisms and to ascertain that the balances and figures reported are correct and free from material misstatement. It was also ensured that the Return complied with standing Regulations with particular emphasis being placed on verifying that appropriate approvals were available for amounts written off. Departmental action taken to locate and contact defaulters or next of kin was reviewed in the case of amounts 'Written Off' and 'Not Due'. It was also verified whether observations outlined in previous NAO Management Letters were addressed.

Following a detailed review of the Return submitted, an analysis of balances 'Collected' was carried out. From a total of 1,356 transactions valued at €98,843.98, a sample of sixty-eight transactions with a combined value of €24,039.25, and covering all revenue types, was selected and tested. A Confidence Level of 90% and a Confidence Interval of 9.72% were achieved with this sample.

A review of seventy-three amounts 'Written Off' or 'Not Due' pertaining to Weapons Licences, valued at €15,373.21, was also performed. All balances 'Written Off' were selected, whilst another sixteen balances from the remaining sixty-eight considered 'Not Due' were added to the sample, with a combined value of €4,430.15. This resulted in a Confidence Level of 90% and a Confidence Interval of 15.25%.

Weapons Licences (Sporting Licences) and Weapons System

Key Issues

Weapons System and Procedures Licencee Focused

The system and current procedures in use are based around the licencees and the history of weapons they own, as opposed to the weapons *per se*, their specifications, categorisation and audit trail of their owners. This facilitates the exercise of control over owners/licencees and revenue collection, but diminishes the emphasis on control of the weapons which is deemed necessary to ensure adequate safety. While this Financial and Compliance Audit focused on the revenue collection aspect, the adequacy or otherwise of safety measures in place nonetheless assumes considerable importance considering the public safety and security implications involved.

The above is particularly evident in cases where weapons/firearms cannot be traced or located. These can be cases where the last known and registered owner may be deceased or even missing, and following attempts to locate the weapons/firearms and the next of kin, any arrears due are simply written off, consequently losing an audit trail of the weapons/firearms which are eventually *'forgotten'*. Other similar cases are when registered owners declare that the weapons/firearms have been lost, stolen or destroyed. However, neither the Malta Police Force nor NAO are in a position to ascertain in any of these cases that such weapons/firearms were actually disposed of or destroyed and hence are not in the possession of a new unidentified owner.

As a result, the current system, procedures and treatment of these cases may be inappropriate. From a financial aspect, there is the risk of loss of revenue to Government, arising from licences due (in arrears) by unknown individuals being in possession of untraced weapons/firearms. Furthermore, potential safety and security concerns may also arise, as a result of the complete loss of track of the weapon/firearm.

Lack of Evidence supporting Amounts reported as Collected

Three instances were encountered where amounts totaling €464.74 reported as 'Collected' in the Return submitted, could not be supported by any evidence of such payments in the Weapons System.

In two instances, no arrears were due in the first place. In the other case, the weapon/firearm in question was transferred onto a third party during the year with the consent of the Weapons Office but without ensuring settlement of arrears due.

Whilst the possibility of human error is acknowledged, these instances question the reliability of records and the information system or the data in the Return submitted, as well as raise concern over the current level of control and monitoring exercised over transfer of weapons and licensing.

Reporting Limitations of the Weapons System

- A reporting facility providing a detailed ageing analysis of debtor balances is not available from the Weapons System.

- The 'Person Licences' report available from the Weapons System does not provide a detailed breakdown of amounts paid in arrears, failing to indicate for which period and at which applicable rate the revenue collected relates to.

The lack of readily available information results in an incomplete audit trail, making it difficult for users to follow up any particular case and take adequate and timely action. This in turn may result in balances becoming time-barred. The need for manual intervention decreases efficiency and, very often, reliability.

Fictitious ID Numbers present in the Weapons System

The presence of Fictitious ID numbers, as reported in previous NAO Audit Reports, is still evident both in the Weapons System and in the Return submitted. These individuals have at least one weapon in their possession, but personal and weapon details are minimal or negligible. The validity of the limited information available is questionable and may be obsolete, as the individual's whereabouts, if still alive and in possession of the weapon(s), cannot be ascertained. Weapons may have been transferred onto third parties or passed onto the registered licencee's heirs, who may not even qualify for the use of such weapon(s), without an adequate licence being issued.

None of the arrears due by these unidentified individuals have been collected. Currently, the possibility of ever collecting them is quite remote. Such balances may have become time-barred, and distort the balance of actual collectible arrears.

Feedback from the Police Department following a request for information on the progress made during 2008 on the identification of individuals with Fictitious ID numbers or their next of kin is still awaited, even though in the management comments received it is indicated that *"efforts to trace the afore mentioned persons had commenced"*, but *"results were not encouraging and in many cases were not conclusive"*.

Control Issues

Opportunities for improvement were identified in the following areas:

Inconsistent treatment of Uncollectible Arrears

Following a review of arrears 'Written Off' and/or 'Not Due', it transpired that a number of similar cases of uncollectible arrears were not treated in the same manner. In these cases, licencees have passed away and the known heirs/next of kin are either deceased too, or have declared (by affidavit) that they have no knowledge of the firearm(s), consequently resulting in the firearm(s) not being traced. Such inconsistencies hinder the reliability of the data reported by the Department.

Services to Third Parties (Extra Duty)

Control Issues

Opportunities for improvement were identified in the following areas:

Discrepancies in Castings and Computations

The following discrepancies in computations or castings were identified in the current manual billing system:

- In one case, the amount collected as per Receipt and as per Cash Book was overstated by €57.40 compared with the Invoice amount due. The difference arose from the allocation of an additional Police Constable for six hours on the same job.
- In another case, the invoiced VAT computation was incorrect. As a result, the corresponding balance of arrears collected for the service rendered did not tally with the amount reported in the Return submitted.
- On two instances, invoice details regarding the service provided did not correspond with the erroneous details quoted in the Return submitted. In one of these cases, the invoice value and corresponding value of arrears collected did not tally with the amount stated in the Return.

It is acknowledged that the last two instances could have resulted from a typing error, making reference to the wrong invoice. However, a manual billing system will always raise the risk associated with human error.

Incomplete Details on Invoices, Receipts or Cash Books

The following instances were observed where Invoice, Receipt or Cash Book details were incomplete:

- The name and signature of the applicant and the date of such endorsement were not included in any of the invoices examined of the Mosta and Qormi Police Stations. Furthermore, the endorsement (as witness) of the Police Officer was not completed in five out of twenty invoices examined of the Qormi Police Station.
- None of the examined Receipts of the Mosta and Qormi Police Stations included the Police Department stamp. Moreover, one of the Receipts was not endorsed, whilst in four out of ten Receipts examined of the Qormi Police Station the date of the Receipt was not completed.
- None of the invoices included further specific details regarding the service being provided.
- On a number of instances, a copy of the relevant invoice was attached to the Qormi Police Station's Cash Book, instead of re-writing the details of the invoice in the Cash Book.

These shortcomings reflect negatively on controls exerted by the Department and may lead to various difficulties in case of default by the client or disagreement between parties.

Records Not Located

Two invoices and the related Transfer Vouchers and Cash Book entries were not traced in the documentation provided by the Police Department. Additionally, the Receipt and Cash Book entry relating to another invoice were also not located. Following a further request to obtain such documentation from the Mosta Police Station, it was confirmed that this documentation could not be traced.

The loss or misplacement of documents hampers the effective administration of any organisation and resulted in a limitation on the scope of our testing.

Observations in respect of the Return of Arrears and other General Comments

Compliance Issues

Shortcomings in the Breakdown of the Return of Arrears Submitted

- The individual analysis of Weapons Licences did not include a column detailing 'New Arrears' for the year. Amounts had to be calculated manually by subtracting the net balance of previous arrears from the closing outstanding arrears due.
- The closing amount outstanding for a substantial number of licences due from previous years decreased,

even though such balances were neither collected nor written off/considered as not due. In twelve instances amounts outstanding collectively totaling €717.64 were each adjusted to a Nil balance. Following NAO's request to provide explanations for such adjustments, neither did the Return submitted provide notes for these adjustments nor was a written reply received.

In the remaining 269 cases, arrears totaling €13,635.17 were each decreased by €2.33 when compared to the opening balance due. Management verbally stated that such adjustment resulted from a decrease in a prior period licence rate which had not been accounted for. NAO may perform relative further testing since it became cognizant of such amendments at a late stage during the conduct of the audit.

- The detailed analysis for Services to Third Parties arrears 'Newly Accrued' for "General Headquarters" and "Paola" are erroneous. A number of new arrears listed in such schedules have been omitted from the total, resulting in an understatement of €1,688.44 for "General Headquarters" and €85.93 for "Paola".

These deficiencies do not facilitate reconciliations and result in a poor audit trail. Balances reported are distorted and doubts are raised as to the reliability of information submitted.

Information Not Provided (Limitation on Scope)

A number of files requested for testing were not provided for audit examination hindering the completion of our review. These were five out of all eighteen files relating to Airline (Miscellaneous) Fines arrears 'Collected' and six out of sixteen files selected regarding Weapons Licences arrears 'Not Due'. The value of Airline Fines arrears 'Collected' and Weapons Licences arrears 'Not Due' in connection with the unexamined files stands at €3,028.17 and €1,025.08 respectively.

Recommendations

Weapons Licences (Sporting Licences) and Weapons System

Key Issues

Weapons System and Procedures Licencee Focused

Procedures should be focused on weapons/firearms, apart from, as far as possible maintaining control over owners. Management is to ensure that all weapons/firearms are immediately registered upon importation, all related documentation pertaining to the weapon/firearm is to be duly provided and stored, and all technical details and specifications of each and every weapon recorded electronically without exception or fail. Such information could eventually become invaluable especially during investigations of criminal activities. Moreover, every effort should be undertaken to ensure that any relevant and missing details pertaining to currently registered weapons/firearms are duly obtained from the owners in a specific exercise further ensuring completeness and reliability of data. In addition, Management should also ensure that weapons/firearms are only deregistered upon firm evidence of exportation or destruction. The system should also facilitate reporting focused on weapon characteristics/status.

More emphasis should be made to try to locate untraced weapons/firearms and their owner even though NAO acknowledges the practical and logistical difficulties this may entail. To this extent, a database of any untraced weapons/firearms should be created. The possibility of carrying out surprise spot inspections to physically trace weapons/firearms declared as lost, stolen or destroyed should also be looked into.

Lack of Evidence supporting Amounts reported as Collected

Effective internal controls and monitoring are to be set up to ensure the reliability and integrity of the system and the data held, enabling the correct and accurate reporting of figures. Management is also recommended to identify the cause of these errors and rectify without undue delay.

Reporting Limitations of the Weapons System

The Weapons System should be enhanced so that reporting facilities provide both an ageing report and a detailed breakdown of arrears paid. Reliable and detailed information should be available on a timely manner to assist users in their duties.

Fictitious ID Numbers present in the Weapons System

As already reiterated, more determined efforts are to be made to locate these individuals or their next of kin, and most importantly trace the weapons/firearms in question. Arrears pertaining to these individuals are to be scrutinised, and any time-barred amounts are to be written off following adequate approval. The remaining balances are to be separately identified and reported from the 'main' balances to provide a true and fair view of collectible arrears. Weapons' and owners' details, and other available information should not be discarded until the weapon(s) and the owner are traced.

Control Issues

Inconsistent treatment of Uncollectible Arrears

Comparable cases of uncollectible balances should always be treated in a similar manner, and according to established policies or procedures. Internal controls are to be strengthened so as to ensure that such errors are identified and rectified immediately.

Services to Third Parties (Extra Duty)

Control Issues

Discrepancies in Castings and Computations

Invoices are to be checked thoroughly for correctness, whilst more attention should be paid to castings and recording of transactions in the Cash Book, and the reporting of arrears in the Return. Ideally, the current manual billing system is to be computerised, as already reiterated in previous NAO Management Letters.

Incomplete Details on Invoices, Receipts or Cash Books

Dates, names, endorsements, Police Department rubber stamps and all other details required should always be completed without exception. Ideally, invoices would be enhanced to include further specific details relating to the service being requested and provided.

Records Not Located

It is to be ensured that, as far as possible, all documentation is properly filed, indexed and kept secure, and is readily available for any further review or examination that may be deemed necessary. Missing documents are to be traced and accounted for.

Observations in respect of the Return of Arrears and other General Comments

Compliance Issues

Shortcomings in the Breakdown of the Return of Arrears Submitted

As requested in Treasury Circular No. 2/2009, the Return should also include additional schedules featuring a breakdown of all balances, on an individual/case basis. Schedules should be sufficiently inclusive of any relevant details, information, or explanations so as to facilitate the understanding of movements of balances during the financial period, and any reconciliation with separate schedules submitted.

Information Not Provided (Limitation on Scope)

All documents requested are to be submitted in a timely manner to ensure that the full sample chosen for examination is examined and audit conclusions correctly represent the population.

Management Comments

Management concurred with the majority of observations and recommendations made by NAO. In addition, the following comments were submitted:

- In relation to ‘Weapons System and Procedures Licencee Focused’, Management reiterated that *“the weapons system is based on both the licencee owning the firearm as well as the history of each firearm. The system has a facility to track the movement of each firearm as to whether it has been transferred, reported stolen, lost, confiscated, seized, or even exported”.*

  Furthermore, Management noted that when a person fails to pay the annual licence due, *“the officer doing the inquiry has to rely on the data provided by the weapons system, which generally includes information dating back to the licencee’s first application. Computer data may be misleading due to the lack of updated information”.* In this regard Management emphasised *“that the weapons system should be linked to the Common Database (CDB) and as such the data of the person is updated on a regular basis. Through the data supplied by the CDB, the next of kin of a deceased licencee can be identified”.* Nonetheless, Management did not comment upon NAO’s recommendation to conduct a specific exercise to obtain any relevant and missing weapon/firearm details from registered owners.

  Finally, Management stated that when the firearm/weapon(s) is declared as lost/stolen etc., *“Police authority does not take such declaration lightly”.* The licencee is asked *“to submit an affidavit to substantiate his/her declaration”* and *“will be subject to criminal proceedings if caught falsely reporting a stolen/lost firearm/s etc.”.* Management failed to comment upon NAO’s recommendations to create a database of untraced weapons/firearms, and to physically trace weapons/firearms declared as lost, stolen or destroyed by carrying out surprise spot inspections.

- Management explained that the Weapons computerised

System, which was introduced in 1997, underwent major changes to cater for the introduction of the Arms Act in 2006 and the Euro changeover in 2008. However *"issues that have not been tackled are proving to be too complicated"* to implement, and *"evaluation of the entire system and whether a new design program is more feasible, is subject for consideration"*. Conversely, related observations outlined are being or have been addressed and resolved in the Weapons System with MITA. With regard to 'Lack of Evidence supporting Amounts reported as Collected', Management commented that similar errors will not feature any more in the future, whilst stating that the program is now able to automatically calculate arrears as counter-comments to NAO's identified 'Reporting Limitations of the Weapons System'.

- Referring to the 'Fictitious ID Numbers present in the Weapons System', Management commented that the ID numbers of these individuals were not traced when records were transferred from the manual system onto the Weapons System in 1997, as these individuals were in possession of firearms prior to the introduction of ID cards. In fact, in some cases, the registered licencee is over 100 years old or probably deceased, and their next of kin, if these could be traced, would be over 80 years old, making it *"very difficult to collect arrears due"*. However, no counter-comments were provided to NAO's recommendations, to write-off any time-barred amounts and separately report the remaining balances.

- The issue of 'Inconsistent treatment of Uncollectible Arrears' was not adequately addressed. Management provided an explanation of the conditions leading to arrears being classified as 'Written Off' (instead of 'Not Due'), stating that the licencee must have owned the firearm during that period for which the outstanding licence is due, which licence is *"no longer possible or feasible to collect due to justified means"*. However Management did not make any specific reference to the cases outlined in the Management Letter.

- With regards to observations noted under Services to Third Parties, Management positively reported that instructions, aimed at rectifying such shortcomings, have already been issued to the respective Superintendents and Police Office Personnel in Police Districts 6–10, regarding procedures to be adopted with immediate effect whilst emphasizing the supervisory and monitoring responsibilities of Senior District Officers.

- Management expressed reservations on the issue of the missing column detailing 'New Arrears' in the detailed Weapons' arrears schedule (listed by individual for each locality). It was stated that this had never been included in previous annual returns and, had it *"been requested in previous yearly returns, this Department would have found no objection to furnish such information"*.

  Furthermore, Management commented that a verbal clarification had already been provided in relation to the decreases in the closing outstanding Weapons Licence balances due from previous years. However, NAO reiterates that no response, verbal or otherwise, was provided in relation to the twelve cases which were adjusted to a Nil balance.

  On the other hand, Management agreed with the erroneous computations in the detailed schedules for Services to Third Parties for "General Headquarters" and "Paola" and stated that these will be rectified under the 'Arrears from Previous Return' column, including a specific (footnote) explanation, in the forthcoming 2009 Return of Arrears of Revenue.

- Upon submission of Management's comments early in November 2009, NAO was also informed that eight of the eleven files reported as not provided during audit testing have been traced and are now available, if still required, for examination.

Local Councils

Background

In accordance with the Local Councils Act Article 65(1), the audits of the Local Councils' Financial Statements were carried out by seven private audit firms on behalf of the Auditor General.

The Financial Statements covered the year ending 31 March 2009, during which calendar year, the Government allocated €23.97m (2008: €23.92m) to Local Councils. Thirty-eight (2008: thirty) 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 Article 65(6), Local Government Auditors are to submit the Audit Report and Financial Statements of each of the sixty-eight Local Councils by not later than 30 June 2009.

The Government also allocated €69,802 (2007: €69,881) to the Local Councils' Association (LCA). The audit of the Association was carried out by a private audit firm appointed in terms of Part VI, Article 36 of the Local Councils (Association) (Amendment) Regulations, 1999. The Audit Report had to be submitted by not later than twelve weeks from the end of the Financial Year ending 31 December 2008.

Audit Scope and Methodology

The scope of the audit was to ascertain whether the annual Financial Statements, prepared by the respective Executive Secretaries as approved by the Mayors and the Executive Secretaries, were in accordance with the applicable accounting policies and that they gave a true and fair view of the Income and Expenditure of the Council and its Retained Funds at year end. These objectives were achieved by analysing both the audit opinion given by the Local Government auditors on the Financial Statements, as well as the weaknesses and inefficiencies highlighted in the Management Letters drawn up thereon. Furthermore, each Local Council's response to the Management Letter was scrutinised.

Key Issues

Qualified Reports

By the time this Annual Report was issued, the Local Council of Gżira had not yet submitted its Financial Statements to the National Audit Office (NAO).

Meanwhile, fifty-two Audit Reports[1], out of the sixty-seven submitted[1] were qualified with an 'except for' audit opinion for one or more of the following defaults:

1. Shortage of funds, or Financial Situation Indicator (FSI)[2] less than 10% as required in terms of the Local Councils (Financial) Regulations 1996, or Deficit in the Income and Expenditure Account or Net Current Liability position.

2. Amounts due from the Local Enforcement System (LES) based solely on the information issued from the same system since timely information by the Joint Committees was not provided.

[1] Fifty-two Audit Reports represent 77.6% (2008: 63%) of all the submitted Financial Statements.

[2] FSI is defined by the Local Councils (Financial) Regulations, 1996 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.

3. Financial Statements not compliant in all respects with the requirements of the International Financial Reporting Standards (IFRSs) and with the requirements of the Local Councils (Financial) Procedures, 1996.

4. Other specific issues for the Local Councils.

The respective qualifications and the applicable Local Councils are listed in **Appendix A**.

The Financial Statements of Rabat (Gozo), Santa Venera and Żebbuġ (Malta) were qualified with an 'adverse' opinion. With respect to Żebbug (Malta), the qualification was due to the fact that income from LES sentenced cases was understated by around €80,000, total payables at year end could not be determined and payables in the Purchase Ledger were understated by €24,895. As a result, surplus in the income and expenditure was overstated by €100,691. As for Santa Venera and Rabat (Gozo), the qualification was applicable since the Financial Statements were not compliant with IFRSs.

In the case of Birkirkara Local Council, the Local Government auditor drew attention as to the Council's liquidity position which was deteriorating from one year to another. It resulted that the Council was approving and contracting capital commitments in excess of the allocated funds. In addition, during the year under review, the Council recorded as income all the contraventions issued rather than the entitled share of profit derived from the Joint Committee after deducting the related expenses. Despite the advice given by the Local Council's auditor, the situation was not rectified since the Local Council argued that the Joint Committees are to be wound up. Moreover, the Council did not account for its creditors in full.

Negative Working Capital

Twelve Local Councils (2008: nine) registered a negative working capital[3] during the year under review.

The following table lists these Councils, the working capital for the year and the corresponding figures for the previous two years:

Birgu

The Council's current liabilities exceeded current assets by €86,788. This was due to a large increase in payables from €132,182 in 2008 to €223,823 in 2009, essentially made up of an increase in accrued expenses and general creditors, and unspent funds under the EU 'Oralites Programme'.

Local Council	2008 – 2009	2007 – 2008	2006 – 2007
	€	€	€
Birgu	(86,788)	(36,462)	(26,126)
Birkirkara	(258,523)	(251,001)	(37,328)
Birżebbuġa	(9,165)	121,296	135,922
Fontana	(26,473)	3,308	131,931
Kerċem	(23,934)	9,647	16,320
Nadur	(7,971)	(4,209)	68,093
Qala	(7,706)	41,625	43,892
Rabat (Gozo)	(39,763)	(109,094)	55,712
San Ġwann	(170,476)	190,255	85,814
San Lawrenz	(27,637)	(19,749)	3,732
Xagħra	(90,825)	(130,394)	(151,137)
Xewkija	(32,990)	24,327	(14,429)

[3] Working Capital is defined as current assets less current liabilities.

Birkirkara

The increase in the negative working capital was the result of a decrease of €47,130 in payables which was fully outweighed by a decrease of €52,845 in receivables, ending with an exceptional negative working capital of €258,523.

Birżebbuġa

In the prior year, the Council had a very healthy net assets position. However during the year under review, there were excessive increases in capitalisation of assets amounting to €250,164 which were cash financed. This decreased bank balances by the same amount and resulted in a negative impact on working capital.

Fontana

The Council's current liabilities increased compared to the prior year due to an increase of €34,705 in accrued expenses, with a smaller increase in cash and cash equivalents.

Kerċem

The Council experienced a decrease of €35,661 in its cash position, with an overdrawn balance emerging in the current Financial Year. This was due to a significant increase in expenditure.

Nadur

Despite that cash and cash equivalents at year end amounted to twice as much as last year's balance, this was not sufficient to sustain the considerable decrease in receivables and the slight increase in payables.

Qala

The Council's current liabilities exceeded current assets by €7,706 and from a positive situation, the Council moved to a negative situation compared to prior year. This was due to a decrease in cash and cash equivalents of around €21,000 coupled with an increase of approximately €26,000 in payables.

Rabat (Gozo)

The negative working capital position in 2009 went down to €39,763 from €109,094 in 2008, due to a large increase in LES receivables. However, it still resulted in a negative situation due to the very high payables of €186,810 and an overdrawn bank balance of €86,802 which is slowly being reduced from the prior year. Moreover, there were capital expenditures of €155,728 which explains the increase in creditors.

San Ġwann

The Council's current liabilities exceeded current assets by €170,476. This abnormal liability position was mainly brought about by significant current year expenditures and the purchase of new fixed assets, which led to a decrease in cash and cash equivalents over the prior year of €198,983 coupled with an increase in payables.

San Lawrenz

The working capital situation got worse compared to prior year since there was an overdrawn balance of €9,884 in the current bank accounts which brought the cash position to a negative one.

Xagħra

Current liabilities exceeded current assets by €90,825 during 2009. Despite that current assets increased during the current year, this was not sufficient to render a positive working capital due to a large balance of trade payables at year end.

Xewkija

The increase in payables and the decrease in current assets resulted in a negative movement of €57,317 in 2009 compared to 2008. This mainly resulted from a high overdrawn balance in 2009.

Improvement in Working Capital

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

Local Council	2008 – 2009	2007 – 2008	2006 – 2007
	€	€	€
Balzan	34,623	(1,789)	(33,879)
Swieqi	24,383	(22,468)	(93,589)

Financial Situation Indicator (FSI)

Twenty Local Councils registered an FSI below the 10% benchmark required by law; an increase of six Local Councils over that of the previous year. These are shown in the table hereunder:

Local Council	Government Allocation 2008 – 2009	Current Assets less Liabilities 2008 – 2009	FSI 2008 – 2009	FSI 2007 – 2008
	€	€	%	%
Birgu	194,479	(86,788)	-44.63	-18.31
Birkirkara	795,155	(589,490)	-74.14	-61.58
Birżebbuġa	490,631	(9,165)	-1.87	24.77
Dingli	258,118	25,651	9.94	-0.59
Fontana	106,152	(26,473)	-24.94	3.12
Isla	187,092	9,379	5.01	14.76
Kerċem	194,476	(23,934)	-12.31	4.98
Mosta	745,485	1,515	0.20	0.35
Nadur	322,621	(7,971)	-2.47	-1.31
Pembroke	302,181	10,443	3.46	4.96
Pieta’	205,475	8,351	4.06	64.42
Qala	221,888	(7,706)	-3.47	18.75
Qormi	765,740	(55,685)	-7.27	-16.07
Rabat (Gozo)	372,587	(39,763)	-10.67	-29.21
San Ġwann	502,734	(170,476)	-33.91	37.72
San Lawrenz	122,216	(27,637)	-22.61	-16.13
Santa Venera	288,869	13,439	4.65	10.12
Swieqi	374,366	24,383	6.51	-6.16
Xagħra	375,013	(90,825)	-24.22	-35.08
Xewkija	247,654	(32,990)	-13.32	9.82

Income and Expenditure Account Deficit

Twenty-four Councils registered a deficit in the Income and Expenditure Account[4] for the year. The table presents the locality, the deficit for the year under review and the corresponding figures for the previous two years:

Local Council	2008 – 2009	2007 – 2008	2006 – 2007
	€	€	€
Attard	(107,959)	(22,660)	(195,374)
Balzan	(6,946)	5,387	14,698
Birgu	(94,787)	(7,901)	(44,566)
Birkirkara	(229,459)	(41,954)	27,673
Fontana	(16,654)	14,480	7,268
Għargħur	(2,404)	(9,524)	33,573
Għasri	(1,179)	7,782	22,162
Isla	(5,277)	9,617	6,408
Kerċem	(582)	37,101	27,214
Lija	(29,475)	(22,640)	1,474
Marsaxlokk	(21,320)	(27,741)	(36,720)
Mqabba	(14,491)	1,995	26,047
Munxar	(6,879)	8,824	19,425
Naxxar	(8,410)	74,110	98,751
Pembroke	(60,980)	(20,247)	8,406
Pieta’	(142,360)	(102,718)	89,071
San Ġwann	(404,826)	59,524	13,114
San Lawrenz	(6,873)	(20,804)	(5,208)
Santa Lucija	(14,587)	23,388	(16,443)
Santa Venera	(48,399)	(9,207)	25,605
Valletta	(39,413)	58,436	26,774
Xagħra	(33,173)	1,388	(38,036)
Xgħajra	(1,941)	7,796	3,438
Żabbar	(60,077)	74,559	60,685

The following were the reasons attributed to seven of the foregoing Local Councils having the highest deficit as per above table:

Attard

The deficit was brought about by a decrease of €35,601 in income coupled with an increase of €49,698 in expenditure. The significant decrease of €94,224 in income from the Joint Committee operations was partly outweighed by the released portion of funds amounting to €32,873 from Urban Improvement Fund (UIF). On the other hand, there were increases in expenditure in connection with refuse collection and cleaning and maintenance of parks and gardens.

Birgu

The deficit for the year was mainly the result of a large increase in expenditure – from €287,397 in 2008 to €398,113 in 2009; with only €23,830 increase in income. This was due to increases in the following expenditures: roads upkeep and maintenance, other repairs and upkeep, refuse collection, road and street cleaning, lease of equipment, community and hospitality and ‘Qualicities Programme’ non-recoverable expenses.

[4] A deficit in the Income and Expenditure Account results when expenditure is greater than revenue.

Birkirkara

The €229,459 deficit resulted from increases in expenditure, mainly in administration and other expenditure. Included in this category were increases in depreciation and a bad debt write-off of €75,487. This was coupled with a decrease in general income by way of €54,520 less contributions compared to the prior year.

Pembroke

The €60,980 deficit partly resulted from a decrease under general income due to no contributions and donations recorded in 2009. Increases in operations and maintenance, as well as administration expenditure over the previous year, including road and street pavements and depreciation, were also a factor to this deficit increase.

Pieta'

There were large decreases in income from the Hospital Car Park and from income raised under LES during 2009 compared to 2008 amounting to €152,066 and €103,289 respectively due to the relocation of the General Hospital. In the mean time, expenditure under operations and maintenance decreased by €196,100 to partly outweigh the decrease in income.

San Ġwann

The increase in income of €26,143 was totally outweighed by the significant increase in expenditure of €490,493 resulting from large increases in expenditure on road and street pavements, walkways, road and street cleaning, training, depreciation and social events. €365,750 of this expenditure should have been recorded as a capital expenditure rather than revenue expenditure.

Żabbar

The deficit for the year mainly resulted from increases in road and street pavements, other repair and upkeep, cleaning and maintenance of parks and gardens, social and cultural activities, depreciation and provision for LES doubtful debts.

Rectified Positive balance between Income and Expenditure

The Local Councils (Financial) Regulations, 1996 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 following fifteen Local Councils rectified their position during the current year:

Local Council	2008 – 2009	2007 – 2008	2006 – 2007
	€	€	€
Birżebbuġa	30,352	(5,553)	28,197
Iklin	20,583	(8,793)	6,140
Kirkop	65,575	(21,480)	(9,912)
Msida	103,325	(16,219)	65,201
Nadur	21,235	(110,604)	54,465
Paola	16,403	(107,376)	55,606
Qala	1,885	(4,647)	(6,584)
Qrendi	49,796	(37,850)	52,015
Qormi	40,271	(24,931)	130,405
Rabat (Gozo)	113,973	(37,915)	54,848
St. Paul's Bay	172,230	(1,576)	45,823
Siġġiewi	32,510	(1,818)	40,051
Sliema	191,778	(12,561)	63,454
San Ġiljan	36,660	(162,555)	(80,812)
Żurrieq	45,353	(14,082)	12,279

Control Issues

Local Government auditors identified a number of control issues necessitating improvement:

a. Three-year business plan not prepared and approved within the stipulated time period.

b. No proper audit trail in the recording of income.

c. Receipts not deposited on a timely basis.

d. No purchase request and no purchase orders raised.

e. Allowances given to Councillors and Executive Secretaries for the use of mobile phones to which they are not entitled.

f. Invoices not properly addressed to the Council.

g. Invoices not always complete and not abiding with VAT Legislation.

h. Payments not brought up for approval at Council level.

i. Donations, sponsorships and reimbursements given to third parties by Local Councils in contravention to Local Councils' Legislation.

j. Lack of control and monitoring of expenditure with budgeted projections.

k. Reimbursement of claims not supported by the required documentation.

l. Works paid for not supported by certification.

Compliance Issues

Finalisation of Annual Financial Statements

In accordance with the Local Councils (Audit) Procedures 2006, extracted from P2.05, the Executive Secretary is to draw up and submit to the Auditor General the Financial Statements signed by the Mayor and the Secretary himself by not later than 11 May following the end of the Financial Year.

Financial Statements are to consist of the:

a. Statement of the Local Council Members' and Executive Secretary's responsibilities;

b. Statement of Income and Expenditure;

c. Statement of Affairs;

d. Statement of Changes in Equity;

e. Cash Flow Statement;

f. Notes to the Financial Statements; and

g. Schedule of Special Needs Funds (where applicable).

Only eleven (2008: nineteen) out of sixty-eight Local Councils managed to submit the respective Financial Statements by 11 May 2009, in accordance with the Local Councils (Audit) Procedures. A further seven Local Councils submitted the Financial Statements by the end of that same week, while another twenty submitted them by the end of May 2009. **Appendix B** refers. The remaining Local Councils kept prolonging either till June 2009, when the audited Financial Statements were due, or did not submit them at all. This lack of non-adherence to the procedures reflected negatively as in most cases Local Government auditors had to postpone the commencement of the respective audits.

Audit Report and Financial Statements

Thirty audit reports (2008: twenty-four) were delivered by 30 June 2009 in accordance with the Local Councils (Audit) Procedures 2006. Another twenty-six Local Councils submitted the audited Financial Statements by the end of July 2009, while the other twelve kept delaying the submission, including one Local Council which did not submit them at all by 13 November 2009 when this report was finalised. **Appendix C** refers.

Local Councils' response following Management Letters

Management Letters highlighted a number of audit findings and relative recommendations. As at 14 August 2009 or six weeks after the Audit Report, only twenty-six Local Councils sent a response to the Management Letter as required by Article 8, sub-article (2) of the Local Councils (Audit) Regulations, 2007. Twenty-seven Local Councils failed to submit a reply – this obviously being an issue of grave concern to NAO. In some cases, the reply to the Management Letter was not signed by the Executive Secretary but only by the Mayor.

The following were the areas of concern which were commonly encountered in the Management Letters:

1. Accounting.

2. Fixed Assets.

3. Debtors.
4. Creditors.
5. Bank/Cash.
6. Local Enforcement System.
7. Procurement.
8. Invoices.
9. Salaries.
10. Non-compliance with certain provision outlined in the Subsidiary Legislation.
11. Incorrect treatment of Grants Received.

Appendix D lists the Councils where the above mentioned weaknesses were encountered and the frequency of their occurrence.

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

Accounting

a. Variances between the Trial Balance and the Financial Statements.

b. Accruals and prepayments at year end neither calculated nor included in the Nominal Ledger.

c. Accrued income not recognised when funds are actually received.

d. Expenditures of a capital nature recorded as revenue expenditures.

e. Difference between the creditors/debtors list and the respective control accounts.

f. The value of stock as disclosed in the Council's Financial Statements did not reflect the real cost of stock in hand.

g. Investment in joint venture not reflecting the share of losses made by the same joint venture.

h. Amounts received from LES debtors recorded again as income rather than crediting the debtors' account.

i. Deferred income accounted for as income received during the current year.

j. The amount recognised as Funds received from Central Government included in the Financial Statements was less than the actual annual financial allocation since certain Councils did not account for funds received for Bring-In-Site and internet service.

k. No proper accounting and disclosures as required by IFRSs.

l. Income from sentenced cases and movement in provision for LES doubtful debts were understated.

m. Overdrawn bank balances not reclassified with current liabilities, while the Purchase Ledger included a number of debit balances not reclassified to receivables.

n. Invoices dated up to 31 March 2009 not booked in the Purchase Ledger or vice versa, i.e. invoices dated after 31 March 2009 booked in the Purchase Ledger.

o. Liabilities booked as per suppliers' invoices instead of booking them in line with the value certified by the Council's Architect.

Fixed Assets

a. Fixed Assets Register (FAR) not in agreement with the values as reported in the Financial Statements or with the values as per Nominal Ledger.

b. FAR not updated with additions of items, values not converted into Euros and lacked necessary details to identify the existence and location of the assets.

c. The cost of projects capitalised under the wrong fixed asset code and thus the wrong depreciation rates were taken.

d. Low value items included in the register rather than written off immediately as an expense.

e. Obsolete assets and assets no longer in use, not written off in line with asset impairment accounting policies.

f. No formal procedure to ensure that all assets were reviewed each year and that any damage was reported to the Council.

g. Insurance policy not covering the cost of fixed assets as per Financial Statements.

h. Report generated from FAR omitted assets that were purchased after a cut-off date within the software.

i. Software used for depreciation automatically taking inaccurate start date to calculate depreciation of new assets.

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

k. Assets acquired and paid in instalments depreciated starting from the payment date rather than from date of acquisition.

l. Building built on land leased from the Government not depreciated over the life of the lease.

m. FAR updated with payments made to the supplier on account, rather than with the actual total cost of the project.

Debtors

a. Acceptable procedures could not always be performed on certain debtors in order to obtain reasonable assurance of the amounts in the Financial Statements.

b. Long overdue debtors included in the debtors' listing, for which no adequate provision was in place.

c. No recognition made in the Nominal Ledger and Financial Statements under receivables of the amount of unpaid traffic fines.

d. Invoices issued by the Local Councils not recorded in separate customer accounts and thus making it difficult to extract the debtors' listing.

e. Balances due from debtors overstated.

f. Both trade debtors as well as amounts due from other Local Councils, reported in the Financial Statements not agreeing to the Council's Nominal Ledgers.

Creditors

a. Long overdue creditors included in the creditors' listing.

b. Supplier statements either not available or not reconciled to the Council's accounting records.

c. No proper documentation supporting the reversal of balances in dispute with suppliers.

d. Schedule of payments not cross-referenced to cheque numbers covering the payments showing a complete audit trail.

e. Fines collected on behalf of other Local Councils not recorded under liabilities.

f. Payments made to contractors not tallying to amounts invoiced by the contractors concerned.

Bank/Cash

a. Limit set by the Financial Regulations for petty cash exceeded.

b. Petty cash either not recognised at all in the Balance Sheet or the balance as per Financial Statements not reconciled to the Council's physical cash balance.

c. Bank accounts balances completely omitted from the Financial Statements.

d. Bank Reconciliations either not prepared on a regular basis, or including identified discrepancies which remained unreconciled.

e. No sufficient evidence indicating that reconciliations were adequately reviewed by the Executive Secretary.

f. Accounting package software not permitting the re-printing of old bank reconciliation reports while the Council did not keep such print-outs as part of its accounting records.

g. Stale cheques not investigated and/or not written off.

h. Cheques issued not mailed to suppliers for over twenty days but kept in cash till.

i. Bank loan and loan interest payments as per Bank Statement not tallying to the amounts in the Financial Statements.

j. No proper disclosure for borrowings, i.e. no distinction for loan amounts between one and two years, two to five years and over five years as required by International Accountig Standard (IAS) 23, 'Borrowing Costs'.

k. Use of internet banking and direct debit transactions against standing instructions from the Department for Local Government (DLG).

l. Payments not duly authorised.

Local Enforcement System

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

Outstanding fines should not take longer than one year to be settled as these are usually payable upon the renewal of the respective motor vehicle license. This could potentially mean that the net current asset situation of Local Councils is being inflated since in actual fact these amounts cannot 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 need to 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. Since joining this system, these Local Councils have become liable for possible losses made by the Joint Committee.

The DLG, after consulting the LES Committee, is to investigate the LES and take any corrective measures deemed necessary with the contractor supporting the computerised system. Moreover the system should be enhanced to ensure that no motor vehicle license is renewed unless all respective contraventions are paid.

Other common issues encountered during the audits included the following listed hereunder:

a. Unsubstantiated deposits in respect of contraventions due to lack of information submitted by the banks.

b. Disputed amounts due by the Local Council to the Joint Committee for services rendered by the Tribunal.

c. Contraventions over one year old still outstanding to the extent that some amounts risk getting statute-barred.

d. Further income entitled to the Council could not be determined since a number of audited Financial Statements of the Joint Committees for the year 2009 were not made available.

e. Amounts received and income receivable by the Joint Committee from LES Tribunal payments not classified by Council.

f. LES contraventions before the pooling agreement date were written off, while amounts due from the Joint Committee as at the current Financial Year end were not accounted for.

g. Variances in the recording of LES generated income as reported in the Financial Statements, when compared to LES reports.

h. Control over LES income solely based on information obtained from the LES itself.

i. No documentation supporting the method used to account for the amounts receivable from the LES.

j. LES reports issued from the LES do not have a parameter for cancelled contraventions resulting in discrepancies when compared to the Council's reports.

Procurement

a. Expenditure made by direct order without obtaining at least one quotation.

b. Applications for tender kept open for the public for less than one month against the requirement in terms of the Local Councils (Tendering) Procedures 1996.

c. No Bank Guarantees provided to the Local Council by the appointed contractor within the seven day period established by the financial provisions.

d. No formal extensions ever made to expired contracts initially issued by the DLG for services rendered regularly.

e. The name of a winning contractor and the reason justifying the decision not published.

f. Decision to renew contracts not generally taken at Council level unless there are objections in respect of the current contractor/s, in which case the whole Council would become involved.

g. No percentage of the bill retained for a period of time, in the form of retention money, as stipulated in the contract.

h. Contractors engaged to provide goods and services of a different nature, other than that contemplated in the contract.

i. No copy of adjudication reports was kept in file for tenders.

j. Tender documents such as tender form, non-collusive form, proposed bill of quantity, bid bond, acceptance letter and performance bond were missing.

k. The actual value of Bid Bonds and Performance Guarantee were lower than that prescribed by the Tendering Conditions.

Invoices

a. Purchase order dated after the invoice date, and Payment Voucher dated before the approval of payment in the Council meeting.

b. Invoices issued from word processing rather than through the invoicing tool embedded in Sage.

c. Invoices paid twice since they were not stamped as 'Paid' when first payment was effected.

Salaries

a. Discrepancies between amounts declared in FS5s submitted to the Inland Revenue Division and the actual emoluments paid or posted in the Nominal Ledger.

b. The annual FS7 did not reconcile to the monthly returns.

c. Tax deductions and Social Security Contributions (SSC) wrongly calculated.

d. Salaries, allowances, overtime and bonuses paid to the Local Councils' employees not adequately posted in the Nominal Ledger or not declared in FS5s.

e. Final Settlement System (FSS) returns, SSC and tax payments not sent on a monthly basis to the Inland Revenue Division.

f. Direct bank transfers in respect of payment of salaries and Mayor Honoraria were made and signed only by the Executive Secretary.

g. No signed contract of employment, letter of appointment or any Council minutes approving chosen applicants to work with the Local Council.

h. Mismatch between the Scale points at which the employees were paid and those applicable as per agreement with the Union.

i. A number of Mayors were considered as 'Part-Timer' and effectively final withholding tax deductions were made at a flat rate of 15% instead of such remuneration being added to their annual income.

Non-compliance with certain provisions outlined in the Subsidiary Legislation

a. Minutes of the Council's meetings not properly documented and approved for future reference.

b. Minutes not bound on a yearly basis or not always submitted on time to the DLG.

c. Deficiencies in the Financial Statements presented by the Council to the Local Government auditors.

d. FSI below the benchmark of 10%.

e. Capital commitments not disclosed in the Financial Statements.

f. Financial Statements not in compliance with the IFRSs.

g. Financial Reports, Financial Statements and the Budget not finalised and approved on time.

h. Budget for the Financial Year 2009/2010 not submitted to the Minister.

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 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.

However, grants related to income are sometimes presented by the Local Councils as a credit in the Statement of Comprehensive Income, either separately under a general heading such as 'Other Income' or else deducted in reporting the related expenses.

Major Concerns

A number of concerns warranting separate mention, occurring at a number of Local Councils, are highlighted hereunder together with the Council's comments, if any, relative to each:

Attard

Actual expenditure exceeded the budget for certain items, such as printing (actual €16,574 against budget €8,650), contractual (actual €286,859 against budget €260,314) and personal emoluments (actual €84,389 against budget €78,530). During a meeting with the auditor[5], the Council stated that it faced unforeseen circumstances, some of them of urgent nature, with regards to the above expenditure, that had to be addressed.

[5] The term 'auditor' refers to 'Local Government Auditor'

The Council read through all points noted and will be cautious not to enter into further commitments until the situation gets better.

Birgu

A claim of €46,792 was made by the Local Council through an EU Funded Project – 'Medcoast'. However, the actual expenses incurred on this project amounted to only €29,460. Furthermore, the fact that over a year elapsed, no further communication was received confirming whether the claimed amount was recoverable or not.

Despite the repetitive warnings issued by the DLG, to be cautious in respect of expenditure incurred due to the deficit position of the Council present for a number of years, the Council still resolved to participate in a number of conferences incurring €9,310 in flight tickets and overseas subsistence.

Overtime was a regular occurrence with an increase from prior year. Although it was authorised and documented by the Executive Secretary and the Mayor, however, a time management exercise was recommended by the auditor.

The Council did not submit a reply.

Birkirkara

Receivables, retained earnings and income for the year were overstated by €457,061, €379,205 and €77,856 respectively on the premise that the Joint Committee will be dissolved and consequently the amounts of pending cases are to be recognised by the Council in the Financial Statements.

The Council pointed out that the document published by Central Government about the new reform on Local Councils stated clearly that the Local Tribunals and the LES pooling agreement will be dissolved during the next Financial Year.

Income is also overstated by another €30,748 due to the recognition of accrued income relating to the future use of the Council's reservoir by the Ministry of Resources and Rural Affairs when no written agreement is yet in place.

It has to be assured that the Council correctly accounts for its income and it only recognises income when it is sure that it will materialise. In no instance the Council would recognise its income to cosmetically improve its financial scenario in the Report and the Council feels that the auditor's comments in this respect were somehow unjust.

The Council exceeded the budgeted expenditure under the heading for Professional Services by €27,771 and that under Social and Cultural Activities by €5,970.

Where possible the Council tries to stick to its budgets and other financial plans. Unfortunately, the Council's annual financial allocation assigned to it by Central Government is not sufficient to cover the Council's recurrent expenditure let alone the capital expenditure. Nonetheless, in order to honour its commitments towards the residents of Birkirkara, the Council strives to obtain additional funding to finance its projects as soon as the opportunity arises. Such additional funding does not always cover the costs of professional fees necessary for the management of projects and ancillary funding. For the future, the Council will however take note of the auditor's recommendation and adjust its budget as soon as it is exceeded.

Birżebbuġa

The Net Book Value (NBV) in the FAR was overstated by €302,707 compared to the Nominal Ledger.

Fixed assets value as well as the depreciation thereon as accounted for in Sage, reconcile to the values as accounted for in the Financial Statements.

The Council received grants from Malta Environment and Planning Authority (MEPA) in connection with UIF amounting to €52,411 for the construction of skate-boarding ring. These grants were recognised in full as income for the year instead of adopting the income approach as detailed in IAS 20 – 'Accounting for Government Grants and Disclosure of Government Assistance'. This approach states that such grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

The Council has noted such recommendation.

The Council expended the amount of €6,807 in construction and railing works for a footbridge in Pretty Bay. However, no permits were issued for the construction of this bridge and subsequently it had to be dismantled and demolished. The railing was still recorded as addition to cost of property, plant and equipment and capitalised in the FAR.

The Council will pass the necessary adjustments through the accounting system.

Bormla

Fixed assets and accumulated fund was overstated by €22,956 since an asset which was disposed of was only partly written off.

During this year the Council will finalise the exercise to upgrade its FAR, by scrapping a number of assets which are no longer held by the Council. Only the assets held by the Council will be listed in this register.

Fgura

The Council recognised the amount of €105,164 as receivable on account of the Road Reinstatement Agreement which it had with Water Services Corporation (WSC). From the documentation made available, it was noted that a substantial part of this amount would be remitted by WSC to the Council. The Council provided for €30,511 as provision for doubtful debts. However, such income should not have been recognised, since the original agreement signed in 2002 with WSC expired, therefore 'amount due' is not covered by a valid accord. The Council was advised to write-off the amount receivable of €105,164.

The Council did not submit a reply.

Floriana

The Council paid a performance bond of €34,940 through a Bank Guarantee to MEPA before works commenced in Sir Luigi Preziosi garden in 2002. Despite that work was terminated by October 2003, the Council has still not taken the necessary measures to ensure that MEPA releases the Bank Guarantee.

The Council is insisting with MEPA to release the performance bond. The Council has just assigned the matter to its urban planning consultant to fix the necessary meetings with the Authority and find a solution for the release of this bank guarantee.

Gudja

As at 31 March 2009 the trade creditors' list included an amount of €11,781, in respect of prior services rendered by the Zejtun Tribunal. This balance has been carried forward in the accounts for a number of years although there is no agreement as yet between the Local Council and the Zejtun Joint Committee – Group G on whether this balance should be paid.

The Council reiterates that it is seeking the official assistance to appoint an independent auditor to examine and decide on this matter.

Trade creditors at the end of Financial Year also included a balance of €24,101 due to a private company for a project which was completed during the previous year. The company invoiced the Council, however, only part of the amount was paid. The Council is disputing the aforementioned balance since, according to its calculations, the contractor overcharged for the work. In April 2009, the contractor instituted a court case against the Council for payment of the balance due to him.

The court case had its first sitting in June 2009 and the next sitting was scheduled for October 2009. The point of contention is that the contractor has not provided the Council with the required information and documentation in support of their claim. The Council has reasonable grounds to suspect that the amount is being overstated or is not due at all.

Isla

The Council had long overdue debtors amounting to €17,695.

An amount of €12,290 of the overdue debtors is due from the Awtorita' Dwar it-Trasport (ADT) on resurfacing works. The laboratory results are finalised and the file is due to be passed over to the ADT's architect for verification and to be followed by settlement of the mentioned amount. The remaining amount of €5,405 will be settled as per agreement dated 16 July 2009 with the Ministry for Resources and Rural Affairs – Construction and Maintenance Department against other works to be carried out by the same Department in Isla.

The Council has not capitalised the cost of a 5-a-side synthetic football pitch turf which amounts to €23,294, resulting in an understatement of fixed assets. In view of the expectation that the Council will receive the foregoing amount from Senglea Nursery in ten to fifteen years' time, the cost of the capital expenditure was instead erroneously included under debtors.

The Council will adjust for the capitalisation of the turf in the forthcoming financial year.

Kalkara

The Council's handyman is being paid for overtime regularly without proper documentation and authorisation.

The handyman is just being paid for an hour at night when he goes around the locality to check for various items like street lighting. Proper timesheet will be kept for his overtime hours.

Marsascala

Similar to the case of Fgura Local Council, the Council acknowledged the amount of €105,447 as receivable on account of the Road Reinstatement Agreement which it had with WSC. From the records made available, it was noted that a considerable part of this amount would be remitted by WSC to the Council. The Council provided for €50,724 as provision for doubtful debts. However, such income should not have been recognised, since the original agreement signed in 2002 with WSC expired, therefore 'amount due' is not covered by a valid agreement. In view of the above, the Council should write-off the amount receivable of €105,447.

The Council has the amount of €37,241 included with amounts payable on account of supply of goods and services provided by various suppliers. This amount is now classified as long overdue.

The Council did not submit a reply.

Mdina

The Council is still providing for office rent in the Income and Expenditure Account since 1994 at 2% of the annual fund allocation. There is now an accumulated amount of €29,163 accrued rent over the past fifteen years. A rental agreement for the premises has still not been obtained.

The DLG is still in contact with the Government Property Division within the Lands Department to have the long awaited rent agreement finalised. The rent due provision was created in the eventuality of having to pay the rent accumulated over the years.

Mosta

At year end, the Council showed a balance of amounts payable (Creditors Control Account) of €196,309, part of which could not be substantiated. No satisfactory audit procedures could be performed to obtain reasonable assurance on the existence and value of these creditors.

It is normal practice that creditors are sent statements for their confirmation. The Council is willing to adopt this procedure if it is asked to do so.

The Council passed the administration of the football ground 'Ta' l-Għajba' in the hands of Mosta FC Youth Nursery. According to the transfer agreement, Mosta FC should prepare annual Financial Statements audited by a warrant holder of a Certificate to Practice Auditing. These Financial Statements were not presented for the year ended March 2009 until the time of audit. The Council has problems in respect of financing and certain funds promised to the Ground Committee may not be reimbursed after all. In the mean time, the Director for Local Government informed the Council that they are not obliged to pay such funds since subsidising the local football ground is not one of the statutory obligations of the Council.

The financial difficulties encountered by the Mosta FC Youth Nursery emanate from the exorbitant increase in the cost of electricity consumption. The Council is considering ways and means how to improve the situation, which under the circumstances is not easy to do. As for the annual accounts, a warning letter was written to the Councillor in charge, and the accounts as at year ended 31 March 2009 were eventually received.

Msida

Debtors of €19,837 could not be identified with respect to income received through the LES.

The accrued income figure as at 31 March 2009 was understated by €19,378 with respect to UIF receivable on account for the Installation of a Chair Lift in the Civic Centre project and the Pavements in Triq il-Makna tas-Serrar project.

The Council adopted the capital approach rather than the income approach to account for UIF grants. This resulted in the understatement of deferred income amounting to €201,109. The current income was also understated by €25,147, equivalent to the depreciation charge for the assets against which such funds were utilised.

In line with the procedures adopted by other localities, the Council recognised an amount of €20,000 on account of reimbursements from the WSC for water connection. The accruing period covers from January 2007 to March 2009. However, such income should not have been accrued for in view of the fact that the original agreement signed in 2002 with the WSC has expired and the Association of Local Councils is still in the process of negotiating on a new agreement. The outcome of the negotiating process is still not clear on whether Local Councils would receive such reimbursements any further. The WSC also seems reluctant to re-negotiate a similar fresh agreement. In view of this, and in terms of the prudence concept, it is recommended that the Council writes-off this accrued income provision.

The Council did not submit a reply.

Mtarfa

A balance of €11,647 showing in the Council's account in connection with a grant committed to by the Housing Authority in 2004, is still outstanding. The Housing Authority is requesting clarification on certain issues and unless these are answered, the grant will not be released.

The Council instructed the Acting Executive Secretary to contact the Housing Authority and follow-up the clarifications being requested. The Council feels that the amount due will eventually be settled and thus there is no need for a provision in the Financial Statements.

A bill amounting to €12,459 from a contractor for patching done in 2007 was still outstanding.

The Council is aware that the amount of €12,459 is still pending and will be settling it in the coming weeks.

Munxar

The Council's premises are leased from the Housing Authority at an annual rent of €2,446. The Financial Statements revealed that this rent has not been paid since 1 July 2004.

The Council wishes that the situation regarding the annual rent be regularised and this will be as soon as the Council will be able to use the basement.

Nadur

The Council organised social and cultural activities, where the expenses exceeded the limit set for a public call for tender without following procurement procedures. Moreover, proper budget of the expenses, in line with sponsorships acquired and projected income from these activities, was not made resulting in an aggregate loss of €26,527.

The Council is doing its utmost to make these activities self-financing. The activities attract people to visit Gozo and thus have an effect on the Gozo economy. In the future, it may be possible to increase financing for such activities. The Council did not organise the carnival which takes place in Nadur, but spent around €5,000 on street cleaning, mobile toilets, ambulance service, lighting of streets and traffic management.

Naxxar

An amount of €70,637 from the balance of payables at year end is long overdue. It transpired that most of these amounts are in dispute and contested by the Council.

No explanation was obtained from the Council in respect of the reduction in the opening balance of Retained Funds. Following recommendation by the auditors that an audit adjustment of €45,036 be passed, the Council decided to enter an adjustment of only €9,785 with the remaining balance of €35,253 being deducted from current expenditure.

The NBV in the FAR was overstated by €81,575 when compared to the Nominal Ledger.

The Council did not submit a reply.

Paola

The Council is stating that it is owed the amount of €56,452 from WSC on account of road reinstatement commitments. However, according to a statement received from WSC, the latter had only recognised as amount due a total of €14,498. This variance has long been outstanding. A further balance due from MEPA amounting to €6,949 has also been long outstanding and no confirmation could be obtained by the auditor of this amount due.

The Council is stating that it is still owed the sum of €219,287 from LES contraventions adjudicated by the Tribunal. However from a report extracted by the Joint Committee as at 15 April 2009, it resulted that the amount of LES debtors attributable to Paola Local Council amounts to €372,489, thus an understated figure in the Financial Statements of €153,202. The Joint Committee further provided for a provision for bad debts of €118,436, however no provision was created by the Local Council for LES debtors.

Trade debtors due amounted to €63,400. These have long been overdue and are not recoverable.

In 2005, the Council had financed €34,941 for the construction of a synthetic football pitch in Paola owned by a private limited liability company and approved as a sports society in terms of the Sports Act. It was agreed between the Council and the Sports Club that in return for the financing referred to above, the Council would be entitled to use the football pitch in accordance with the conditions stipulated in the said contract which is applicable for five years.

An overall unreconciled variance between Bank Statements and Nominal Accounts amounted to €10,743.

The Council did not submit a reply.

Pembroke

The Council continued issuing monthly payments of €232 to Pembroke Athleta until in December 2008, the DLG reminded the Council that such payments were not permitted. Furthermore, a payment of €1,000 was made for a Luxol tournament. Consequently, the DLG deducted from the Council's March 2009 allocation an amount of €407 and €1,000 in relation to donations given to Pembroke Athleta and Luxol tournament respectively, since both entities are not listed on Schedule 8 and therefore payments were not within the parameters of allowable donations. Another €1,105 for a football tournament was incurred in March 2009 even though the Council received a warning letter that such payments are not acceptable.

The Council did not submit a reply.

Pieta'

Two creditor accounts were opened for WSC, with balances of €12,445 and €5,045 respectively. There was also a debtor account maintained for WSC with a net balance of €24,841 after deducting provision for doubtful debts. The Local Council was uncertain of what these balances represent since they arose in previous years prior to the current Executive Secretary's appointment.

The Council did not submit a reply.

Qala

The Council's capital expenditure was not in line with the amounts provided for in the budget and in the Business Plan. The Council was allocated €39,000 in the budget but actual expenditure was €75,000.

The Council did not submit a reply.

Qormi

Due to substantial capital commitments, the going concern of this Council is dependent on further sources of funds other than the annual financial allocation by Central Government. This includes the collection of debts due to the Council and on the continued support of the Council's creditors, presumably by accepting a longer-term credit period. Any adverse change in either of these expectations would not let the Council meet its financial obligations as they fall due without curtailing its future commitments.

The Council has always digested its working capital cycle in a professional way by monitoring its cash inflows and outflows and updating its cash flow projections as necessary to reflect abnormal shocks to its Business Plan. The capital commitments are not fully committed but are classified as contracted since they reflect proposed projects covered by a period-unit contract currently in force with particular contractors.

The auditors indicated that the provision for LES doubtful debts as reported by the Council was overstated by €12,975 resulting from a mathematical mistake.

The Council did not submit a reply on this issue.

Rabat (Gozo)

Actual cost of expenditure exceeded the budget for contractual services by €92,809 and that for repairs and maintenance by €20,377.

The Council maintained that it is making it a point to reduce overspending.

A supplier was paid the total sum of €22,593 against an invoice amounting to only €14,347. Moreover, the request for service from the foregoing supplier was not in line with the procurement procedures applicable to Local Councils since no tender was issued and no purchase order was raised.

A payment of €1,455 was irregularly paid out of petty cash.

Two payments of €3,270 and €590 respectively were not covered by a receipt.

A supplier's statement shows the amount of €45,189 due by the Council on works carried out, however the Council only showed €5,338 in its records, thus an understatement of a liability of €39,851.

The Council stated that all matters regarding payables were adjusted.

The Special Needs Funds Grants amounting to €162,879 was not included in the FAR, thus overstating its NBV. However, the NBV in both the Financial Statements and the Nominal Ledger were correct.

Necessary adjustments were made after year end and it will be reviewed.

During testing on the amounts receivable from the LES – Sentenced cases, it was noted that the report that was drawn up during fieldwork showed a balance of €100,290 whilst the Council reported a balance of only €73,230.

No provision for LES doubtful debts was made which should amount to at least €40,000 covering the period up to 2002.

Debtors are adjusted except that no provision was made for doubtful debts.

Rabat (Malta)

The Council debtors included €33,000 receivable from WSC, the majority of which brought forward from prior years without any indication that they will be recovered.

The Council did not submit a reply.

Safi

The Mayor convened an extraordinary Council meeting to discuss misappropriation of the Council's funds by the Executive Secretary, who was suspended from his post. This case was reported to the Prime Minister, the Commissioner of Police and the DLG. A private audit firm was appointed to carry out an independent financial investigation into the alleged misappropriation of funds for the period from 1 January 2007 to 31 October 2008. It was concluded that the Executive Secretary had misappropriated an amount of €19,914. The amount due was paid to the Council. Following further scrutiny, an additional amount of €7,014 was also found to have been misappropriated during the period under investigation. This was reported by the audit firm to the Local Council by an addendum to their original report on 12 March 2009. This prompted the Local Council to request that another financial investigation be carried out to examine whether any further funds were misappropriated by the Executive Secretary during the period 1 January 2004 to 31 December 2006. The Local Council also called for a separate police investigation to be carried out.

The Council did not submit a reply.

San Ġiljan

Depreciation in the FAR was understated by €640,411 which thus results in an overstatement of the NBV by the same amount. The FAR showed additions for the year of €583,284 while the Financial Statements were only showing additions of €105,617, thus a variance of €477,667.

The Council stated that an exercise was carried out and all costs of fixed assets between the Sage Pastel and Sage Evolution were reconciled. Depreciation is computer generated and figures could not be adjusted. A meeting will be held with the software provider to try and find a solution to this matter.

Apart from the fact that the Council did not follow the provisions of IAS 20 – 'Accounting for Government Grants and Disclosure of Government Assistance', it accounted twice for a grant received of €57,959 from the Department of Housing Maintenance and Construction. Also, UIF grant amounting to €18,581 was fully recognised as income despite that the project for which this grant was issued was still not completed.

The point was noted by the Local Council.

At 31 March 2009, the Council had not recognised the amount of €16,522 in its current assets, made up of prepaid rent and insurance and accrued bank interest receivable. Accrued expenditure of €19,100 was also not taken into consideration in the Financial Statements. Receivables are therefore understated by €16,522 while payables are understated by €19,100.

The Council does not pay any rent for its premises. The figure of prepayments refers to insurance premium prepaid to 5 September 2009. As regards bank interest, the necessary provision will be ensured. The Council is not aware of how the amount of €19,100 was computed.

The Council had written off all amounts receivable from pre-pooling pending tickets amounting to €62,407, thus it will not be able to match any related future income received from these LES fines. This amount should be re-instated in the Council's records with a corresponding provision, so that if cash is received, it is set-off against the balance of receivables rather than against income.

This amount was recorded as income as there is no balance of debtors in the balance sheet relating to pre-pooling funds. The Council felt that as the chances of recovering any pre-pooling funds was remote, these are to be accounted for as income when they are received. However, the suggestion was noted and will be implemented next Financial Year.

San Ġwann

A number of capital expenditure – including office fittings, new pavements, trees and plants, street lighting, road resurfacing, street signs and project management fees on capital projects – amounting to €364,750 was erroneously included as revenue expenditure. This partly explains the Council's loss of €404,826 which also affected the Council's FSI, resulting in a large negative percentage since capital expenditures were not included with fixed assets.

The Council is in total disagreement with the Local Government Auditor claiming that the works mentioned were of a maintenance nature, namely maintenance of existing pavements and extensive patching of various parts of roads in the locality and none were new pavements or resurfacing of roads.

The Council maintained that notwithstanding the current year's loss in the Income Statement of €404,826 it still has a positive balance of €340,209 in the Retained Funds.

Santa Venera

The cost of fixed assets in the FAR amounting to €692,643 is understated by €386,844 when compared to the Nominal Ledger. On the other hand, the NBV in the FAR totalling €332,858 has an overstated unreconciled difference of €35,293.

Actual expenditure under the heading of Repairs and Maintenance exceeded the budgeted expenditure by €31,617. Contractual Expenditure was overspent by €7,794.

The Council did not submit a reply.

San Pawl il-Baħar

The FAR is not being maintained properly since it is not in agreement with the Nominal Ledger resulting in an understatement of €634,348. This also affected depreciation charge for the year.

The cost in FAR was only understated by €140 which has now been included under Trees in the FAR. Since trees have 0% depreciation, this adjustment did not have any effect on the depreciation workings for the year. The other variance of €634,208 pertains to the Grants in Special Programmes.

Out of a balance of €264,134 accrued expenditure, €243,250 was only based on estimates which the Local Government Auditor could not verify to ensure that the amounts are realistic.

The accruals were not based on pure estimates, but on the architect's valuation given verbally, since the actual certificates were not completed by 31 March 2009. With regards to the Sirens Public Convenience, the actual final valuation varies by only €1,284, therefore it is not envisaged that the over accruals will have any material effect on the Financial Statements.

The Council recognised €30,242 in accrued income from pooling surpluses. However, testing showed that this amount was overstated. If one had to base the estimate on pure extrapolation, the amount would have been €2,750.

On 30 March 2009, the Council received the income accruing from Pooling Reserves of the LES for the period from April 2008 to February 2009 amounting to €30,242. The Council has made a further provision for accrued income for March 2009 amounting to €2,700 which was an estimate based on what was actually received for the previous eleven months. What was subsequently actually received amounted to €682 and the over accrual will be reflected in the Financial Statements for the quarter ending 30 June 2009.

The Council paid a donation of €4,450 to a local organisation.

The Council did not submit a reply on this issue.

The Council recognised the amount of €195,833 with respect to UIF receivable on account of Triq San Pawl paving project. According to an agreement in February 2008, the amount receivable is €174,607 thus the accounting estimate is overstated by €21,226. On the other hand, the Council failed to recognise accrued income of €10,818 on account of EU grants receivable for Europe for Citizens Programme Support of 'Town Twinning Citizens' Meetings'.

In future, the income approach, as opposed to the capital approach, will be adopted in line with guidance issued from NAO.

Ta' Xbiex

An amount is due from a private company from whom the Council is claiming €109,055 up to March 2009. However, only €40,188 was disclosed as accrued income in the Balance Sheet. The difference of €68,867 has not been accounted for in the Financial Statements since the Council claimed that the contractor is refusing to pay. The Council has still to take up the issue with legal action.

Flight tickets and hotel accommodation in respect of the Youth Action Programme were procured without making either a call for an expression of interest or a public call for quotations. The amount paid to a particular travel agent for flight tickets was €6,994 while €10,930 was spent on hotel accommodation.

The Council did not submit a reply.

Tarxien

Debtors in the Financial Statements include a balance of €18,160 recoverable from WSC which has been brought forward over a number of years.

The Council did not submit a reply on this issue.

Xewkija

The budgeted expenditure of €55,000 for construction works was exceeded by €39,863 spent on two roads in the locality.

The Council spent more than budgeted in capital expenditure due to the reconstruction of streets. Moreover, works which commenced in previous years and which were ready during the current year were fully paid for during this current year. Recommendations given by the auditors will be adhered to.

Żabbar

The total of unpresented cheques at year end amounted to €80,655. This figure includes fifty-seven cheques amounting to €56,553 dated 31 March 2009, most of which had not yet been mailed to the suppliers by 20 April 2009. This incorrect procedure resulted in an overdrawn bank balance in the Council's current account.

The Council stated that cheques are usually sent to the suppliers soon after approval is given by the Council. Since the mentioned list of cheques was not yet approved because the Council meeting had yet to come, these cheques had not been sent out.

Budgeted expenditure for repairs and maintenance amounting to €100,000 was exceeded by €63,000. The hospitality budget of €15,000 was also overspent by €6,000.

The Council will take the recommendations made by the auditor and in cases where the actual amount of particular votes exceed the budgeted amount, the necessary reclassifications will be made from costs that would be envisaged to be surplus to actual requirements.

Żebbuġ (Malta)

The FAR did not agree with the values as reported in the Financial Statements. The variance in total cost was €472,467 (with Nominal Ledger greater than the register) and that in accumulated depreciation was €818,012 (with Nominal Ledger greater than the register). As a result, the actual year end NBV of the Property, Plant and Equipment could not be ascertained.

The Council exceeded budgeted expenditure for contractual services by €133,392 and that for repairs and maintenance by €98,835.

An amount of €10,561 due from the Siġġiewi Local Council has been outstanding since March 2006. Notwithstanding that it is long overdue, no provision has been taken.

The Council's provision for LES doubtful debts is understated by at least €80,000.

The Council did not submit a reply.

Local Councils' Association (LCA)

The following are the main weaknesses outlined in the Management Letter addressed to the Association:

Cash was sometimes left to accumulate over a number of weeks before being deposited. Receipting of cash was not promptly done since income was listed by a clerk on a spreadsheet and receipts were only issued after cash was deposited. A number of receipts were issued for the wrong amount while some receipts were issued twice. Furthermore, the records kept by the clerk did not reconcile to the accounting records.

Receipts and deposits are being made regularly. Under normal circumstances, deposits are made weekly. It is relevant to note that the LCA does not handle cash and all receipts are in the form of cheques. The LCA noted the improvements being called for by the auditor and further action will be taken in order to ensure better and effective recording of cash.

Local Councils were not regularly reimbursed on a monthly basis for LES payments made on-line with the Association. By year end, four months were still outstanding amounting to €347,284. No regular reconciliations were performed between what was actually paid into the account and the payment lists as reported through the LES at the end of each month.

For the past number of years, the practice was to carry forward revenue balances. In 2008, the LCA decided to reconcile the accounts and to write-off the revenue accounts (charge-backs, bank charges, etc) since these were supposed to be written off in the year they were incurred. The account is now reconciled. The frequency of LES payments is determined by the Executive Committee and not by the auditors. During 2008, the transfers were made every four months and during 2009 will be made every three months.

The Association incurred a deficit of €38,417 in 2008 against a surplus of €16,948 in the previous year. One of the main factors contributing to this deficit was the overspending on Foreign Travel for a total of €190,399. From the latter amount only €128,150 in flight tickets and €28,239 in allowances was reimbursed from the Council of Europe, leaving the balance of €34,010 to be sustained by the Association from its own funds. Other expenses that contributed to the deficit are increases in advertising (€3,076), the loss written off from the LES (€5,201) and expenses paid out in the form of allowance for the use of personal vehicle (€1,052).

Foreign travel has increased due to the fact that the Association is being more active in international fora, especially in the Committee of the Regions, the consultative body for Local Government in the EU. The Government has provided an employee to act as Policy Co-ordinator but his travel expenses are borne by the Association. Furthermore, the expenses in connection with the travel of the National Co-ordinator are also borne by the Association. With regard to the other expense items, it is quite evident that the Association has become more active and is embarking on new initiatives. This means that the Government has to increase the direct allocation in order to make the Association sustainable and fit for purpose. Otherwise the Association will become a paper-object.

Signed letter of acceptance, contract of service or performance bond were not made available for the only tender issued by the Association during the year.

The LCA did not submit a reply on this issue.

A 5% retention amount of €3,438 was still outstanding from the claims made by LCA up to 31 August 2008 for the Medins Project. This was due from the lead partner of the project, which was spread over three phases starting in

July 2007 and ending in August 2008. Furthermore, the Association is claiming an amount of €14,764 from Central Government as balance due on co-financing of the project when no commitment is evident by the DLG.

The Association will make its utmost to ensure that all amounts due are received by the Association.

No public call for tender was made for both website design for the Medins Project and for the renewal of insurance policy, despite exceeding the amount regulated by tendering procedures.

The work entrusted to the tenderer was carried out following the issue of three quotations due to the urgent requirements to complete deliverables under the Medins Project. Otherwise the LCA would have lost the opportunity to reclaim the INTERREG funds. As for the insurance policy, the LCA appointed the tenderer to administer the policy on its behalf without incurring any additional costs and thus all administrative costs in connection with the health insurance claims are now being handled by the tenderer, hence saving man-hours to carry out other duties.

The use and payment of mobile telephone and Visa credit card, issues mentioned in previous years, still need to be properly addressed. Neither did the DLG approve these concerns, nor were amendments to the Local Councils Financial Regulations made in this respect.

No additional comments as these have already been dealt with in previous correspondence.

Joint Committees' Audits

In the majority of cases, Joint Committees' Audit Reports were not available by the time the audit of the Local Councils was 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 of the Local Councils concerned.

Presently, there is no legislation regulating the submission of the Joint Committees' Financial Statements. This should be regularised making it mandatory for the audited Financial Statements to be prepared by a stipulated date in time, to be taken into account by each Local Council. This would reduce instances where Local Councils' audit reports are qualified for this reason.

Department for Local Government

Amendment to Local Councils Procedures Regulations

The DLG 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 as indicated hereunder.

A significant number of audit reports have again been qualified because the Financial Statements did not include the budget figures. However, such a requirement is no longer applicable. As a result, these Councils were not included in the list of qualified audit reports since it was deemed unfair to report them simply because an amendment to the Financial Procedures has not yet been effected.

As reiterated in previous years, the Department had still not drawn up the Performance Indicators referred to in the Procedures by the end of period under review. However, this task is now in progress. These indicators are of particular importance as these would enable the NAO to carry out audits on the performance indicators as requested by Local Councils Legislation.

Interim Audit – Mosta Local Council

In August 2007 the Auditor General was requested by Director Local Government to conduct an Interim Audit in terms of the Local Councils Audit Regulations and Procedures due to allegations of irregular operations of the then Executive Secretary at the Mosta Local Council. The objective of the audit assignment, which was carried out by one of the Local Government Auditors, was to ascertain whether or not all revenue received by the Council during period 1 April 2006 and 3 August 2007 was properly accounted for and whether or not the balance of cash in hand as per accounting records agreed to the actual cash in hand as at 3 August 2007.

During the audit process, the auditors noted certain serious weaknesses in the accounting and control systems as regards the revenue cycle and treasury management, as well as weaknesses in office procedures.

The result of the interim audit assignment, which was concluded in April 2008, indicated that there was a cash discrepancy of €12,935 at 3 August 2007. However the scope of the assignment was limited due to the following reasons:

- Auditors could not arrive at the theoretical balance at period end in respect of refundable deposits.
- They were unable to obtain direct confirmation of amounts owed to ten Local Councils/Joint Committees in respect of fines and penalties totaling €8,514.
- They were unable to obtain direct confirmation of amounts owed to ADT (€1,817) and to Trade Licensing Unit (€5,593) in respect of trade licences.
- They were unable to obtain direct confirmation of completeness of amounts received from the Ministry for Urban Development and Roads, the Ministry for Youth and Employment and the Director of Roads – ADT, in respect of reimbursement of expenses.
- The Auditors could not prepare a proper reconciliation of the amount owed to the Guard and Warden Service House Limited at period end as per the company's statement with the Council's records because of lack of information available.

Due to the limitations in the scope of the audit work and the weaknesses in the accounting and control systems, the Auditors could not state whether or not the cash discrepancy resulting from their assignment was misstated.

Mid-term Audits

The Local Councils (Audit) Procedures, 2006 state that a mid-term audit is required to be performed, which will serve as an independent handover exercise, whenever there is a change in the position of Executive Secretary within a particular Local Council.

The Żurrieq Local Council changed its Executive Secretary during the Financial Year ending 31 March 2009 and a mid-term audit was carried out by a Local Government Auditor as required in terms of the Local Councils (Audit) Procedures, 2006. During the audit, the Local Government Auditor was not in a position to confirm accounts payable balances for certain contractors since no statements substantiating the balances were provided and in certain instances the amount eventually paid was not in agreement with the invoice. No provision for bad debts has been taken on LES debtors amounting to €133,379 which are on average seven years overdue.

On the other hand, the Birżebbuġa Local Council did not prepare a mid-term audit although there was a change in the Executive Secretary in August 2008.

Submission of Statutory Documentation

The number of Councils that defaulted in submitting the required statutory documentation increased during the year under review. Fifty-seven Local Councils did not submit the unaudited Financial Statements by 11 May 2009, in accordance with the Local Councils (Audit) Procedures, 2006. Thirty-eight Local Councils failed to submit the audited Financial Statements by 30 June 2009, while the comparative figure for 2008 was forty-four.

Twenty-seven Local Councils failed to submit a reply to the Management Letter as compared to twenty-nine of last year. Furthermore, one Local Council did not submit the audited Financial Statements by the time of writing of this report, i.e. mid-November 2009.

Once again the Department is encouraged by NAO 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 timely submitted.

Appendices

Appendix A – Qualified Reports

Local Council	1	2	3	4
Attard		X	X	
Balzan	X			
Birgu	X	X		
Birkirkara			X	X
Birżebbuġa				X
Bormla			X	X
Fgura			X	X
Fontana	X	X		
Għargħur		X		
Ħamrun		X		
Isla			X	X
Lija	X			
Kalkara		X		
Kerċem	X			
Kirkop		X		
Marsa			X	X
Marsascala			X	X
Marsaxlokk	X			
Mdina		X		
Mosta		X		X
Mqabba	X			
Msida			X	X
Munxar			X	X
Nadur	X			
Naxxar			X	X
Paola		X	X	X
Pembroke		X		
Pieta’				X
Qala	X	X		
Qormi	X		X	
Qrendi		X		
Rabat (Gozo)			X	
Rabat (Malta)		X		
San Ġiljan			X	X
San Ġwann		X	X	X
San Lawrenz	X			
San Pawl il-Baħar		X	X	X
Sannat		X		
Santa Luċija		X		
Santa Venera		X		
Siġġiewi		X		
Sliema		X		
Swieqi	X			
Xewkija	X	X		
Xagħra	X	X		

Appendix A – Qualified Reports

Local Council	1	2	3	4
Xgħajra	X			
Valletta			X	
Żabbar			X	
Żebbug (Gozo)		X		
Żebbug (Malta)			X	X
Żejtun		X	X	
Żurrieq		X		X

1. Shortage of funds or FSI less than 10% or Deficit in the Income and Expenditure account or Net Current Liability position.
2. Amounts due from LES based solely on the information issued from the LES.
3. Financial Statements not compliant in all respects with the requirements of the IFRSs and with the requirements of the Local Council (Financial) Procedures, 1996.
4. Other specific issues for the Local Councils.

Appendix B – Submission of Financial Statements

Date of Submission of Financial Statements	Local Council
11 May 2009 (met the deadline)	Balzan
	Bormla
	Luqa
	Mellieħa
	Munxar
	Qala
	Qormi
	San Ġiljan
	Sliema
	Valletta
	Żejtun
15 May 2009 (within the same week)	Attard
	Birżebbuġa
	Isla
	Mdina
	Nadur
	Pembroke
	Santa Luċija

Appendix C – Submission of Audit Reports on Financial Statements

By 30 June 2009 (met the deadline)	Balzan
	Birgu
	Floriana
	Fontana
	Għajnsielem
	Għarb
	Għasri
	Għaxaq
	Gudja
	Iklin
	Kalkara
	Kirkop
	Lija
	Marsaxlokk
	Mdina
	Mqabba
	Munxar
	Nadur
	Pembroke
	Qala
	Qrendi
	Safi
	San Lawrenz
	Sannat
	Santa Luċija
	Swieqi
	Ta' Xbiex
	Xewkija
	Xgħajra
	Żebbuġ (Gozo)
By 31 July 2009 (one month after the deadline)	Attard
	Birżebbuġa
	Bormla
	Dingli
	Fgura
	Ħamrun
	Isla
	Luqa
	Marsa
	Mellieħa
	Mġarr
	Mosta
	Msida
	Mtarfa

Appendix C – Submission of Audit Reports on Financial Statements cont

	Qormi
	Rabat
	San Ġiljan
	San Ġwann
	San Pawl il-Baħar
	Siġġiewi
	Sliema
	Tarxien
	Valletta
	Żabbar
	Żejtun
	Żurrieq

Appendix D – Management Letter Weaknesses

Local Council	1	2	3	4	5	6	7	8	9	10	11
Attard						X	X		X		
Balzan	X			X							
Birgu	X		X	X	X	X	X	X	X	X	
Birkirkara	X	X		X	X		X		X		
Birżebbuġa	X	X	X	X	X	X	X		X	X	X
Bormla		X	X	X		X	X	X		X	X
Dingli	X										
Fgura		X		X		X	X	X	X		
Floriana		X		X	X	X	X	X		X	
Fontana		X	X							X	
Għajnsielem	X	X		X	X	X	X		X		
Għarb		X		X							
Għargħur	X		X				X	X	X		
Għasri	X	X							X		
Għaxaq		X									
Gudja		X		X		X					
Ħamrun		X					X		X	X	
Iklin		X				X	X				
Isla		X	X				X			X	
Kalkara		X	X	X	X		X	X	X		
Kerċem	X				X			X	X		
Kirkop	X	X		X	X						
Lija	X	X							X		
Luqa			X								
Marsa			X	X	X	X	X	X	X	X	
Marsascala	X	X	X	X			X	X		X	X
Marsaxlokk	X	X									
Mdina		X		X	X	X	X				
Mellieħa	X	X			X		X		X		
Mġarr				X		X					
Mosta		X	X		X		X	X		X	
Mqabba	X	X		X		X					X
Msida	X	X	X	X		X	X	X		X	X
Mtarfa	X	X	X	X	X		X		X	X	
Munxar		X	X				X	X		X	
Nadur		X	X	X			X				
Naxxar	X	X	X	X	X	X	X	X	X	X	X
Paola	X	X	X	X	X		X	X	X		
Pembroke	X	X		X	X	X	X			X	
Pieta’	X		X	X			X	X	X		
Qala		X					X			X	
Qormi		X			X	X					

Appendix D – Management Letter Weaknesses - continued

Local Councils	1	2	3	4	5	6	7	8	9	10	11
Qrendi	X	X		X	X	X	X				
Rabat (Gozo)	X	X			X	X	X	X	X		
Rabat (Malta)		X	X	X	X	X	X	X		X	
Safi	X								X		
San Ġiljan	X	X	X	X	X	X		X	X		X
San Ġwann		X		X	X	X	X		X		
San Lawrenz	X	X							X		
San Pawl il-Baħar	X	X			X	X	X	X	X	X	
Sannat	X	X								X	
Santa Luċija		X				X					
Santa Venera	X	X				X					
Siġġiewi	X	X	X				X		X	X	
Sliema						X	X	X			
Swieqi		X			X				X	X	
Ta’ Xbiex		X			X	X	X		X		
Tarxien	X	X	X		X		X			X	X
Valletta	X	X		X	X	X	X	X		X	
Xewkija		X						X		X	
Xagħra	X	X								X	
Xgħajra		X			X				X		
Żabbar		X			X	X					
Żebbuġ (Gozo)							X	X		X	
Żebbuġ (Malta)	X	X	X	X	X	X		X	X	X	
Żejtun		X	X	X	X				X		
Żurrieq	X	X	X	X		X		X			

1. Accounting
2. Fixed Assets
3. Debtors
4. Creditors
5. Bank/Cash
6. Local Enforcement System
7. Procurement
8. Invoices
9. Salaries
10. Non-compliance with certain provision outlined in the Subsidiary Legislation
11. Incorrect treatment of Grants Received

Ministry of Finance

Treasury Division: Arrears of Revenue in respect of Pension Claims due by Public Entities

Background

During 2002, the Pensions Ordinance was amended by Act XV to provide further for the pensionability arrangements for public officers retiring from Public Entities. While these officers retained their pension rights under the Pensions Ordinance, in that their service with such entities was reckoned as service with the Government, the method of calculating such pensions became regulated for under the Pensions (Amendment) Act, 2002. Following these amendments, the Ministry of Finance (MF) undertook a comprehensive exercise to establish and claim amounts owed to Government by the entities involved, with respect to their share towards the cost of pension being paid out by the Treasury Department to retirees.

The gross closing balance of €7,420,617 as reported by the Treasury Division in its 2008 Return of Arrears includes an amount of €7,382,747 relating to Pension Claims from Public Entities.

Audit Scope and Methodology

A separate audit exercise in connection with Pension Claims from Entities was carried out, based on the figures produced by the Treasury Division. The scope of this audit was to ascertain the reliability of the stated amount and procedures in place to ensure recoverability of amounts due.

Through supporting documentation maintained by the Pensions Section at the Ministry for Gozo, it was ascertained whether payments due by Entities were being followed-up on a regular basis and that outstanding amounts recorded in the departmental files were actually being reflected in the Return. Any past arrears collected were also verified.

Key Issues

Late inclusion of Pension Contributions in the Return of Arrears

Although the Treasury Division commenced the exercise for the collection of Pension Contributions due by Public Entities in 2002, these were included in the Return of Arrears for the first time in 2008.

Incomplete filing in Public Entities' files

The minute sheets in six files out of the nine examined were not completely updated with all documents filed. As a result, Treasury Division might not be in a position to follow up entities' payments of arrears, besides increasing the risk of documents being mislaid.

Lack of Periodical Claims being made by the Ministry of Finance and Treasury Division

The MF/Treasury Division informed four Public Entities that claims for the contribution towards pensions and gratuity would be raised periodically for the subsequent years following the first claim. Numerous unsigned spreadsheets showing the outstanding gratuities and pensions for different periods were traced in the files of these four entities, but none of these workings were recorded in the minute sheets and no departmental action followed. This factor is leading to an incomplete and inaccurate Return of Arrears, therefore jeopardising the collection of monies due.

Control Issues

No action taken to follow-up Payments of Arrears due

MF/Treasury Division lacked a consistent approach in claiming amounts due to Government from Public Entities. Whereas claims raised on two entities covered up to 2008, claims on others date back to 2002/2003 and 2005. Moreover, up to the date of this review, the MF/Treasury Division did not take any action on the information received from two entities regarding payments due.

Lack of verifying calculations of Pensions' due

A Public Entity noticed that there was a discrepancy of €22,353 in the calculation of the pension contribution up to December 2006 as prepared by Treasury Division. The Treasury was informed and concurred with the amount due to Government as established by the Public Entity. However, on effecting payment, the entity paid €3,738 less than the agreed amount. No explanation could be traced in file.

Compliance Issues

Incorrect compilation of the Return of Arrears

- €377,392 due to the Treasury Division by a Public Entity is being contested in the Civil Courts. This amount was not recorded under 'Estimated Amount considered as Not Collectable' in the 2008 Return of Arrears.

- Amounts due up to 2008 were settled by an entity on 31 December 2008. However, the settled balance of €34,100 had not been included under 'Past Arrears Collected' in the 2008 Return of Arrears, rendering an incorrect figure of arrears being reported.

Recommendations

Key Issues

Incomplete filing in Public Entities' files

All documentation should be recorded in the respective Treasury files and properly minuted.

Lack of Periodical Claims being made by the Ministry of Finance\Treasury Division

The Treasury Division should ensure that claims for the contribution of pensions and gratuity are raised regularly.

Control Issues

The Treasury Division is to ensure that arrears are accurately recorded and followed-up on a timely basis so as to increase the recoverability of such arrears.

Compliance Issues

Incorrect compilation of the Return of Arrears

- Claims that are contested by Public Entities should be recorded under the column 'Estimated Amount considered as Not Collectable' in the Return of Arrears. This would reflect the actual amount of net collectable arrears for the year.

- Payments effected within the current financial year should be correctly recorded in the Return of Arrears under 'Past Arrears Collected', reflecting a true picture of the outstanding balance of arrears.

Management Comments

Management concurred with the majority of the issues and recommendations put forward by the National Audit Office (NAO) and will be taking the necessary remedial actions. However, the Division's lack of action concerning information received from two Public Entities regarding payments due to Government was not addressed. In addition, the following comments were submitted:

- The Pensions Section was not aware that pension contributions due by Public Entities had to be included in the Return of Arrears although effectively these were already being compiled. Once informed of this in 2008, these were immediately included in the Return.

- The Pensions Section recognises the need for the regular and systematic claims for the contribution of pensions and gratuity and has in fact designated an officer to make such claims. Furthermore, the Section has been in constant contact with Malta Information Technology Agency (MITA) to implement a module to the Pension Program which facilitates the calculation and also generates a report automatically.

- Management also commented that the current calculations' methodology is the same one that was being used prior to the handing over of responsibilities to the Pensions Section in Gozo. The system module mentioned above would drastically cut down on inputting errors. However, it is also acknowledged that such calculations should also be examined by another Office. The Pensions Section is to refer the matter to higher authorities.

- Management concluded that recommendations regarding the incorrect compilation of the Return of Arrears will be taken on board with effect from the next submission of the Return.

Inland Revenue Division
Social Security Contributions
Class 2 (Post 1998)

Background

Collections of Class 2 Social Security Contributions (SSC) (Post 1998) fall under the responsibility of the Inland Revenue Division (IRD). These contributions, made by Self Occupied[1] and Self Employed[2] persons on a four-monthly basis, are based on the previous year's net profit. Where no Return is submitted, estimates of contributions due are generated by the IRD information system.

Audit Scope and Methodology

The objectives of the audit were to verify and ascertain that adequate internal controls are in place to ensure the completeness and correctness of data and establish that appropriate and timely enforcement action is being taken to collect outstanding contributions.

These objectives were achieved by means of meetings held with various IRD officers to obtain information on the procedures in place. Various reports concerning outstanding Class 2 contributions were requested together with access to IRD information systems, as detailed in this report. Testing was carried out on a sample of thirty cases, from a population of 3,340 taxpayers as per Enforcement Run reports provided, giving a Confidence Level of 90% and a Confidence Interval of 14.95%.

Key Issues

Analysis of Class 2 Contributions in Arrears

28,810 taxpayers have fallen into arrears as reported in the database[3] of defaulting taxpayers submitted by IRD. The actual balance due by these taxpayers, based on Returns submitted for years 2002 – 2006, amounts to €4,463,401 (Lm1,916,138). Previous dues have since fallen statute-barred. This balance is exclusive of any estimates and/or interest generated by the system.

The ageing analysis exercise performed revealed the following:

- Year 2002: An amount of €1,246,560 (Lm535,148) is due by 18,402 taxpayers. In addition, 1,590 taxpayers had net estimate balances of €2,152,471 (Lm924,056) generated by the system.
- Year 2003: A balance of €984,529 (Lm422,658) is outstanding by 18,452 taxpayers. For this same year, another 1,691 taxpayer estimates were raised by the system with a net balance of €2,304,880 (Lm989,485).
- Year 2004: €642,075 (Lm275,643) are in arrears by 18,572 individuals. Furthermore, 1,916 taxpayers had net estimate balances of €2,557,955 (Lm1,098,130) generated for this period.

[1] Self Occupied Person – *"a self-employed person who is engaged in any activity through which earnings exceeding €910 per annum are being derived."* (As per Cap. 318 – Social Security Act)
[2] Self Employed Person – *"a person who has not yet passed his 65th birthday, is ordinarily resident in Malta, and is not an employed person nor a self-occupied person."* (As per Cap. 318 – Social Security Act)
[3] As per *"Database of Class 2 SSC defaulters (Report of Arrears of Revenue) for period 1998 – 2006,"* as at 3 August 2007, provided by IRD during September 2008.

- Year 2005: An amount of €735,560 (Lm315,776) are owed by 18,723 individuals. Moreover, 2,072 taxpayer estimates were raised for this period with a net balance of €2,781,356 (Lm1,194,036).

- Year 2006: A balance of €854,677 (Lm366,913) are payable by 18,922 taxpayers. Additionally, 2,636 taxpayers had net estimate balances of €3,544,200 (Lm1,521,525) generated for this year.

These observations call into doubt the actual collectibility of the balances claimed by IRD, especially for balances due for more than three years.

Lack of Enforcement Action

Following a review of the thirty sampled defaulters based on the Taxpayer Services (Virtual File) system (TPS), the following deficiencies were noted:

a) No follow up action or any type of enforcement measures were in place to recoup outstanding contributions due in twenty-six cases (i.e. 87%).

b) Settlement agreements between the defaulting taxpayer and the Commissioner were only drawn up in three cases.

   One of these agreements was not being fully honoured as the defaulter failed to abide with the payment schedule. In two cases, agreements did not include unpaid contributions due for 2007 notwithstanding that these agreements were both drawn on 17 November 2007. Such contributions were still unpaid as at date of audit.

c) Enforcement agreements between the defaulting taxpayer and the Tax Compliance Unit (TCU) were drawn up in two cases. A clause relating to the timely payment of current contributions every four months was not being complied with.

Even though these situations may lead to a loss of revenue for Government, no further action was taken by IRD as at date of conduct of audit.

Control Issues

Opportunities for improvement were identified in the following areas:

a) The 'Accounts Receivable System (ARS) History' menu and the 'Return Capture System (RCS) Ledger' reflect the contributions due at the time when the Provisional Tax Claim was raised by IRD. These systems are not updated following any adjustments to Net Income and resulting SSC due. The original SSC claim is not set off and replaced with the revised SSC claim as per adjusted Profit/Net Income and such revised claim is not shown on either system. This shortcoming was encountered during the examination of twenty defaulters, when reviewing taxpayer (ARS/RCS) records.

   SSC related transactions can only be viewed from the 'ARS History' menu, listing entries according to transaction date. Such information cannot be viewed in the 'ARS Statement' menu, listing records according to Basis Year. The latter only shows entries related to tax.

b) The IRD information system is not being periodically updated with Credits and Exemptions from the Social Security Division (SSD). As at June 2008, the last update dated back to March 2007. In fact, material discrepancies resulted in SSC due by two from three taxpayers entitled to SSC Credits and Exemptions from our sample.

   As a result, records may be inaccurate and incomplete, weakening the correctness of balances reported.

c) Instances were noted where the Profit as per Tax Return and the Profit and Loss Account shown in the RCS did not agree, mainly resulting either from incorrect completion of Return, or from erroneous inputting of such data into the IRD information system.

Recommendations

Key Issues

Analysis of Class 2 Contributions in Arrears

Immediate action is to be taken with respect to long outstanding balances to ensure that amounts unpaid are recouped. Action should also be taken in a timely manner to minimise instances of balances falling into arrears or even worse statute-barred.

Lack of Enforcement Action

Defaulting taxpayers are to be continuously monitored and periodically followed up. Where material balances are due, defaulters are to be bound by a settlement agreement, and if legally possible, payments are to be recouped by monthly standing order. Upon failure to comply with the agreement payment schedule, legal proceedings should be sought and commenced.

Enforcement and compliance can be increased through further liaison between IRD and SSD. To this effect, it is being recommended that the payment of Social Security

Benefits be dependant on whether the Beneficiary is a regular SSC payor.

Control Issues

- The current systems are to be enhanced to include any further transactions amending the initial SSC due as per Provisional Tax claim raised. This enhancement is to be taken into consideration in the light of the new IRD information system being developed. This will enable users to have a more complete and up-to-date overview of each case.

- Periodical liaising is to be carried out between SSD and IRD so that data in relation to Credits and Exemptions is obtained regularly. A review of the calculation of SSC due by taxpayers entitled to Credits and Exemptions is to be considered followed by corrective action.

- It is to be ensured that the Tax Return and the figures reported in the accompanying Profit and Loss Account are adequately verified so that any possible errors are immediately identified and rectified accordingly.

Management Comments

Management has concurred with the majority of the observations and related recommendations outlined in our Management Letter. In addition, the following comments were submitted:

- IRD will be obtaining legal advice from the Attorney General's Office regarding the prescription period under the Social Security Act, and whether any judicial action suspends the prescription period.

- IRD's attention is focused on the finalisation of the electronic process, which is currently in its final testing stages, to have it running by last quarter of 2009. After this process is introduced, demand notices can be followed up with judicial letters, repayment agreements and/or re-commencement of legal proceedings in case of dishonoured agreements.

- It is planned that IRD will initially issue '10-day demand notices,' which will be followed by judicial letters later on during this year.

- Although it is valid to suggest that payments are to be recouped by monthly standing order, this procedure was used in respect of income tax dues without much effect. Amounts forwarded by the banks lack payment type details, resulting in erroneous receipting.

- The enhancement of the ARS and RCS systems following adjustments to net income is considered important and urgent. It is planned that this issue will be rectified by the end of September 2009.

- An update of Credits and Exemptions from SSD has been requested during the first week of May 2009.

- In relation to SSD assistance required for the enforcement and compliance exercise (i.e. Social Security Benefits (e.g. Children's Allowance) being dependant on the Beneficiary being a regular SSC payor), IRD will be bringing this matter to the attention of SSD Management.

Inland Revenue Division: Capital Transfer Duty – Immovable Property Notification

Background

The Capital Transfer Duty (CTD) within the Inland Revenue Division (IRD) is responsible, amongst other duties, for the administration of the Duty on Documents and Transfers Act, Cap. 364 (DDTA). Through the application of this Act, the CTD is responsible for the verification, assessments and collection of stamp duty (currently referred to as duty on documents and transfers). CTD monitors all *inter vivos* transfer deeds of immovable property and declarations *causa mortis.*

Subsequent to the Budget Speech 2004, DDTA, as amended by Legal Notice 7/2004, regulates the provisional duty that is paid when a Promise of Sale (POS) is entered into. The DDTA, states that a Notification of a POS *"…shall be accompanied by a provisional payment equivalent to twenty per centum of the amount chargeable in terms of articles 32 and 40…"* of the DDTA.

Duty on sales and other transfers, regulated by Article 32 of the DDTA is equal to *"...five euro (5.00) for every one hundred euro (100) or part thereof of the amount or value of the consideration for the transfer of such thing or of the value of such thing, whichever is the higher."*

However, the Budget Speech 2004 states that payment of provisional duty is equivalent to 1% of the value of property being transferred. CTD confirmed that the 20% rule applies to the first sole residence, whilst the 1% rule, applies to property classified as second residence. Nonetheless, in the majority of cases, Notaries opt for the 1% rule, irrespective of whether it is the first residence or otherwise. Once the contract is finalised, the provisional duty paid will be deducted from the total duty on documents due on the final deed of sale. Any POS that is not registered according to the aforementioned Regulations will be considered as invalid.

Following the initial registration of a POS and the collection of provisional duty, CTD receives applications to correct or extend a POS. A Refund of a POS may be requested either when the validity period of a POS expires and is not extended, or when a POS is cancelled during its validity period. The CTD is also responsible for registering Assignment of Right[1] agreements.

The above information is inputted into the CTD's customised computer system, maintained by the Malta Information Technology Agency (MITA).

Audit Scope and Methodology

The scope of this audit was to ascertain whether sound internal control systems are in place at the CTD, ensuring that the collection and refund, when applicable, of the initial 1% provisional duty on a POS is correctly recorded and processed by CTD.

An introductory meeting was held with CTD officials, with the aim of discussing audit objectives, obtaining an understanding of the its collection and refund processes of the initial 1% provisional duty, gaining an overview of the recording procedures in the CTD System and Departmental Accounting System (DAS) and discussing the relative Legal Notices and Regulations. Issues raised during this meeting were documented and confirmed by the officers concerned.

[1] An Assignment of Right takes place when Party 'A' has entered into a POS to sell property to Party 'B', and then Party 'B' enters into an agreement to transfer the property to Party 'C'. Therefore, the actual sale will be made from Party 'A' to Party 'C'. An Assignment of Right is made by means of a private agreement, signed by the two parties ('B' and 'C').

Further informal meetings were subsequently held with CTD officials to elaborate on matters discussed in the aforementioned meeting, in order to be able to compile a systems overview in relation to the collection, refund and accounting practices of the immovable property notification process.

A walk-through test was then carried out to verify the controls outlined in the systems overview. During this test, a total of nine POSs were examined, through a case study approach. These consisted of three Registrations, a Correction with three Extensions, two Assignments of Right and three Refunds.

Due to the lack of matters of concern arising from the walk-through testing performed, it was deemed appropriate that ten case studies for each of these procedures were to be tested.

Since certain inconsistencies were noted during the walk-through testing of Refunds, it was deemed appropriate that thirty case studies of Refunds were to be tested. During the walk-through, NAO noted that the number of Refunds issued during 2008 from the CTD System, as detailed further under 'Key Issues' of this Report, did not tally with the number of Refunds issued from DAS for the same year. Therefore, a list of Refunds issued during the year 2008 and beginning of the year 2009, relating to POSs registered during 2008, was extracted from the CTD System, through MITA. This list was then utilised to perform a cut-off test in order to verify whether the differences in Refunds encountered in the walk-through test were of a cut-off nature. It was deemed appropriate to test the last five Refunds issued around the end of 2008 and the first five Refunds issued during the beginning of 2009.

Key Issues

Total number of Refunds issued during 2008 as per Capital Transfer Duty System not tallying with Refunds as per entries in the Departmental Accounting System for same year

NAO noted, that while 887 Refunds were issued from the CTD System during 2008, an amount of 1,037 Refunds were posted in DAS. Hence, Refunds issued from DAS exceeded those issued from CTD by €928,294. This discrepancy is indicative of a lack of simultaneous entry in both CTD System and DAS, resulting in unreliable information being reported, which could increase the risk for misappropriation of funds. The results obtained, from the cut-off test carried out, did not suggest that the above-mentioned discrepancy was due to end-of-year transactions.

Undelivered Refund cheques not accounted for in both Capital Transfer Duty and Departemental Accounting System

While recording the procedure of cancelling undelivered Refund cheques, NAO could not trace the reversal entry in DAS of two cheques which were marked as cancelled by CTD, amounting to €2,027. The Department failed to instruct the Treasury Division to carry out the appropriate entry in DAS. Following this query, the officer-in-charge at CTD referred to Treasury thirty-seven cancelled cheques (twelve for 2007 and twenty-five for 2008), amounting in total to €67,563, that had not yet been filed in their respective file.

Even though corrective action was taken during the course of this audit, it cannot be excluded that further cancelled cheques exist which have already been filed, prior to effecting the necessary reversals in DAS. No record of cancelled Refund cheques is kept in the CTD System. Given the situation, the Department cannot be in a position to ensure completeness of information on provisional duty collected and refunded during the year.

Control Issue

Opportunities for improvement were identified in the following area:

Missing/Incorrect Property Details in the Capital Transfer Duty System

In four out of ten Assignments of Right tested, property details in the CTD System were either omitted or incorrectly inputted. This may lead to unreliable reports being generated from the CTD System.

Compliance Issues

Payment of Refunds made from incorrect accounts in the Departmental Accounting System

- Thirteen Refunds, six due to individuals aggregately amounting to €18,111, and seven due to Non-Government Institutions amounting to €61,122, out of a total of forty cases examined, were issued from incorrect accounts in DAS.
- An additional four Refund payments were completely misclassified.
- During the walk-through test, NAO noted that thirty-two Refunds were erroneously issued from the

'Income from Individuals' Account in DAS, instead of accounting in 'Payments to Individuals' and 'Payments to Non-Government Institutions'.

Consequently, the lack of proper classification between payments to individuals and those to Non-Government Institutions, including Refunds issued from unrelated accounts, is leading to improper and incorrect accounting information being recorded in DAS. The importance of proper classification of information is bound to increase with the introduction of an accruals based accounting system within the Public Sector.

Recommendations

Key Issues

Total number of Refunds issued during 2008 as per Capital Transfer Duty System not tallying with Refunds as per entries in the Departmental Accounting System for same year

CTD should:

- immediately carry out a reconciliation between Refunds issued during 2008 and posted in DAS, against Refunds entered in the CTD System for the same year, in order to identify and hence reconcile sources for this difference; and
- increase its effort to ensure that Refunds are posted simultaneously in DAS and in the CTD System. This measure will ultimately reduce inconsistent and incorrect reporting in the Government of Malta Financial Report.

Undelivered Refund cheques not accounted for in both Capital Transfer Duty and Departmental Accounting System

- It is the CTD's responsibility to make every possible attempt to trace undelivered cheques' recipients. If attempts prove unsuccessful and the validity period of cheques expires, prompt action must be taken to notify the Treasury Division to record the appropriate entry in DAS.
- The computerised system at CTD should cater for the recording of sufficient information regarding cancelled cheques in order to create an adequate audit trail.

Control Issue

Missing/Incorrect Property Details in the Capital Transfer Duty System

CTD must ensure that all available data for each Assignment of Right is inputted correctly in the CTD System, if need be, by assigning another officer to double-check data inputted.

Compliance Issues

Payment of Refunds made from incorrect accounts in the Departmental Accounting System

CTD should ensure that each payment of Refund is posted in the appropriate account in DAS. This will drastically reduce risks associated with inaccurate reporting being generated from the accounting system, incorrectly reported in the Government of Malta Financial Report.

Management Comments

Management agreed with NAO's findings and will be implementing the latter's recommendations. With regards to the reported difference between refunds recorded in the CTD System and those in DAS, CTD stated that an exercise has been carried out, with the assistance of MITA, in order to identify reasons for this discrepancy. Although the exercise has not yet been finalised, CTD identified numerous differences arising from:

- the CTD System list has been updated and the original number of 887 Refunds has increased to 1,008;
- nineteen Refunds which were actually issued in 2007, and hence not featuring in the DAS reports for 2008, but erroneously reported in the CTD System list;
- twenty-four Refunds included in the CTD System list which were inadvertently credited from an incorrect Vote not pertaining to CTD, and likewise were not indicated in the DAS reports;
- twelve Refund cases which although were included in the CTD System, such Refunds were also issued from a different Vote and therefore excluded from the DAS reports;
- a number of cancelled cheques; and

- a number of entries where the amount inputted in the CTD System was inadvertently inputted using Maltese Lira instead of Euro.

Management commented that the CTD System is to be enhanced to include the generation of a report portraying all refunds inputted in the CTD System, which will be followed by an additional report reconciling Refunds entered in the CTD System against those posted in DAS. The proposed enhancements, to be made in the CTD System by MITA, will create an adequate audit trail to provide sufficient information regarding cancelled cheques.

According to Management, all missing or incorrect property details in the CTD System have been duly amended. The following are further measures taken by CTD:

- Receiving officers have been instructed to verify the details (value/description of property) being assigned, whereas a check list has been introduced to facilitate the process.

- Upon request, MITA provided CTD with a report showing missing information on all Assignments of Right received since 2004 (property details/value). CTD is currently inputting all missing information resulting therefrom in the system. This exercise is to be finalised by December 2009.

VAT Division
VAT Information Exchange System
Follow-up Audit

Background

The VAT Information Exchange System (VIES) is a computerised database containing Value Added Tax (VAT) registration data of all traders within EU Member States (MS). This electronic system, which is interconnected through the Common Communication Network/Common System Interface (CCN/CSI) of the European Union (EU), was set up to allow data to flow across internal frontiers, enabling traders to benefit from a rapid VAT identification number process, whilst assisting VAT administrations to monitor and control the flow of intra-Community trade.

The Central Liaison Office (CLO) is the administrative unit responsible for ensuring that sufficient controls are in place to monitor intra-Community trade between MS. This is achieved by directly accessing the VAT registration database of the EU, through VIES.

In December 2008, the National Audit Office (NAO) published a report entitled VAT Department – VAT Information Exchange System, Financial Year 2006 (AAR). The objectives of the audit were to:

- obtain a basic understanding of systems and procedures in place at the VAT Division with regards to CLO operations and the use of VIES; and
- assess whether legal requirements and controls were being adhered to and whether these were effective to minimise any type of established risk.

Audit Scope and Methodology

The scope of this audit was to enquire on the developments following the VIES audit and to follow-up the extent to which NAO's recommendations have been acted upon by the VAT Division. Management comments submitted by the Division were also referred to during this audit.

The audit commenced with the preparation of a set of questions relating to findings that featured in the AAR. Submission of Management replies were further analysed, by requesting supporting evidence to forwarded replies when possible, and asking for additional information on assertions made. Finally, a meeting was held with VAT Division's top officials to discuss pending issues. The outcome of this meeting was documented and confirmed by the same officials.

During the course of this follow-up, the VAT Division presented NAO with updated tasks of the CLO, as approved by Management on 15 February 2009, reflecting the CLO's proper functions, in view of the Department's experience since Malta's accession in the EU. NAO was presented with a number of reconciliatory reports that are to be issued on a quarterly basis, as from this year. Due to the timing of this audit, NAO could not carry out any reviews of the quarterly reports to be issued by the CLO during 2009.

Reported findings and recommendations proposed by the NAO as featured in the AAR are reproduced in green text. Developments pertaining to each finding follow.

Key Issues

Tasks commenced still not concluded

This finding highlighted major concerns that arose during the 2006 audit, mainly unconcluded reconciliations of Notice Forms with corresponding Declaration Forms ***(Note 1 refers)*** and the matching of Box 1[1] data of VAT Returns against Recaps. This concern was discussed further under Control Issues of the AAR.

Developments: During the 2006 audit, the VAT Division stated that the matching of Box 1 data was an ongoing process. Following further enquiry, it resulted that on 9 January 2009, a mail shot was sent to 699 taxpayers who were reported as having a discrepancy following the issue of a reconciliatory report covering the period 1 May 2004 to 31 December 2007. Such letter was sent to those taxpayers who either had a discrepancy of more than €1,000/0.05% through wrong amounts declared, or failed to submit the Recap. Penalties for guilty taxpayers ranged from €695 to €3,490.

Management maintains that the role of the CLO is to issue regular reports to the Inspectorate falling under the Director Operations for further investigations and follow-up. In fact, the CLO tasks have been updated to reflect this coordinated effort between the CLO and other Sections within the VAT Division. Given sufficient human resources, the Inspectorate would be able to carry out the necessary follow-up on reports issued by the CLO on a quarterly basis, the matching of Box 1 data, being one of them. Eventually, taxpayers who feature again in similar reports, will be forwarded to the Legal Section to take the necessary action.

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 Division should ensure that Sections within the Division communicate with the CLO.
- The Division should ensure the correctness and completeness of persons registered under Articles 11 and 12[2].

Developments: NAO was informed that an exercise relating to years 2005 and 2006, which compared amounts declared in Notice Forms with declarations in VIES by other MS, was being compiled on a regular basis as from 2007. During the follow-up, it resulted that this exercise had still not been finalised. However, the VAT Division has included this reconciliatory exercise in the updated tasks of the CLO, meaning that such report would be issued every quarter in line with the frequency of the submission of Recaps. Follow-up will be carried out by the Operations Section, depending on Departmental priorities and resources available.

Reconciliations between Notice Forms and Declaration Forms submitted by registered persons were also proceeding regularly. During this audit, a report covering the period 2004 to 2007 was passed to the Inspectorate Section for verification. This list is being monitored every three months to assess the completion stage of reported discrepancies.

Management still retains, that the main reason for unconcluded reconciliations was due to the human resource constraint, together with other priorities emanating from VAT enforcement legislation, and not the lack of communication between the CLO and other sections within the Division, as reported in the AAR.

On the other hand, the role of the CLO has been adjusted to be more specific and coordinated with the other Directorates within the same Division.

Lack of Control over Recaps

- The VAT Division 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 Division and compare such with the list of Recaps sent by the VAT Division.

Developments: Management insisted that the only way to identify whether a registered person made an intra-Community supply of goods or not, is by referring to the declaration made in Box 1 of the VAT Return after the VAT Return of the individual is submitted. The compilation of a list of taxpayers who are obliged to fill in the Recap as identified from the VAT Return, has been included as one of the tasks of the CLO.

[1] Box 1 of the VAT Return includes Exempt intra-Community supplies of goods.
[2] Article 11 refers to exempt persons or registered persons whose economic activity is outside the scope of VAT when making intra-Community acquisitions. Article 12 legislates the registration of persons who make intra-Community acquisitions.

The possibility of submitting Recaps electronically, is going to be addressed following Council Regulation 37/2009 which requires MS to accept Recaps in electronic format as from 1 January 2010. The VAT Division has therefore reviewed its software applications priorities with the local service provider, setting 1 January 2010 as the target date by which all Recaps would become fully computerised.

The VAT Division also maintained that the third recommendation need not be implemented, since Recap defaulters are easily identified following the keying in process, after which a report is issued with corrections being made in the subsequent quarter. This report, which compares amounts in Box 1 against Recaps, is to be issued quarterly, as stated in the CLO's updated tasks.

Lack of Reconciliations and follow ups regarding supplies and acquisitions versus Recaps, Intrastat Statements and VAT Returns

- The VAT Division 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.

Developments: NAO was informed that during August 2007 a letter was sent to those taxpayers who had a discrepancy between Box 1 of the VAT return with Intrastat ***(Note 2 refers)***, requesting them to correct either one. Following NAO's enquiry into the result of this exercise, the Division replied that a good response was registered by the National Statistics Office, leading to the eventual submission of the respective Intrastat statement. Furthermore, legal action had been initiated against fourteen taxpayers who remained non-compliant. In its 2007 publication, NAO still insisted that Intrastat information is to be utilised and compared, since such data should not be integrated in the Risk Analysis System. Consequently, the VAT Division decided to verify Intrastat statements during the quarterly checks.

NAO had also reported that a 2006 Mismatch report ***(Note 3** refers*), which compares VIES data against Box 3[3] of the Return, had not been acted upon. Following this, an additional Mismatch report for the period 1 May 2004 up to 31 December 2007, was issued. This report featured those taxpersons who made intra-Community acquisitions but failed to submit one or more returns. Traders, totaling 631 taxpayers, portraying an established discrepancy, were asked to comply by declaring all intra-Community acquisitions. As in the 2006 Mismatch report, largest discrepancies were given priority. Taxpayers who failed to comply had their estimated tax increased, while other defaulters, whose discrepancy exceeded an established threshold, had their VAT registration number blocked for intra-Community trade. The established threshold was verified by this Office.

OMCTL Acquisition Error Reports (Note 4(a) refers)

This report indicates those taxpayers registered under Article 11 of the VAT Act who made intra-Community acquisitions even though they did not have a valid VAT registration number. Management claimed that although this report could be issued, it is the MS of origin that is obliged to verify such report, since the local VAT Division is obliged to verify errors on intra-Community supplies only.

Developments: Notwithstanding this claim, given that the majority of taxpayers featuring in this report are registered under Article 12, the Division is currently monitoring such taxpayers by matching Box 3 of the VAT return against VIES. This report is to be issued quarterly, with action being taken by the Inspectorate against any taxpayers who fail to justify their position. Management also stated that persons registered under Article 11 are only obliged to register under Article 12 and pay VAT in Malta, if their total amount of intra-Community acquisitions exceeds €10,000.

No VAT numbers validation records maintained

A list of VAT numbers validated might aid the VAT Division to follow up registered persons who had previously declared an invalid VAT number.

Developments: Registered persons who have declared an invalid VAT number will feature in the OMCTL Error Report issued from VIES. Such taxpayers are first issued with a Provisional Assessment followed by an Audit Assessment, if they fail to communicate with the Division within thirty days. During 2008, four taxpayers were served with an assessment for VAT due. A database of all validated VAT numbers is maintained by the CLO for statistical purposes.

[3] Box 3 includes intra-Community acquisitions of all goods where purchaser is liable for payment of VAT.

Lack of control over keying-in of Recaps

- Recaps received at the VAT Division 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.
- Clarifications due to office amendments should be settled with the registered person as soon as possible.

Developments: The VAT Division contends that the fact that Recaps are not being registered before being forwarded to the Batching Section to be keyed in, does not represent a lack of control. Management also stated that the process of receiving Recaps is identical to the system used for VAT returns and it is likewise acknowledged.

With regards to mathematical calculations of Recaps not being signed and dated by the officer who compiled them, the Division stated that such procedure is being carried out. However, Management retains that once there have never been problems in this regard, such procedure is unnecessary.

CLO staff is checking Recaps prior to forwarding them to the batching and keying in officer for inputting.

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.

Developments: NAO had reported that validation requests replied to by fax could not be verified as to the time taken to send a reply, since the 'sending confirmation' fax report was not being kept. The Division acknowledged that validation replies are currently being supported with such documentation.

Requests for Exchange of Information

The CLO should maintain a separate annual spreadsheet of the requests.

Developments: Management still retains that it is more convenient to keep track of all requests in one spreadsheet according to the year.

The CLO's responsibility to manage the CCN/CSI in exchange of information with other MS, involves communicating with local taxpayers and carrying out verifications prior to communicating back to the MS forwarding the request. A record of all incoming, outgoing and spontaneous requests is kept by the Division. During 2008, twenty-seven cases were concluded following such requests for Exchange of Information.

Compliance Issues

The penalty of €23 (Lm10) per month for registered persons who fail to submit the Recaps is not being enforced by the VAT Division

The VAT Division 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.

Developments: Currently, VIES does not have the facility of extracting an electronic Recaps' defaulters list. CLO issues a report that compares Box 1 of the VAT return against Recaps submitted and requests defaulters to comply. In fact, many taxpayers approach the VAT Division to effect the necessary adjustment in the return or submit the required Recap. The whole process is very time consuming. Management maintained that the enforcement of this penalty can only be addressed once the software is enhanced. The new application following Council Regulation 37/2009, would also include the automatic generation of penalties for late and non-submission of Recaps.

OMCTL Supplies' Error Report for the First Quarter of 2006 (Note 4(b) refers)

- The CLO should ensure that the local system provider carries out the necessary changes requested in connection with OMCTL Error Reports.
- The VAT Division 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.

Developments: During this follow-up audit, NAO verified that MITA carried out the necessary changes in connection with OMCTL Error Reports to include the following features:

- Reports from VIES now bear the printing date.

- OMCTL Error Reports can be extracted for a particular quarter and year.
- Level 1 Sent and Received Reports can be extracted with error codes only.
- A report can be generated with all adjustments carried out.

CLO informed NAO that prior to 2006, the system used to accept invalid VAT numbers when Recaps were keyed in. The system was subsequently enhanced to validate foreign VAT numbers at the keying in process to eliminate errors. Unfortunately, this gave rise to a number of incorrect VAT numbers in VIES which could not be adjusted, since the system had already validated them. The local service provider is in the process of drawing up a list of these VAT numbers, where they will be checked and eventually cancelled from their end.

According to the CLO updated tasks, it is the responsibility of the CLO to act on quarterly L1 sent reports by issuing non-compliant taxpayers with an assessment. The error code of the L1 received report will indicate taxpayers who acquired goods using an invalid VAT number. Such report shall be forwarded to the Operations Section for necessary action.

NAO verified that errors featuring during the walk through testing on OMCTL Supplies' Error Report and reported upon in the AAR, have been rectified.

Conclusion

The most significant change since the 2006 audit, has been the update of the CLO's tasks and responsibilities which occurred during the initial phases of this follow-up. Now that the CLO's tasks are more specific and coordinated with the other Directorates within the VAT Division, it is expected that the improved communication channels would increase the effectiveness of CLO operations.

Various measures have been taken by the Division to improve the monitoring of VAT registered persons, such as, the reported follow-up on the 2007 Mismatch report and the checking of Box 1 declarations against Intrastat statements. Follow-up on the report portraying differences between Box 1 data against Recaps for the period ending 31 December 2007 is being carried out on a regular basis.

The majority of shortcomings relating to the keying in of Recaps have been addressed. The Division has also committed itself to implement the possibility of submitting Recaps electronically in terms of Council Regulation 37/2009. This follow-up confirmed that a number of reconciliations have still not been concluded, namely, the checking of Notice Forms with VIES data for the years 2005 and 2006 and the matching of Notice Forms against Declaration Forms. It is to be clarified, that even though work on such reconciliations is an ongoing process, such reconciliatory reports are going to be issued on a quarterly basis, commencing on 2009, as stipulated in the updated CLO's tasks.

The update of the CLO's tasks is a step in the right direction, however, the duties emanating from such tasks can only be adequately performed given sufficient resources. As a matter of fact, according to Management the human resource constraint still exists, while the VAT Division has continuously stressed that additional priorities arising from the other branches of VAT enforcement and Eco-contribution, will determine the extent of follow-up that may be taken by the Operations Section at any particular time.

This follow-up has shown that Management has taken a number of measures to act on the reported weaknesses reported upon in the AAR. Unfortunately, the current staff compliment of the VAT Division, together with other priorities of enforcement, will impose constraints on the whole procedure of acting on quarterly reports.

Notes

Note 1 – Notice Forms and Declaration Forms

Registered persons under Register C are required to fill VAT Form 11/2008 (previously 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 Division within fifteen 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.

Note 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 €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 €699 and not exceeding €3,494 as stipulated in the VAT Act.

Note 3 – Mismatch Report

The Mismatch report compares data from three sources, being VAT Returns, Intrastat Arrival Statement and VIES. The comparison of such data is effected with two sources at a time.

Through this report, the VAT Division 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.

Note 4 – OMCTL Error Reports

(a) 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.

(b) 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 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.

Ministry for Tourism and Culture

Tourism Directorate
Contractual Services

Background

Following the reorganisation of ministerial portfolios after the 2008 General Elections, the Ministry for Tourism and Culture (MTAC) was restructured so that Tourism was incorporated under the Office of the Prime Minister (OPM) and Culture was incorporated under the Ministry of Education, Culture, Youth and Sport. The Tourism Directorate started fully operating as part of OPM towards the end of 2008. Accounting Officers previously working under the MTAC within the Tourism Section as well as documentation and files in relation to Tourism were transferred to OPM.

Audit Scope and Methodology

The objectives of the audit were to ensure that Contractual Services expenditure incurred by the Tourism Directorate during Financial Year 2008 is accurate, complete, free from material misstatement and procured in compliance with relevant legislation.

An overview of procurement procedures and controls in place was obtained by means of meetings with officials of the Tourism Directorate. For a Confidence Level of 90% and a Confidence Interval of 9.27%, a sample of fifty-one out of 143 payment vouchers (PVs) and multi-payments issued during the year under review in respect of Contractual Services was tested.

Key Issues

Expired Tenders and Agreements

- During late 2003, the Ministry for Resources and Infrastructure decided that the tender for the Hire of Storage Space for oil dispersant, would not be renewed or extended upon its expiration in 2005. During the same period, the Ministry sought guidance from the Malta Environment and Planning Authority (MEPA) as to how 60,000 litres of oil dispersant could be disposed of. Correspondence between MTAC and OPM dated December 2008 indicated that MEPA replied that no such site is available in Malta where this hazardous chemical could be safely disposed of, *"but could be in the future. Barring this option, arrangements would need to be made to ship them to a third country. The expense for doing this would be considerable."*

  Since 2003 to current date, no decisive action plan has been adopted to deal with this matter and the provision of hiring services for the oil dispersant was continued. Total fees paid to date, since expiry of the tender in 2005, amounted to €49,568.15. During December 2008, the need of obtaining a direct order from the Ministry of Finance, the Economy and Investment (MFEI) to cover these payments was discussed at OPM. However, to date again no action has been taken in this regard.

- An engagement request regarding the appointment of an adviser on Audio Visual Policy was approved by OPM. The all-inclusive remuneration package amounted to €19,566.74 *per annum* (VAT excl.) for a fifteen hour week attendance. The contract for the provision of consultancy services to the MTAC expired during November 2007, following which no evidence was found verifying the renewal of the contract. Consultancy services between November 2007 and the consultant's resignation in March 2008 were provided under an expired contract, which services amounted to €5,490.

- Two agreements with a supplier for the provision of Photocopier Hire Service and Maintenance expired during July 2008 and March 2009 respectively, following which, photocopiers were still being used by the Directorate. During the audit, we were formally informed that fresh quotations were being sought in this respect. During the year, €7,904.12 and €2,758.70 were paid to two suppliers for the provision of these services.

- During 2008, hiring charges were paid under the terms and conditions of an unsigned Rental Agreement.

The continuation of services under expired and unsigned agreements, poses the risk that in the eventuality of default by any of the parties, terms and conditions underlying the provision of service would not be legally provided for. Additionally, the further deferment of safely disposing of the oil dispersant may pose health and environmental risk factors.

Commencement of Services Prior to Approval

An agreement for the provision of consultancy services to the Parliamentary Secretary for Tourism was entered into on 16 April 2008, with services commencing the day following. MFEI direct order approval was granted on 11 August 2008 for the cost of €500 week. Consultant's services were used for a period of time prior to an official approval from MFEI.

Provision of Services without Direct Order Approvals

From evidence gathered, it was noted that no tender or MFEI direct order was obtained authorising the production of a play in relation to the Summer Arts Festival 2007, as the production was unique to the service provider. Total cost of production (VAT incl.) amounted to €16,398.78.

Risk of Overcharged Prices

No quotations were obtained prior to the provision of services by two suppliers, amounting to €1,834.10 and €5,348.72 respectively, in respect of repairs of motor vessels in use by the Oil Pollution Response Module (OPRM) during 2008. Even though *prima facie* it may seem that the 2005 Public Contracts Regulations (Paras. 19(1a) and (1b)) have not been violated, when taking into consideration the total amount of the expenditure incurred during the year, there is the risk that the Directorate divided the expense between two suppliers in order to bypass the legal requirements. The Directorate might have been overcharged by not obtaining quotations and comparing the best offered prices prior to engaging suppliers.

Control Issues

Opportunities for improvement were identified in the following areas:

Local Purchase Orders endorsed by Unauthorised Officers

Local Purchase Orders (LPOs) were endorsed by unauthorised officers in sixteen out of forty-four (36.36%) PVs tested. This may lead to unauthorised and/or inadequate procurement of supplies or services for the Directorate.

Errors in Calculation of Invoices

The lack of scrutiny of invoices presented by suppliers, together with a lack of double checking over computation of invoices prior to payment, may lead to overpayments. In two out of fifty-one (3.92%) invoices tested, erroneous computations have been noted involving the incorrect conversion of Lm into Euro currency. This resulted in an overpayment of €96.63.

Errors in Computations and Transfers of Salaries

From a review of overtime payments, the following was noted:

- For one employee, the overtime details as per attendance sheets of two dates did not tally with the amounts as per multi-payment voucher.

- €148.68 overtime pay of three employees was erroneously transferred from Account 3060 twice.

In the absence of controls, there is the risk of more substantial errors, resulting in under or over payments to employees.

Compliance Issues

Financial Limits Exceeded

No departmental call for tenders was made for the provision of transportation services to the Tourism Directorate, with total payments during the year made to the supplier amounting to €31,190.20, contrary to the 2005 Public Contracts Regulations.

Non-compliance with VAT Legislation

Eight out of forty-four (18.18%) cases were noted where suppliers not exempt from issuing VAT receipts did not present a VAT receipt against the payment made to them for services rendered, three of which were not reported to the VAT Division in the quarterly report.

Payment of Long Outstanding Arrear Charges

An invoice dated 31 March 2006 was left pending for a period of two years. There is the risk that Management is not adhering to MF Circular No. 2/2007 stating that *"it must be ensured that claims spilling over from one year to the next are kept at the absolute minimum."*

Postings to Inappropriate Accounts

In forty-three out of fifty-one (84.31%) cases tested, expenses were not appropriately allocated to Item 30 Contractual Services accounts.

Commitment of Funds Subsequent to Receipt of Invoice

The dates of the LPOs did not precede the dates of the invoices in forty out of forty-four (90.91%) PVs tested. Funds were thus committed following receipt of invoices when expenditure was already incurred rather than upon initial order of supplies or services. Although the cost of the service could not be known prior to confirmation of the cost in respect of 57.5% of the cases, it is not justifiable that the Directorate did not issue LPOs on the same dates or at least shortly after invoice dates.

This lack of enforcement over budgetary controls poses the risk that the Directorate cannot ascertain whether funds are available for the payment of uncommitted but already incurred expenditure, over and above other already committed expenditure. In addition, expenditure may be incurred without prior consent from authorised officers.

Recommendations

Key Issues

Expired Tenders and Agreements

- A decisive plan regarding the disposal of oil dispersant is to be drawn up without postponing any further. Until a final decision is made, a direct order approval is to be obtained from MFEI in order to regularise payments.
- It is to be ensured that all Contractual and Tendering services provided to the Directorate are covered by valid contracts for service at all times.
- All services provided under tenders, contracts and agreements should be renewed immediately upon expiration if it is Management's intention to renew such services. Otherwise, new quotations or tenders should be timely sought so as to make use of the most advantageous offers within the market.

Commencement of Services Prior to Approval

- Compliance should be made at all times with the Rules and Regulations as set out in the 2005 Public Contracts Regulations.
- Agreements should not be entered into, and services should not be commenced, prior to appropriate MFEI approval.

Provision of Services without Direct Order Approvals

The Directorate is to ensure that direct order approvals are always granted by MFEI when the engagement of services is exclusive to selected professionals.

Risk of Overcharged Prices

Heads of Directorate should obtain quotations from various suppliers within the market, as far as possible, in order to benefit from the most advantageous prices offered.

Control Issues

Local Purchase Orders endorsed by Unauthorised Officers

The Directorate should adhere to TR Circular No. 5/2008. LPOs are to be signed by authorised 'Officers charged with the Control of Accounts and Departmental Expenditure' at all times.

Errors in Calculation of Invoices

Controls over the scrutiny and computation of invoices should be enhanced through double checking by a second officer, so as to reduce the risk of human error and increase controls over payment of invoices to suppliers.

Errors in Computations and Transfers of Salaries

Controls over the computation of attendance sheets should be increased through double checking by a second officer, so as to ensure correctness of computations prior to final payments and transfers being made from the accounts.

Compliance Issues

Financial Limits Exceeded

A departmental call for tenders for the provision of transportation services needs to be issued without any unnecessary delay. This would ensure that the Directorate can benefit of more advantageous and fair prices from within the market.

Non-compliance with VAT Legislation

The Directorate must ensure that VAT receipts are duly collected from suppliers in respect of payments made. Defaulting suppliers are to be reported timely so that the required corrective action can be taken by the VAT Directorate as per MFIN Circular No. 5/2002.

Payment of Long Outstanding Arrear Charges

Management must ensure that arrears are paid without unnecessary delays, as directed by MF Circular No. 2/2007.

Postings to Inappropriate Accounts

Postings of expenditure should be appropriately made in each respective Account or following approved Virements, as applicable.

Commitment of Funds Subsequent to Receipt of Invoice

- It is to be ensured that expenditure is duly authorised and committed prior to being incurred.
- When the amount of expenditure cannot be known prior to receipt of invoice by suppliers, the Directorate must ensure that funds are committed on the same date or shortly after the exact cost becomes known.

Management Comments

Management has accepted and implemented most of the recommendations put forward. In addition, the following comments were also submitted:

- Although a solution for the alternative storage or disposal of the oil dispersant has not been found since the expiry of the tender for the Hire of Storage Space during 2005, MEPA have since requested more technical information about the composition of the chemicals to enable it to give an opinion on its safe disposal. This has been supplied and the issue is being actively pursued by the Directorate. Authority for a direct order to cover the period is being sought from MFEI.
- Following the expiry of the contract for service regarding the adviser on Audio Visual Policy, Management stated that it was verbally agreed that the arrangements were to continue on the same terms and conditions of the previous contract approved by MPO.
- During late November 2008, the Directorate contacted a supplier by phone and later in writing, requesting a signed contractual agreement in respect of hiring charges. The Directorate was told that according to company policy, *"in those days a signed delivery note of a cooler was considered as a signed rental agreement."*
- Consultancy services to the Parliamentary Secretary for Tourism were urgently required, having the terms and conditions of employment discussed and agreed between the consultant, the Ministry and MFEI prior to official approval from MFEI.
- The production of a play which formed part of the activities of the Summer Arts Festival was unique to one company. Management is of the opinion that *"issuing a tender would be futile."* However, although the funds were available, the Directorate notes that, given the amount involved, a direct order approval should have been sought from MFEI.
- Experience regarding repairs and maintenance of vessels has shown that besides the fact that ship yards differ very little between them, quotations are only indicative as in many cases the real extent of the damage or work required and therefore the real cost, becomes known once the defective part is dismantled. *"The Department denies that work was divided between suppliers to by pass legal requirements."*
- The Directorate was paying a supplier for transportation services according to the rates of a tender for transportation issued by the Malta Tourism Authority (MTA) that forms part of the same Ministry. NAO was not forwarded a copy of this tender substantiating Management's comments.

Malta Tourism Authority Information Technology Audit

Background

This Information Technology (IT) audit, held at the Malta Tourism Authority (MTA), sought to determine whether an adequate strategy defines the IT direction and whether information management and processing is set down in policies and procedures. The audit also evaluated planning with respect to business continuation in the event of disruptions or disaster.

MTA was formally set up by the Malta Travel and Tourism Service Act (1999) – Cap. 409. This legislation clearly defines its role – extending it beyond that of international marketing to include a domestic, motivating, directional, co-ordinating and regulatory role.

The Act strengthens the public and private partnership in tourism through greater and more direct participation by the private sector in national planning and development of the industry.

MTA's main business objectives are:

- to promote and advance Malta as a tourism destination;
- to advise Government on tourism operations and to issue licences under the Act;
- to monitor, classify and control the licensing of, and standards provided in or by tourism operations;
- to contribute towards the improvement of the level of human resources in the tourism industry;
- to advise Government on the planning and development of the tourism industry, as well as on the infrastructure supporting the tourism industry; and
- generally to assist and advise Government on any matter relating to or affecting tourism, and to undertake and organise such activities and projects as it may consider appropriate in connection with the performance of its functions.

Information is obviously one of the most important assets at MTA. The way information is managed and processed directly effects the efficiency and effectiveness of the Authority's planning and operations. The security and timely availability of this information is also imperative to this Authority.

Throughout the years, information technology has become an essential vehicle to information processing within MTA. This significant importance merits to be countered by a strategic impetus towards aligning IT operations with the business objectives while securing information assets.

MTA operates from Auberge D'Italie in Valletta, however its Enforcement Division is currently situated in a separate building in Msida. MTA also has Tourist Information offices in Valletta, Luqa and Gozo, stores in Mriehel and overseas offices in the United Kingdom, Italy and Germany. MTA's stores and overseas offices are not connected with its network.

During this audit the IT Systems that were considered are listed hereunder:

- Licensing Management System (LAS)
- Time Share Licensed Operators (OPC)
- Tourist Guides System
- Payroll System
- Financial System
- Personnel Manager Time and Attendance.

Other general applications used throughout other Government entities and mainstream office applications are also in use.

Audit Scope and Objectives

The audit reviewed two areas: IT Entity Level Controls and Business Continuity Planning with respect to IT at the Authority.

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 reviews the IT Entity Level Controls at the Authority in terms of IT strategy, policies and procedures.

The audit also evaluates risk management with respect to information systems. The review included the way MTA is geared towards safeguarding a continuous performance of its critical operations in the event of a disruption or a major interruption of its information systems.

The objectives of the audit were to:

- determine whether IT Governance is stipulated by an IT strategic plan, IT policies and procedures that regulate IT operations; and
- evaluate IT Business Continuity Planning.

Methodology

Pre-audit desk research was carried out to collate background information about MTA and the Tourism Industry from which the audit objectives and scope were developed. An initial meeting was held with the Chief Executive Officer (CEO) and the IT Manager to explain the scope and objectives of the IT Audit and to plan the practical arrangements. In the first part of the audit the auditors obtained an understanding of the use of IT at MTA through meetings, visits to IT facilities and examining documentation.

The understanding of the current situation was then analysed and compared to standard IT best practice, follow-up queries and clarifications were made with MTA IT staff. This information, analysis and findings together with recommendations were then drawn into this report.

Control Issues

During this IT audit the auditors aimed to establish the overall strengths and weaknesses in the control environment surrounding IT.

IT Governance

Strategy development, planning, budgeting and resource allocation for IT at MTA is the responsibility of MTA's CEO. This is carried out in liaison with the Chief Information Office (CIO) for the Office of the Prime Minister (OPM) in accordance with the business plans at the ministerial and board levels. Weekly management meetings are held between the CEO and the CIO to discuss the ongoing operational needs.

Since the CIO is managing the Authority's IT Governance, NAO requested information regarding the Authority's IT Entity Level Controls from the CIO's office, who proved to be very helpful and provided his full cooperation.

The development, implementation and maintenance of the majority of the Authority's IT systems is contracted to a number of designated IT service providers.

Procurement is regulated by a set of documented standards and procedures.

Whilst data ownership lies within the responsibility of the CEO, a comprehensive IT hardware and software inventory is held and maintained by the CIO's office.

IT Strategy

MTA is making a sustained effort in improving and maintaining its IT operations. Although MTA does not have a formally documented IT Strategy, the CIO is well aware of the Authority's corporate business strategy and together with the CEO makes the necessary plans so as to ensure that the necessary IT resources are available so as to support the Authority's business needs.

Risk Assessment

The MTA does not formally carry out an assessment of the risks associated with the use of IT and therefore it does not follow a standard approach to managing such risks. Risks that may affect the smooth running of operations have neither been identified nor classified with the consequence that the MTA may be ill-prepared to counter possible threats.

Process Documentation

The various procedures and processes 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

MTA's ability to recover from a disaster and resume operations can be addressed by Business Continuity Planning activities. The key to successful disaster recovery is to have a plan well before disaster ever strikes.

Business Continuity Plan

A Business Continuity Plan designed to reduce the impact that disruptions might inflict on the Authority's operations, is in place at MTA.

The disaster recovery plan stipulates the procedures to take in the event IT facilities become inoperative due to extreme incidents. It also documents the recovery approach and the recovery time objectives.

Apart from having a Disaster Recovery Plan, the MTA has a number of Service Level Agreements with its suppliers which cater for maintenance, support and business continuity.

System Restore and Security

During this audit the main IT Systems, namely the Licensing Management System, the Time Share Licensed Operators, the Tourist Guides System and the Payroll System, the Financial System and the Personnel Manager Time and Attendance System were considered.

The Licensing Management System is used by MTA to register all licensed service providers such as Hotels, Bars, Restaurants etc., who are subject to a yearly licence fee. The system was developed in-house by MTA employees. Programming and user manuals are available. Access to the Licensing Management System is controlled by means of a login and password framework. Login Accounts of terminated employees are disabled. Backups are done on a daily basis. The Licensing Management System is also mirrored MTA's premises at Msida.

The Time Share Licensed Operators System stores information regarding Time Share Operators including their contact details, the company they work for and the "Resorts" where they are operating. The data collected in this system is used for issuing the tags which are to be worn by the Time Share operators whilst on duty. The system was developed in-house by MTA employees. Although programming manuals are available, user manuals are not. However, the user manuals for this system are to be developed using a web interface which would make them available online. Access to the Time Share Licensed Operators System is controlled by means of a login and password framework. Login Accounts of terminated employees are disabled. Backups are done on a daily basis.

The Tourist Guides System is used to maintain a record of all licensed tourist guides. Apart from the tourist guides personal information, this system also records the languages each guide is competent in, the guides' special interests, courses attended and any infringements carried out by the tourist guides. The data collected in this system is used for issuing the tags which are to be worn by the tourist guides whilst on duty. This system is in the process of being re-written so as to have a web interface. User manuals will be generated for the new version. Access to the Tourist Guides System is controlled by means of a login and password framework. Login Accounts of terminated employees are disabled. Backups are done on a daily basis.

The Payroll System is used to manage salaries and record employee data. The system was developed in-house by MTA employees. Programming and user manuals are both available. Access to the Payroll System is controlled by means of a login and password framework. Login Accounts of terminated employees are disabled. Backups are done on a daily basis.

The Financial System and the Personnel Manager Time and Attendance System are both off-the-shelf applications. Since MTA cannot carry out any software changes to these applications programming manuals are not available. However user manuals are available. User training is generally obtained from the respective supplier. Access to the financial application is controlled by means of a login and password framework. Login accounts of terminated employees are not disabled in the Financial System while they are in the Time and Attendance System.

Backups are done on a daily basis on an external hard drive. These systems are also replicated at MTA's remote location.

MTA should be aware that if their offices in Msida are to be relocated to Valletta the Authority would have no off-site back-up and therefore there would be the risk of losing data in the event of a major disruption occurring at the primary site.

Although the back-ups are currently being tested, this is only done on occasional basis rather than scheduled on regular basis. Ideally, system restoration is to be performed on a regular basis to ascertain that back-ups can be restored from, in case of a disaster.

The Head Office in Valletta is equipped with a fire alarm and detection system. Access to the server room is controlled and restricted to authorised personnel. The server room is also equipped with a surge protection system and a generator.

The remote location is however not equipped with a fire detection and protection system. It must be noted that this site will in the near future be relocated to Valletta.

A visitors' policy is not in place. The Authority should ensure that all visitors are logged in and out of its buildings and are accompanied by members of staff at all times so as to ensure the protection of, amongst other things, MTA's information assets.

The increase in use of portable devices such as laptops, palmtops and pen-drives has not been regulated by a portable devices policy. Mobile computing inevitably increases risk to information systems. Indeed part of the IT security features applicable to stationary devices is practically lost once these devices are replaced by mobile ones which roam in different environments with no suitable security features added to compensate for this added risk. Reputable anti-virus software is utilised and updated on a regular basis.

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

Recommendations

MTA should formally 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 support the Authority's business plan and be approved by the Chairman and the Board. Moreover this strategy should be reviewed regularly and updated as necessary.

Risks associated with the IT operations should be identified and categorised according to their potential impact, and appropriate actions be taken to minimise the risks.

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

MTA should ensure that all user accounts including those related to the Financial System are monitored for inactivity and user accounts of employees who are no longer employed by the Authority or of employees on long absence should be removed.

Another off-site storage area should be identified if the Authority's current remote location is closed down. A second copy of the back-ups should ideally be kept off-site in a safe and secure place.

System restoration is to be performed on a regular basis to ascertain that back-ups can be restored, in case of a disaster.

For security reasons, a visitors' policy should be in place and all visitors should sign in prior to accessing the Authority's offices.

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 strictly observe when using mobile devices.

Ministry for Competitiveness and Communications

Funds regulated under the Pilotage and Mooring Regulations, 1975

Background

The Stabilisation Fund, Pilot Launch Maintenance and Repair Fund and the Pilot Launch Replacement Fund, commonly referred to as 'The Mooring Fund', are regulated by the Pilotage and Mooring Regulations, 1975. In April 2003, the pilots set up the Pilots Co-Operative Society while the mooring men continued to be regulated under the same legislation.

During the years, the National Audit Office (NAO) carried out audits and supported the administration of the Mooring Fund in order to rectify the weaknesses with the aim of preparing accruals based financial statements in accordance with International Financial Reporting Standards (IFRSs).

This report outlines developments and issues as at 15 September 2009. A chronological summary of past events is detailed hereunder:

Management Letter/Plan of Action for Financial Year 2003

The Management Letter/Plan of Action prepared by NAO in respect of the year ended 2003 highlighted a number of issues namely:

- *Books of Accounts:* The statement of assets and liabilities did not portray a true and fair view of the financial position of the Funds. It was thus agreed that, as from Financial Year 2004, the Financial Statements should be presented in accordance with International Accounting Standard (IAS) 1, now replaced by IFRS 1. These Financial Statements were to include a Trial Balance, an Income Statement and a Balance Sheet. NAO drafted an initial plan to help the Authority reach this target, thereby explaining the accruals basis of accounting. The main components of the Trial Balance, Income and Expenditure Statement and Balance Sheet were also outlined.

- *Bank Reconciliation Statements:* No bank reconciliation was being prepared for the Mooring Fund's bank accounts, resulting in incorrect reporting of the bank balances reflected in the Financial Statements. NAO recommended that monthly bank reconciliations should be carried out. An extract of a bank reconciliation statement was provided by this Office.

- *Debtors:* The total amount of debtors was not recognised and no provision for doubtful debts was accounted for in relation to contested debtors. Besides accounting for all debtors, NAO recommended that action should be taken to recover amounts due, and that copies of Debtors' Statements should be kept for audit purposes.

- *Creditors:* NAO recommended the accounting treatment for creditors as related amounts were not included in the Financial Statements.

Although the above mentioned plan was to be implemented over a period of time, NAO required that the Financial Statements incorporating at least an Income Statement and a Balance Sheet, be prepared for the Financial Year 2004. In the meantime, NAO could not accept to audit the Mooring Fund's statements under the current format presented.

Management Letter for Financial Year 2005

As the financial statements for the year ended 31 December 2004 were not prepared, the relative financial and compliance audit was not performed. The Management Letter in respect of the year ended 31 December 2005 included the following issues namely:

- *Financial Statements:* A considerable improvement was noted in the accounting function and system, together with the introduction of an accounting package. However, NAO recommended that the layout of the accounts, as set in the accounting package, should be enhanced. The Income and Expenditure Account should replace the Profit and Loss Account to show appropriate recognition of the various types of expenditure. The Suspense Account representing the value of the Fund as at 1 January 2005 was to be recognised as Capital, whilst a Cash Flow Statement and Notes to the Financial Statements were to be included within the set of financial statements.

- *Accrual basis of Accounting:* The lack of proper accounting for fixed assets, creditors, accruals, prepayments, salaries and wages was brought to the attention of Management.

- *Cash and Cash Equivalents:* A proper bank reconciliation was not prepared with the bank statement exceeding the financial statements' balance by about Lm17,000 (€39,599).

- *Stabilisation Fund, Pilot Launch Maintenance and Repair Fund, and the Pilot Launch Replacement Fund:* The amounts allocated to the three Funds could not be quantified. Only one amount represented as Suspense Account was included in the Trial Balance. NAO recommended that income and expenditure is allocated to the respective Fund in accordance with the relative legislation.

- *Use of Accounting Package and Journal Entries:* Adjustments/corrections to entries within the accounting package were being passed through the *'corrections'* routine of the accounting package rather than using journal entries. Subsequently, journal entries were used however approval was not evidenced. NAO recommended that the use of the *'corrections'* routine be limited and when used, documentation and approval should be kept. Approval for journal entries should also be evidenced.

- *Transfers from the Pilotage and Mooring Fund:* Incorrect accounting of two transfers from the Pilotage and Mooring Fund's bank accounts to the Mooring Fund was brought to the attention of Management.

- *Back-ups:* As no back-ups of the payroll package were performed, NAO recommended that back-up procedures should be set up, documented, approved and strictly adhered to. Restore tests should also be performed.

- *Personal Injuries Scheme*: The Stabilisation Fund was contributing to the full amount of the Personal Injuries Insurance Scheme without any refund from the mooring men.

Permanent Secretary, Ministry for Competitiveness and Communications' reply to NAO Management Letter for Financial Year 2005

In letter dated 16 October 2006, as a reply to the Management Letter issued for the year ended 31 December 2005, the Permanent Secretary of the then Ministry for Competitiveness and Communications, agreed with all the findings highlighted by NAO and explained the action taken or that will be taken to rectify the shortcomings.

Malta Maritime Authority (MMA) Administration Manager's reply to NAO Management Letter for Financial Year 2005

The MMA Administration Manager submitted her comments in reply to the Management Letter for the year ended 31 December 2005 in an e-mail dated 18 October 2006. In particular, the following points were made:

- The layout of the accounts was to be improved before 1 January 2007.

- Accrual basis of accounting was being properly effected.

- The bank reconciliation was in process and as from December 2006 monthly bank reconciliations would be carried out.

- Once bank accounts are reconciled till December 2006, a separate quantification of each Fund will be prepared. Problems with the accounting procedures for bank account transfers and in respect of the Personal Injuries Scheme were to be rectified.

- Since June 2006 the corrections routine was already being performed through journal entries.

- The lack of payroll package back-ups was to be discussed with the Secretary to the Pilotage and Mooring Board.

Monitoring by NAO

Although no further audits were carried out, NAO has been monitoring the situation through meetings and communication was on-going. One such meeting was held on 16 March 2007 to ensure that the accounts for the year ended 31 December 2006 were prepared in accordance with IFRSs and that there was separate quantification of the three Funds. An example of an Income and Expenditure Account was provided.

In an e-mail dated 16 March 2007, the MMA Administration Manager mentioned the following:

- Independent legal advice was needed with respect to the interpretation of the legislation as to the allocation of the income with respect to the three Funds.
- The Fixed Asset Register and the Inventory System were already being compiled.
- Budgets were not being compiled and these were deemed important before the accruals accounting and the projected cash flows are introduced.

A reply to the above was immediately sent, wherein it was requested to keep NAO informed, preferably in writing, of the outcome of the legal advice obtained in respect of allocation to the three Funds.

Another meeting was held on 24 July 2007 to update on progress made with respect to the preparation of the Mooring Fund financial statements in accordance with IFRSs. Detailed instructions were provided by NAO regarding accounting procedures for fixed assets.

On 23 July 2007, the Auditor General was informed by the Permanent Secretary of the then Ministry for Competitiveness and Communications that the Mooring Men Personal Injuries Insurance cover, was to be met out of the funds of the MMA, as the Mooring Stabilisation Fund was practically depleted. This expense was being met by MMA *"on a once only basis with the scope of facilitating the ongoing Port Reform negotiations."*

The accounts presented to NAO for the Financial Years 2006, 2007 and 2008 in March 2009, were Management Accounts and not Financial Statements prepared in accordance with IFRSs. Therefore, these accounts were not adequate for the Auditor General to express an audit opinion with regards to their truth and fairness. Consequently, a regular financial audit could not be performed.

Matters Arising during Meeting held in June 2009

A meeting was held on 16 June 2009 with both the MMA Administration Manager and the Accountant appointed by the Pilotage and Mooring Board in order to obtain an update of any further developments. The scope of the meeting was to evaluate the progress registered, following which, further recommendations would be made proposing the way forward, if necessary.

Preparation of the Management Accounts

The ownership of the Mooring Fund lies with the Pilotage and Mooring Board. The present Chairman of this Board has held this post from year 2000 to date.

During 2008, the Board appointed a private Accountant to prepare Management Accounts for the Financial Years 2005 – 2008. These accounts were distributed to MMA's top management. The Accountant stated that the Management Accounts have been corrected but the adjustments on the accounting package were still to be carried out.

Financial Position

The sustainability of the Mooring Fund is questionable since it is running at a loss. Certain debts due by the Mooring Fund were settled from MMA funds following ministerial authorisation. Since then the MMA has become the Fund's largest creditor. If for whatever reason, these debts are not recovered, the Mooring Fund would hence actually be subsidised by MMA.

The reason for the Fund not being financially self-sufficient lies mainly in the fact that the mooring men's salaries[1] are exclusively based on the total sales invoiced during a particular month, regardless of whether such amounts were received and before deducting any administrative expenses. In fact, shipping agents generally take about four months to settle the invoices. Consequently, no funds are available to cover the administrative expenses incurred.

The Port Reform is expected to have a significant impact on the Fund. The course of action to be taken can be determined once negotiations are concluded.

Port Reforms

Port Reform negotiations commenced in line with EU Competition Law which disallows the prevalence of exclusive services. It was envisaged that they would be concluded by 2008. However, a change in the MMA Management caused delays.

A way to liberalise the Mooring Services needs to be found as this is also considered part of the reform. In order to liberalise the service, it had to be established what income is generated. Hence, the Board's decision to have Management Accounts prepared.

Part of the restructuring process includes the termination of the MMA as a regulator and operator. The Malta

[1] A lump sum, to cover the mooring men salaries, is paid by cheque on a monthly basis from the Mooring Fund bank account to the Leading Mooring Man bank account.

Transportation (Regulatory) Authority incorporates the MMA, Malta Transport Authority (ADT) and Civil Aviation as regulators of all land, sea and air transport. A Bill relating to the Authority was published on 3 June 2009[2].

Fixed Assets

MMA stated that no fixed assets were purchased since 2005 due to lack of funds. The *Merħba* and *Welcome* launches, which were owned by the Government and not by the Fund, were sold and the proceeds thereof forwarded to MMA.

Allocation of Income with respect to the Three Funds: Stabilisation, Pilot Launch Repair and Maintenance and Pilot Launch Replacement

The 2005 Management Accounts' opening balances in respect of the three Funds are the closing balances of the 2004 accounts which were prepared by a Mooring Fund Supervisor. Although the 2004 accounts were not audited by NAO, there was no option other than to use these figures, as this was the only financial information available.

Legal advice regarding the interpretation of the law in respect of the Pilot Launch Funds, the proceeds of which 20% were to be allocated to the Pilot Launch Replacement Fund and the other 80% to the Pilot Launch Maintenance and Repair Fund, was sought from two sources. However, their interpretations differed. Copies of these interpretations have to date not been forwarded to NAO.

Although the launches were sold, the Management Accounts still reflected allocation of the Pilot Launch Funds to the Pilot Launch Repair and Maintenance and Pilot Launch Replacement Funds, in order to ensure compliance with the existing Regulations. The Pilotage and Mooring Regulations of 1975 will be amended following conclusion of the Port Reform negotiations.

Follow-Up of other recommendations made in NAO 2005 Management Letter

During the said meeting, NAO was informed of the following:

- Back-ups

  Various Back-ups of the payroll package are being performed.

- Bank Reconciliations

  Bank reconciliations are being carried out on a monthly basis. Bank Reconciliation Statements performed from December 2006 to December 2008 were forwarded to NAO.

- Use of Accounting Package and Journal Entries

  Adjustments/corrections are carried out under the supervision of an accountant, who is an MMA full-time employee. Following his approval, they are posted through journal entries.

- Personal Injuries Scheme

  The mooring men have not started refunding half the insurance costs in accordance with the Regulations. In fact, MMA confirmed that the insurance policies for the period 2008/2009 and 2009/2010 were paid in full by MMA.

Recommendations

- A breakdown of the Suspense Account balance €1,340.45, featuring in the 2008 Management Accounts, is to be prepared and the amount allocated accordingly.
- Fixed assets should still be included in the Statement of Affairs even though the majority have a Nil net book value. A Fixed Asset Register should be compiled for control and regularity purposes.
- The Financial Statements are to be prepared in accordance with IFRSs. These are to be approved by the Board, and include, amongst others, the Cash Flow Statement, relative Notes to the Accounts and Statement of Board Responsibilities.

Conclusion

The possibility that NAO officers will in the future conduct audit testing on the years 2006, 2007 and 2008 is not excluded. Once the above mentioned recommendations are implemented, NAO will perform an evaluation of the Mooring Services' Financial Statements to determine further action, particularly taking into consideration the Going Concern aspect of the Funds.

[2] Bill was approved by Parliament in July 2009. ACT XV of 2009 (Cap. 499) not yet in force.

Ministry for Gozo

Gozo General Hospital - Operating Materials and Supplies

Background

The audit covered the procurement of "Operating Materials and Supplies" by the Gozo General Hospital (GGH) falling under the responsibility of the Ministry for Gozo. Such expenditure included the acquisition of food provisions, uniforms, cleaning materials, medical equipment, spare parts and other store items.

Audit Scope and Methodology

The scope of the audit was to ascertain that procurement and contracting activities, carried out by the GGH, were in accordance with standing regulations, policies and procedures, thus ensuring efficient administration of public funds. An assessment of internal controls and their operation, as well as an evaluation of the adequacy of internal policies and procedures relating to the procurement of goods were also within the scope of the audit.

Relevant rules and policies were reviewed for the purpose of the areas covered in the audit. Physical review of the documentation as well as further substantive testing were also carried out.

Key Issues

Limitation of Scope

Testing and verification was limited due to the fact that source records, such as delivery notes, were not available for certain items for audit purposes. The absence of a stock recording system on food provision also hindered the audit process.

Lack of Segregation of Duties

There was no segregation of duties in the food provisions procurement process. The two Officers in charge, namely, a Senior Clerk and a Clerk, were responsible for placing the orders, receiving the ordered goods, certifying that items have been received, recording receipt of items in a diary and issuing thereof to the respective wards.

Insufficient Training to Personnel to manage Provisions

Apart from a hand-over when they were initially assigned the job, no other training was given to the two officers in charge for the ordering and distribution of the food provisions. This resulted in lack of competence by the current staff who also determined when to re-order the food provisions and the quantities to be ordered.

Lack of Control in the Food Provisions Section

Lack of control was evident in the procurement and distribution system of the Food Provisions Section since there was neither a computerised system nor any manual stock records to effectively manage stock of food provisions. The absence of stock records denotes that rules and policies regulating the operation and upkeep of stores were not abided with, increasing the risk of pilferage.

Delivery Notes not provided by Suppliers

No delivery notes were provided by the respective suppliers on certain purchased food provisions, namely bread and fish. As at the date of the audit, only the supplier's invoice was being presented for payment at the end of each month. In the absence of this document, items could neither be checked for accuracy on each delivery, nor could reconciliations be carried out at the month end following the receipt of the invoice.

Discrepancies in the Number of In-house Patients recorded

An analysis of two different records covering a sample period of three months revealed that the actual number of meals issued was consistently higher than the number of in-house patients reported by the Records Section. This implied that excess provision was issued in respect of at least 2,954 overstated patients for full meals (breakfast, lunch and dinner) during the three month sample period.

Control Issues

Lack of Audit Trail

- No documented record of daily meals requirements was available at GGH since orders from the different wards were normally placed by phone. In the few cases where the orders were submitted to the Provisions Section by electronic mail, such correspondence was deleted without keeping a copy.
- Certain wards were not signing the provision sheets acknowledging items and amounts supplied to them.

Menu and Food Portions

The six menus currently in place have been in use for the past thirty-five years and were never reviewed. Such menus did not give any indication of the portion measure that should be served to patients on different diets.

Ration in Wards

- Nine wards were being provided with fixed quantities of sugar, coffee and tea every week, irrespective of the quantities still in store and the in-patients at a given period.
- No stocktaking was carried out in wards to ensure there was no excess stock.
- Inconsistent and on occasions also disproportionate quantities were distributed to various wards when compared to the population in each sector, resulting in consumption per patient rather excessive and unrealistic.

Employees' Entitlement to Meals

- Notwithstanding the fact that it was confirmed that the number of employees entitled to meals was reduced from 110 to eighty-five, records show that ninety employees enjoyed free meals on a daily basis during the three months falling within the audit sample.
- No agreement authorising such entitlement was made available. NAO was informed that staff are entitled to free meals if they are in direct contact with patients and only when they work ten hour shift or longer (breaks included).
- Meals provided to the Adult Training Centre as well as to Sannat Special School (up to June 2008) were not covered by a formal agreement.

Excessive Provision to Dining Room

Provision of food, such as milk and fruit, supplied to the dining room for the ninety employees allegedly entitled to free meals, was at times excessive considering that these supplies were over and above those distributed directly to the individual wards. For example, on a particular day, the amount of fresh milk supplied for that day amounted to 112 cartons.

Shortcomings in the Procurement of Ricotta

- Ricotta was purchased in baskets but was then invoiced by weight, i.e. per kilo. The staff was thus not in a position to challenge the amount invoiced since no record of the weight was taken when ricotta was delivered.
- Kitchen staff explained that twelve ricotta baskets were utilised per week, seven consumed every Tuesday and five every Thursday. It was however noted that ricotta was being purchased on a daily basis.
- Quantities of ricotta baskets procured, as per delivery notes, fluctuated when compared to the requirements quoted by the kitchen staff (twelve baskets per week) as well as from the quantities in the standard order (twenty baskets per week).

Shortcomings in the Procurement of Fish and Bread Provisions

- In the absence of delivery notes as indicated above, the only documentation available for fish and bread received by GGH during the period under review was information noted down on a diary by the two officers. Such records are not considered as reliable evidence due to the fact that delivered quantities were at times being omitted from the diary. Occasionally, weight also differed.

- The lack of records for fish and bread implies that although invoices were being endorsed by a number of officers, none of these officers was in a position to verify the invoices and certify their correctness.

- From the discrepancies encountered during the audit, it was evident that no reconciliations were being carried out between the invoiced quantities of fish and bread and delivered quantities as noted in the diary, indicating that verification was not being performed before effecting payment.

- No fiscal VAT receipt was being submitted by the fish supplier upon receipt of payment. Payments during 2008 amounted to €12,133.

Significant Variances

- Significant variances were observed of quantities of ricotta issued to the kitchen of the GGH when compared to the quantities acquired in the particular month. From testing performed, on average only 40% of the amount purchased was consumed by the kitchen.

- At times, a further discrepancy was noted between the amount of fish delivered and the amount issued in meals.

- Total issues of bread to the wards could not be properly reconciled with the amounts bought for certain days in June and October 2008, being two out of three months in the audit sample.

No Tender / Agreement for the Provision of Dairy Products

Since Malta Dairy Products (MDP) is the sole local provider of dairy products, no tender was issued. However, no agreement between GGH and MDP indicating the rates was traced. Thus irrespective of the quantities ordered, dairy supplies were invoiced and paid at the same price as if they were purchased from a retail outlet by the general public.

Procurement of Medical Supplies

- No stock records were being kept of certain medical supplies. All quantities received were being forwarded to the medical staff upon delivery.

- A requisition for defibrillating pads was drawn up by the "technical expert" who authorised the same request, having the Local Purchase Order (LPO) covering the purchase of these pads dated after the invoice.

- Estimated cost shown on the requisition for same pads was €116.47 while actual cost paid was €403.52.

- From a short visit at the Casualty Section in January 2009, it was concluded that stock with short shelf life is not always issued using the First In First Out (FIFO) method. In fact, one of the five paediatric defibrillating pads in stock had expired in September 2007 while another was about to expire in July 2009. On the other hand, one of the four pads from the last order having a shelf life up to July 2010 was already issued.

Compliance Issues

Bank Guarantees not Provided

The bank guarantee required from the supplier who is awarded a tender, was only provided in five instances out of eleven cases reviewed. In this case, the Government is not protected if the supplier fails to deliver as agreed.

Deferment of Payments for the Purchase of Food Provisions

Payment in respect of invoices for the provision of food pertaining to the last three months of 2007 was actually made in March and April 2008 due to lack of funds. Deficit still prevailed in 2008 since items supplied during October to December for the same year were still pending at year end.

Lack of Physical Stock Verification

Apart from the fact that no stock records are kept, physical stock takes were not carried out, even though this is a requirement of the General Financial Regulations (GFR).

Recommendations

Key Issues

Lack of Segregation of Duties

The procurement process is to be delegated to a number of employees, each held responsible for a portion of the full process. This will enhance internal controls and reduces the risks of error and fraud.

Insufficient Training to Personnel to manage Provisions

The successful management of the system depends on the knowledge, skills, expertise and motivation of the officers as well as regular monitoring by Management. Adequate re-ordering levels and quantities for each stock item are to be set, following pre-defined criteria.

Lack of Control in the Food Provisions Section

Stock Control Regulations are to be rigidly followed. An adequate stock system is to be designed, implemented and consistently updated with actual stock movements. Furthermore, the officer appointed to administer such system is to be held accountable for the management of stock.

Delivery Notes not provided by Suppliers

Emphasis is to be made on the supplier to submit delivery notes upon supply of the product in order to check that quantities ordered tally with those delivered. Additionally, quantities on the invoice can be verified against the delivery notes to ensure that payments are only effected for products actually received.

Discrepancies in the Number of In-house Patients recorded

Food provisions are to be based on realistic figures reflecting the actual number of in-house patients in the respective period. The administration of the system is to be adequately monitored in order to avoid unnecessary costs being incurred on foodstuff.

Control Issues

Lack of Audit Trail

Daily meals' orders are not to be placed verbally but should be properly recorded on a standard template, signed by the officer placing the order, and filed for future audit purposes. Supplies received are to be acknowledged by the recipient's signature following verification of the amounts delivered.

Menu and Food Portions

Management may consider reviewing the current menus, with the assistance of a qualified nutritionist, to reflect a balanced and healthy diet. This also helps to mitigate the risks attached to various health circumstances.

Ration in Wards

Management is to establish proper guidelines of standard quantities to cover the requirements of in-house patients. A system can be implemented whereby supplies will only be provided on a replenishment basis. The Food Provisions Section is to physically verify the amount of stock hoarded in wards on a regular basis.

Employees' Entitlement to Meals

The issue whether medical staff and any other entities are entitled to free meals financed from public funds is to be discussed with the pertinent authorities. If consent is obtained to continue with the current practice, this should be covered by a formal agreement duly stipulating their entitlement.

Excessive Provision to Dining Room

The distribution of provisions is to be reasonably based on the number of employees entitled for free snacks or meals.

Shortcomings in the Procurement of Ricotta

To enable a process of reconciliation between invoice quantities and actual delivery of goods, purchased products should be noted down in the respective delivery notes in the same unit of measure as that being charged on the invoice. Orders reflecting the requirements based on in-house patients are to be prepared and adequately authorised by a responsible officer.

Shortcomings in the Procurement of Fish and Bread Provisions

Upon receipt of the bill, quantities quoted as per invoice are to be reconciled to the delivered quantities to ensure that payment is only made for the amounts actually delivered.

Quarterly returns highlighting suppliers not complying with VAT regulations are to be duly filled and submitted to the VAT Division. If a supplier fails to adhere to VAT regulations, *"the Department should immediately discontinue to purchase from such defaulter"* until the situation is rectified.

Significant Variances

On receipt of procured goods, an officer from stores is to be held responsible to certify the goods received and ensure that the products designated to the kitchen are in their totality being issued to that location. Reconciliations between the quantities of procured goods and those distributed to various sections of the GGH are to be carried out on a regular basis by an independent officer.

No Tender / Agreement for the Provision of Dairy Products

Considering the relatively high monthly consumption of dairy products, an agreement is to be entered into with MDP stipulating reasonable wholesale prices. This should result in considerable cost savings to GGH.

Procurement of Medical Supplies

An officer is to be held responsible to maintain proper stock records of medical supplies. Any receipts or issues of stock are to be recorded via a Stock Control System.

The concept of segregation of duties is to be implemented in the procurement process. A requisition is to be prepared by one person and authorised by another individual. An LPO is to be raised when placing an order, following verification of prices and acceptance thereof. Moreover, since medical supplies can be quite expensive, procurement is to be made after taking into account the amount of stock in hand, the shelf life, frequency of use and delivery period.

Compliance Issues

Bank Guarantees not Provided

A bank guarantee mitigates certain inherent risks arising from the awarding of tenders in case the selected bidder does not deliver up to the standards expected. If no bank guarantee is provided, the supplier's tender should be rejected.

Deferment of Payments for the Purchase of Food Provisions

A forecast of the annual expenditure needs to be objective and realistic. The Ministry is to seek savings from other line items, such as seeking to secure better prices from suppliers as stated above, in order to cover all outstanding debts in the year when they arise.

Lack of Physical Stock Verification

A 100% check of store items at the GGH is to be carried out in the first month of the financial year as required by the GFR and a copy sent to the Auditor General. This exercise also identifies dormant and / or obsolete stock items.

Management Comments

Management upheld most of the observations and accepted a number of NAO's recommendations.

It was however indicated that following the phasing out of the 'Storit' system, the GGH procured its own IT stock system in 2006. However its implementation was halted by the then MITTS Ltd. due to several issues, amongst others, the issue of security. Discussions went on up to early 2009, but the issues still remained unsolved. In the meantime, Management has issued instructions for the keeping of a manual system and stated that an adequate Bin Cards System is now in place.

Reservations were expressed on the following issues:

- Significant variance in Food Provision: Management argued that around 60% of the total ricotta procured is supplied to the kitchen while the remaining 40% is delivered to the wards and distributed to patients for breakfast. This statement could not be verified since, though requested by NAO, no records confirming the distribution to the wards were made available.

- Shortcomings in the Procurement of Fish and Bread: Management stated that the discrepancy between the fish supplied and that issued to the kitchen is due to the fact that in infrequent occasions fish supplied has the head still attached so the supplier is allowed to supply to the hospital a larger quantity than that required. This argument cannot be accepted since evidence collected by NAO indicated plaice and tuna steaks.

Issues listed hereunder were not properly addressed, or not addressed at all by Management:

- Shortcomings in the procurement of ricotta.

- Discrepancies in the number of in-house patients recorded.

- Excessive provisions to dining room.

- Procurement of medical supplies.

- Employees' entitlement to meals.

As regards catering service at GGH, Management declared that every effort is being made to farm out the catering services at GGH as an extension of the Catering Contract issued for Mater Dei Hospital since this would eliminate many of the issues of concern and risks reduced accordingly.

Home Help/Care Service Scheme

Background

The scheme is designed to provide the elderly, or persons with special needs, with basic domestic help and personal care at their homes. The primary aim of the scheme is to allow recipients of such service to continue living as independent persons in their private residence, thus averting or delaying the demand for long-stay state residential care.

As at January 2008, nintey-five Part-time Social Assistants (PTSAs) out of a total of 112, were providing service to 847 recipients in 669 households consisting of 178 couples, 412 single females and seventy-nine single males.

By the end of December 2008, sixty-four other households were approved and allocated a total of 210 hours, however they were still on the waiting list as no PTSAs were available.

Audit Scope and Methodology

The main scope of the audit was to verify that expenditure was appropriately processed and recorded, thus ensuring efficient administration of public funds. An assessment of internal controls and their operation, as well as an evaluation of the effectiveness of scheme management activities, were also within the remit of the audit. Observations incidental to the audit were made on inefficiencies that were noted in the management and administration of the scheme.

The conclusions and recommendations in this report were based on an analysis of the documentation obtained as well as interviews carried out with officers from the Care for the Elderly Section within the Ministry for Gozo and the Welfare Committee within the Ministry of Health, the Elderly and Community Care (Malta).

Key Issues

Sustainability of the Scheme

Current available resources at the Ministry for Gozo have been utilised to their maximum. As at end 2008, households on the waiting list totalled to sixty-four as no PTSAs were available. Moreover, the fact that the Board does not take into consideration the availability of resources when deciding whether service is to be allocated or not, is leading to a situation where clients are being informed that they have been allocated a number of hours but they do not receive the service due to unavailability of staff.

Fixed Nominal Fee

A weekly nominal fee of €2.33 and €3.49 is charged to single and married couples respectively. This fee applies irrespective of the hours allocated to the beneficiary, as well as the individual’s income and/or wealth.

Lack of Audit Trail

All records provided were manual and these lacked audit trail. Four registers containing relevant details did not bear any unique reference linking all the records to enable transparency of the whole process. At times, information was also inconsistent from one register to the other. Clients attached to a particular PTSA could not be clearly identified from the records. Lack of audit trail also hindered independent verification to ensure that clients who passed away have been struck off the list and no payments were issued to PTSAs in respect of such clients.

Control Issues

Opportunities for improvement were identified in the following areas:

Payment for Hours not according to Board's Allocation

From cases reviewed, it was noted that hours recorded in attendance sheet and subsequently paid for, were not in accordance with the hours allocated by the Board.

- Four hours weekly allocated to a client in the audit sample in March 1999, were reduced to three in September of the same year. Notwithstanding this, at least during all of 2007 and 2008, the PTSA responsible for this client was paid for four hours per week.
- Another PTSA was also overpaid for hours over and above those allocated by the Board.

Supervisors overtaking Board's Role

In two instances, it was noted that the respective Supervisors considered the case as urgent and allocated a PTSA without having the Board's authorisation. Service started being given to the clients before the Board reviewed the cases and reached its decision.

Limited Controls over Attendance Sheets

Controls exercised over attendance records were not effective enough to eliminate occurrence of errors. Moreover, the fact that only the name of the client was recorded on the attendance sheets, during the course of the audit reliance had to be placed on Supervisors in those cases where clients bear the same name.

Computation of PTSAs' Salaries

- All computations were calculated manually. Data was then inputted in an Excel Sheet and forwarded to Treasury. However, the computerised data was overwritten every month and not accessible thereafter.
- In one of the payrolls reviewed covering the nine PTSAs in the audit sample, an error was identified in the calculation of the Cost of Living Adjustment (COLA) portion resulting in an overpayment, while in another two instances, the hours paid for exceeded those recorded by the PTSAs in the attendance sheets.

Limited Communication with other Entities

- No reference number was used in the forms submitted to the Welfare Committee and the Social Security Division (SSD). Thus, any lost forms would remain undetected.
- A reconciliation of additions and terminations of beneficiaries was not being carried out between the Elderly Section within the Ministry for Gozo and the other two entities.
- In eighteen instances out of a sample of twenty-nine, delay in action, from both the SSD as well as the Gozo Section, resulted in either lack of or extra deductions being effected from the beneficiaries' social benefits. This led to additional administrative work by the SSD to effect the necessary amendments. Moreover, in one of these amendments a client was given a refund for a period when she was still receiving the service.

Cases not traced in the Social Security Division's Records

Three clients were not included in the records provided by the SSD. This implies that no deductions were effected for the service they received.

Lack of Internal Policies and Procedures

No guidelines and procedures were in place at the Elderly Section in Gozo with respect to administrative and procedural issues in connection with the Scheme. This gave rise to inconsistent approaches applied for similar situations.

Service Allocation Criteria not adhered to

Notwithstanding the fact that age was the only criteria to be eligible for the scheme, in certain instances this was not being observed. A number of cases were encountered where the client's age was less than that stipulated.

Limited Home Visits

In the absence of a systematic plan to execute verification visits to clients in receipt of the service, the beneficiaries were selected randomly by the Supervisors concerned. It has been observed that in certain instances no supervision has been carried out since 2005.

Service Discontinuance

When a client was in hospital or passed away, the onus of informing the Section lied with the PTSA in charge or the relatives of the client. Independent verification to ensure that clients who passed away were removed from the list and that no payments were issued to PTSAs in respect of such clients, could not be confirmed due to the fact that from the death reports, clients who were receiving the Home Help Service could not be identified for audit purposes.

Sick Leave and Vacation Leave Records

- Sick and Vacation Leave records were kept in both manual and computerised formats. However, a number of discrepancies were noted between the two records.
- Details on the manual records were incomplete. At times, only the date was written without any reference to which month it refers to.
- Manual record entries were being recorded in pencil with the consequence that such entries were barely legible after one year.

Use of Information Technology (IT) Equipment

- There were only two computers in the Care for the Elderly Section. This was resulting in staff allocating most of their time to update manual records rather than concentrating on the delivery and monitoring of the service which are the main roles of the PTSAs.
- It seems that a request was made for new IT equipment, however the same request was not presented in an appropriate way. It was also not clear to whom the request was made and when it was raised.

Uncertainty over Completeness of Revenue from the Scheme

- The Elderly Section had no control over revenue and was not aware whether the necessary nominal fees paid by the beneficiaries were being collected.
- Revenue arising from Gozo clients, collected in terms of social benefits deductions, could not be separately identified by the SSD. Thus, completeness of revenue could not be ascertained.
- The Welfare Committee bills clients for a whole year in arrears. Invoices for 2007 were only issued during the second quarter of 2008. In February 2009, clients had not yet been invoiced for service received in 2008.
- As at time of audit, the debtors registered with the Welfare Committee in respect of Gozitans benefiting from the scheme totalled €1,270 relating to nine individuals. At least, €314 of this amount may be considered as bad debts since two of the nine individuals passed away, one in 2006 and one in 2007. During 2008 the Welfare Committee was still submitting the bills to these deceased clients for amounts owed to Government in arrears.
- Revenue was not being consistently treated. Deductions from social benefits were passed to the Elderly Department (Malta) while fees paid to the Welfare Committee were deposited in a Below-the-Line Account titled Funds of the Welfare Committee.
- As already indicated, three cases were not traced in the records submitted by the SSD indicating that no deductions were effected.

Compliance Issues

Bonus and Income Supplement

- The computations of both the Bonus and the Income Supplement were not in accordance with instructions laid down in the Public Service Management Code (PSMC). The denominator being applied in the calculations differed from that prescribed in the foregoing regulations.
- The period cut-off to calculate both the Bonus and the Income Supplement also differed from the respective stipulated time periods.

Unapproved Vacation Leave Requests

Relevant provisions outlined in the PSMC in relation to the approval and certification of Vacation Leave requests, were not abided with.

Recommendations

Key Issues

Sustainability of the Scheme

Management may consider transferring the day-to-day administrative functions from PTSAs and focus on identifying and implementing effective strategies aimed towards ensuring continued service sustainability. Further consideration is also to be attributed to change management as well as the monitoring and control functions.

Moreover, resource identification, approach and appointment by Supervisors is to be carried out before the Board's review and not afterwards. In their assessment, Supervisors need to clearly distinguish whether support service is short term or anticipated to be long term and hence ongoing. Indication is also to be given as to whether a PTSA is available for the case and the maximum number of hours of service that may be performed by available resources.

Fixed Nominal Fee

Tools such as means testing may be adopted in the adjudication process. Rates could be set according to one's income and/or wealth, expecting well-to-do individuals to pay for the service or at least shoulder part of the costs.

Lack of Audit Trail

The current process ought to be reviewed and enhanced in order to adopt more effective resources and procedures with embedded controls. One electronic database containing all the information in separate fields would enable the Department to operate much more efficiently, as well as provide greater transparency and effective control.

Control Issues

Payment for Hours not according to Board's Allocation

A measure that may be adopted involves the upkeep of formal documentary evidence of independent checking performed before payments to PTSAs are made. Such checks ought to be backed up by appropriate counter signatures to ensure accountability and validity of records.

Supervisors overtaking Board's Role

The role of the Supervisors is to be clearly specified and their duties may be outlined in a formal 'Job Description'. It is to be emphasised to the Supervisors that they may be held personally liable, from a financial aspect, in connection with any decisions taken beyond the powers delegated to them.

Limited Controls over Attendance Sheets

The Department may consider shifting the responsibility of recording attendance sheet details (i.e. name of client and time of service) from PTSAs to Administrative staff or Supervisors. Such measure will enable the Department to exercise more control over attendance sheets and reduce the possibility of errors.

Computation of PTSAs' Salaries

Bureaucracy in administration may be minimised through appropriate use of Business Process Improvement and technology so that resources can be re-directed towards front line delivery. Salary computations may be calculated electronically, thus reducing the possibility of errors arising from a manual system. This will render the process more effective. Moreover, data is not to be over-written but stored with proper backups taken on a regular basis. Furthermore, any overpayments are to be recouped.

Limited Communication with other Entities

Use of more efficient means of communication such as electronic mail is recommended. While being quicker, more efficient and reliable, it also means a reduction in postage costs. Moreover, regular reconciliation to enhance controls and enable completeness of records is also recommended. Furthermore, the Division is to try to recoup any overpaid refund.

Cases not traced in the Social Security Division's Records

Action is to be taken by the SSD to ensure that deductions are effected as soon as the notification letter is received.

Lack of Internal Policies and Procedures

One set of guidelines and procedures may be drawn up ensuring transparency and accountability. Once implemented, compliance with such guidelines is to be monitored regularly. This document could be of great assistance to new recruits and will enable consistency in the procedures adopted.

Service Allocation Criteria not adhered to

Uniform eligibility criteria are to be drawn up and approved by the Board for the applicants' admission to the service and subsequently applied across all client groups. The eligible clients need to have 'vulnerabilities which render them in need of support services'.

Limited Home Visits

A formal plan is to be drawn up ensuring that at least one inspection is carried out in every household on an annual basis. These verifications may be governed by a Standard Operating Procedure, clearly indicating what checks are to be performed during an inspection. The outcome of the inspections may then be recorded in a standard report endorsed by the Supervisor performing the checks.

Service Discontinuance

A system is to be established in order to ensure that checks performed by Supervisors are more effective and at the same time enabling independent verifications by third parties. Once a database is set up, a client in the 'death report' may be easily traced by ID card number and marked in the database as deceased, with reference to the 'death report'.

Sick Leave and Vacation Leave Records

In order to be reliable, information is to be consistent in whichever form it is being maintained.

Use of Information Technology (IT) Equipment

A formal request is to be made to the Ministry, to provide them with adequate IT equipment, highlighting the opportunities for greater efficiency that IT provides and how this can help improve the Section's business processes. In the meantime, better use of the available equipment is recommended.

Uncertainty over Completeness of Revenue from the Scheme

Regular reconciliation on the revenue collected is to be carried out between the Care for the Elderly Section in Gozo and the Welfare Committee.

The former may consider terminating the service to clients who do not pay or have outstanding bills with the Welfare Committee. Provided that the resources are still available, the service may resume once all amounts due are settled, evidenced by a copy of the receipt.

The Welfare Committee may also consider raising invoices and collecting fees due in advance, say each quarter.

Compliance Issues

Bonus and Income Supplement

Computation of Bonus and Income Supplement is to be calculated in accordance with instructions laid down in the PSMC covering the correct period as indicated in the foregoing regulations. Any adjustments are to be rectified in the next salary.

Unapproved Vacation Leave Requests

Management is recommended to issue a Circular/Memo reminding all staff members of their obligation to seek approval/authority prior to availing themselves of Vacation Leave.

Management Comments

Management upheld NAO's findings and will be taking the necessary actions in order to implement a number of recommendations. However, certain reservations were expressed on the issues listed hereunder stating that they lacked the necessary resources:

- Lack of Audit Trail
- Limited Controls over Attendance Sheets
- Limited Communication with the Welfare Committee and SSD
- Insufficient Home Visits
- Service Discontinuance

A number of other issues were not properly addressed by Management, who failed to indicate what actions will be taken to address the shortcomings on:

- Payment for Hours not according to Board's Allocation
- Bonus and Income Supplement

As regards 'Lack of Internal Policies and Procedures', Management stated that on several occasions, assistance from the Office in Malta was sought but the former informed them that they also lacked such information. The 'Inconsistent Procedures' were reiterated to be due to the individual needs of the clients, thus hindering adherence to stipulated guidelines.

Management declared that the recruitment of new PTSAs, to partly mitigate the issue of the Scheme's sustainability, was stalled by the Management and Personnel Office (MPO).

NAO also acknowledges that it is beyond the control of Management to implement the recommendation related to the observation entitled 'Fixed Nominal Fee' notwithstanding that Management upheld the observation and agreed to the suggestion.

Ministry of Health, the Elderly and Community Care

Mater Dei Hospital Loaning Out/In of Medical Equipment to/from Private Hospitals and Clinics

Introduction

The National Audit Office (NAO) reviewed the current procedure for the loaning out of medical equipment from Mater Dei Hospital (MDH) to private hospitals and clinics and conversely the loan of equipment to MDH from private hospitals and clinics. In both cases, such use of equipment is free of charge.

Medical equipment comprises all medical devices connected to patients as part of their treatment and care in hospitals and clinics, and medical devices used for diagnostic and laboratory purposes. MDH holds a vast array of medical equipment, ranging from less expensive items, such as stethoscopes and blood pressure gauges, to complex and costly medical equipment such as Magnetic Resonance Imaging (MRI) scanners and Computed Tomography (CT) scanners. Indeed, medical equipment represents a substantial asset for MDH which needs to be managed efficiently and with due diligence and care.

Although it is pertinent to point out that this Office does not intend to enter into the policy issue of the practice of loaning out of medical equipment from the state hospital to private hospitals and clinics, it is felt that clear responsibility and accountability for medical equipment loaned out must be delineated preferably in writing to ensure a transparent and accountable procedure. NAO strongly feels that the loan of medical equipment from MDH to private hospitals and clinics must not negatively affect the level of service at MDH.

Scope of Audit

NAO limited the scope of this audit to:

a. determine the incidence of loans of medical equipment from MDH to private hospitals and clinics and *vice-versa*;

b. review the current procedures for the loaning out/in of medical equipment; and

c. ascertain whether the loan of medical equipment is affecting the level of service and waiting lists at MDH.

Observations outlined in this report are based on data in respect of 2008.

NAO did not examine strategic aspects relating to medical equipment such as acquisition and procurement, management, usage, maintenance, safety, and inventories of medical equipment held at MDH.

Moreover, NAO did not enquire into the matter with private clinics as this does not fall within this Office's remit.

Limitations on Scope of Audit

This Office attempted to determine whether the loaning out of medical equipment by MDH negatively affected waiting lists and medical services given by MDH. In view of the extremely complex issues involved, some of which are referred to hereunder, NAO was not in a position to correlate the loaning out of medical equipment with waiting lists at MDH and to determine the relevance and effect, if any, that the loaning out of medical equipment by MDH has, as waiting lists are influenced by factors both of a macro and micro level, such as:

- an aging population;
- increased public expectations;
- the availability of theatres and hospital beds;

- number of consultants and nursing staff;
- length of patient stay in hospital;
- seasonal fluctuations; and
- clinical priorities.

Currently, there are no published outpatients/inpatients waiting lists and no effective validation procedure to ascertain the accuracy of such lists.

Findings

Incidence of Loaning Out/In

During 2008, MDH loaned out medical equipment on seventy-four occasions to five private hospitals and clinics, having two private hospitals enjoying an aggregate of 90.5% share. Total purchase cost of equipment loaned out from MDH during 2008 amounted to €206,974, as detailed further hereunder:

Private Hospital/Clinic	Medical Equipment Loaned Out	Date/s
A	Laminectomy Access	03, 26/01/2008 07, 14, 21/02/2008 20, 27, 29/03/2008 17/04/2008 03, 08, 15, 22, 24, 31/05/2008 05, 28/06/2008 24/07/2008 18/09/2008 25, 28/10/2008 06, 29/11/2008
C	Dental Surgical Pack	04, 11, 25/01/2008 11/04/2008
B	Laminectomy Access	03/04/2008 10, 29/07/2008 21, 30/08/2008 04, 16/09/2008 04/12/2008
B	Maxillo Facial Plating	08/02/2008 20, 30/04/2008
A	Maxillo Facial Plating	20/02/2008
B	Roller Pump	07/03/2008
B	Interlocking Nails	13/03/2008 22/07/2008 02/10/2008 19/11/2008
B	Total Knee Instruments	21/03/2008
B	CABG Pump Tray	25/03/2008 09/06/2008 14/06/2008 03, 24/11/2008
A	Shaving Unit	26/03/2008
B	Acetabular Reamers	22/04/2008 05/09/2008
D	Rigid Cystoscope	25/04/2008
A	Blood Warmer	29/04/2008
B	Radcal Kit	29/04/2008
B	ECT Machine	23/05/2008
B	ACT Machine	16/06/2008

D	Peripheral Nerve Stimulator	16/06/2008
B	Flexible Biopsy Forceps	20/06/2008
A	Dermatone	30/06/2008
B	Otoplasty Set	30/06/2008 15/07/2008 25/08/2008 02/12/2008
A	Cystoscope	21/07/2008
E	Hysterectomy Set	05/08/2008
B	Intubating Broncoscope	06/08/2008
A	Mechanical Lithotripter	29/08/2008
A	Duodenoscope	06/09/2008
B	Vitrectomy	17/09/2008
A	Cement Gun	31/10/2008
A	Neonatal Cystoscope	10/11/2008
B	Cudwell Luc Set	09/12/2008

Source: Ministry for Social Policy (Health Care Services)

During 2008, MDH borrowed the following medical equipment from the same two private hospitals enjoying the largest share of medical equipment loaned out from MDH:

Private Hospital/Clinic	Medical Equipment Loaned In	Date/s
B	Orthopaedic Shaving Unit	01/02/2008
B	Uretheroscope	10, 15, 20/03/2008 28/04/2008
B	Diathermy Argon	14/04/2008 26/05/2008 27/08/2008 31/10/2008
A	Orthopaedic Mini Fragments	06, 20, 25/11/2008
B	Orthopaedic DHS Instruments	22/12/2008

Source: Ministry for Social Policy (Health Care Services)

Repeated Requests

The medical items most frequently loaned out by MDH were the following:

- Laminectomy access.
- Dental surgical pack.
- Interlocking nails.
- CABG pump tray.
- Otoplasty set.

On its part, the items most frequently borrowed by MDH were diathermy argon, uretheroscopes and orthopaedic mini fragments.

NAO acknowledges that excessive provision is wasteful. On the other hand, under-provision may negatively affect the effective treatment of patients. This Office thus questions the validity of repeated and frequent loaning out of the same medical equipment to particular hospitals/clinics. This practice seems to disprove the assertion made by Health officials that medical equipment is loaned out only in emergencies, such as in the case of breakdowns or malfunction of medical equipment.

Cost of Medical Equipment Loaned Out

The cost of medical equipment loaned out, and the Departments within MDH making use of such equipment, is indicated hereunder:

Equipment	Cost €	Department/s generally using equipment
ACT Machine	36,183.29	Cardiac Theatres
Interlocking Nails	27,906.00	Orthopaedic Theatres
Duodenoscope	22,700.00	Endoscopy
Radcal Kit	15,722.00	Radiology
Shaving Unit	15,617.36	Orthopaedic Theatres
Intubating Broncoscope	15,000.00	Theatres
Total Knee Instruments	10,465.00	Orthopaedic Theatres
Cystoscope	10,200.00	Endoscopy
Mechanical Lithotripter	8,618.00	Urology Theatres
ECT Machine	7,877.00	Psychiatric Unit
Maxillo Facial Plating	6,990.00	Theatres
CABG Pump Tray	6,512.00	Cardiac Theatres
Vitrectomy	2,790.00	Ophthalmic Theatres
Laminectomy Access	2,700.00	Theatres
Rigid Cystoscope	2,500.00	Endoscopy
Dermatone	2,300.00	Theatres
Hysterectomy Set	2,300.00	Gynaecology Theatre
Neonatal Cystoscope	2,150.00	Endoscopy
Dental Surgical Pack	2,006.00	Dental Theatres
Blood Warmer	1,927.88	All Theatres/Wards
Acetebular Reamers	1,400.00	Orthopaedic Theatres
Cudwell Luc Set	700.00	ENT Theatres
Otoplasty Set	699.00	ENT Theatres
Peripheral Nerve Stimulator	500.00	Anesthesia Department
Roller Pump	500.00	Cardiac Theatres
Cement Gun	420.00	Orthopaedic Theatres
Flexible Biopsy Forceps	290.00	Endoscopy

Source: Ministry for Social Policy (Health Care Services)

Even though the equipment loaned from MDH consisted mainly of relatively individual low value items, these are nonetheless important to the medical and clinical services given by MDH and collectively may comprise a substantial amount in terms of initial capital outlay.

The cost of the medical equipment loaned to MDH and the reasons cited for the need to borrow such equipment is indicated overleaf:

Equipment	Cost €	Department/s generally using equipment	Reasons why MDH does not have equipment on inventory
Diathermy Argon	33,000.00	Theatres/Endoscopy	Currently unavailable – in the process of being procured
Orthopaedic Shaving Unit	15,617.34	Orthopaedic Theatres	Equipment was being repaired
Orthopaedic DHS Instruments	11,000.00	Orthopaedic Theatres	Equipment was being repaired
Orthopaedic Mini Fragments	6,843.00	Orthopaedic Theatres	Equipment was being repaired
Uretheroscope	1,918.00	Urology Theatres	Equipment was being repaired

Source: Ministry for Social Policy (Health Care Services)

In the case of the Diathermy Argon, MDH stated that this was in the process of being procured, although by end 2008 this equipment had not yet been purchased. Lack of finances was cited as the reason for the delay.

The need for medical equipment, whether as a result of newer technologies or for replacing defective or obsolete equipment, and related financial aspects, will undoubtedly remain topical subjects for MDH. MDH should therefore prioritise what equipment to procure so as to maximise the return on expenditure, and reduce to the barest minimum possible procuring equipment which remains idle.

Weaknesses in Requests for Loans of Medical Equipment from MDH

According to MDH, requests for medical equipment by private hospitals and clinics must adhere to the following procedure:

- *"Request for equipment from private hospital/clinic. Confirmation by mail is always a must.*

- *Checking if the equipment required is available from Mater Dei Hospital end.*

- *Confirmation or unavailability of the equipment will be given to private hospital/clinic.*

- *Issuing for three sets of paper for loaning to be done.*

  A first form is kept by Material Management personnel.
  A second is given to private hospital/clinic.
  A third form is given to the Mater Dei Department were the equipment will be loaned from.

- *All papers must be signed by the private hospital/clinic personnel who will be collecting the equipment and delivered to.*

- *The returned equipment will then be returned back from the department originally taken from.*

- *The equipment will than be examined by Mater Dei personnel to check that all instrumentation is returned and no damage was sustained during the loaning time.*

- *If instrumentation/equipment on loan sustains damages and needs repairs, expenses to repair are shared equally."*

Although the above basic procedure is followed for the loaning of medical equipment between MDH and private hospitals and clinics, this Office took note that:

- the above procedure is not officially formalised as a signed document binding MDH and the private hospitals and clinics involved;

- requests to loan medical equipment from MDH are made on loose, unnumbered forms. No sequential, centralised register is maintained, preferably by the Materials Management and Logistics Department, at MDH. Additionally, the forms used lack essential information such as the officer authorising the loan and date of return;

- the Head of Department generally verbally authorises the loan of equipment. The lack of written evidence may detract from the importance attached to the assurance required that such loaning out will not negatively affect the provision of services at MDH; and

- the current procedure does not necessitate written evidence that the equipment loaned out was returned in good working order. On its part, the Materials and Logistics Directorate at MDH does not follow up on returned equipment stating that it is assumed that the departments involved will undoubtedly inform the Directorate if problems with returned equipment arise.

Lack of a Formal 'Loaning Protocol'

Except for the procedure documented above and an informal *"gentleman's agreement"* verbally agreed to with Hospital B, no formal "Loaning Protocol" exits regulating all aspects of the loan of medical equipment from/to MDH with the various private hospitals/clinics, thus leading to:

- uncertainty as to who is officially authorised to approve the loaning out of medical equipment;
- a lack of documented evidence that loaning out will not impinge on the services provided by MDH;
- stipulated periods for the return of medical equipment loaned;
- a deficient and undocumented procedure to ensure that medical equipment loaned out is returned in good working order; and
- an unclear procedure as to what action should be taken when equipment is returned damaged.

Damages to Medical Equipment Loaned

When loaning out, there is a higher risk of damage to medical equipment which could give rise to, or has the potential to, produce unexpected or unwanted effects involving the safety of patients, users or other persons.

Despite the fact that incidents where, according to the Ministry for Social Policy, medical equipment on loan is damaged are rare, there are no documented procedures which indicate what action should be taken in such instances. In the verbal agreement MDH has with one of the private hospitals, it was decided that when medical equipment on loan from/to MDH develops faults, the expense of repair is borne equally between MDH and the private hospital. Correspondence received from the Ministry responsible for Health indicated that there was only one incident where medical equipment - a high precision dissecting forceps in the dental surgical pack - was returned damaged to MDH. In this case, the private clinic to which it was loaned assumed full responsibility for repair/exchange of the equipment in question.

Safety

The loaning in of medical equipment raises issues related to safety both as regards employees as well as patients. The current procedure for the loaning in of medical equipment lacks the necessary documented assurances that regular maintenance on equipment borrowed was properly carried out.

When borrowing medical equipment, hospitals and clinics - irrespective of whether state-owned or private - must ensure that both employees as well as patients are not exposed to risks beyond those inherent in the clinical treatment they are receiving. Effective maintenance is essential if medical equipment is to function as intended and to prevent breakdowns that could be harmful to the users of such equipment.

Recommendations

Although the borrowing of medical equipment is a way of increasing and/or improving access to medical equipment, there may be certain disadvantages inherent in this practice, predominantly to MDH as the major lender of such equipment. MDH should do its best to mitigate such disadvantages. It should also ensure that such loaning is duly managed and that it does not negatively impact the level of service provided by the state hospital.

To this effect, NAO recommends that:

a. MDH and private hospitals/clinics adopt a formal lending protocol with clearly set out obligations for both lenders and borrowers, thus benefiting from:
    - a co-ordinated policy and a consistent approach with regard to lending/borrowing; and
    - better communication between the parties involved.

b. The lending protocol should clearly set out the procedure to be followed in instances where medical equipment on loan sustains damages or develops faults subsequent to its return to the lender. Despite assurances that such incidents rarely arise, MDH must ensure that it does not incur extra expenses for repair.

c. On its part, MDH must:
    - ensure that the loaning out of medical equipment and the duration of loans are kept to the barest minimum;

- allocate clear responsibility and designate officers who can authorise the loaning out of medical equipment and certification on return;

- adopt documented procedures, requiring the signature of the Head of Department or designated officer from where the equipment is loaned out, which clearly indicate that such lending will not negatively affect clinical demand and the level of service at MDH;

- retain a sequential numbered register of requests received;

- take account of any possible safety implications when lending and borrowing medical equipment; and

- enhance controls over the issue and receipt of medical items on loan, including clearly indicated return dates.

d. MDH is to designate key personnel to be responsible for the loan of medical equipment and ensure its return. Officers responsible for loaning out medical equipment must:

   - retain records of medical equipment loaned out;

   - follow up on medical equipment to ensure it is returned; and

   - check the condition and function of returned medical equipment.

As much as possible, MDH should not rely on the loaning in of certain medical equipment being repaired to ensure the availability of related medical care given by the state hospital.

Elderly and Community Care Department
Home Care/Help Services Scheme

Background

The Home Care/Help Services (HCHS) scheme offers non nursing, personal help and light domestic work to elderly or persons with special needs. The aim of the service is to allow the beneficiaries to continue living in their community as independently as possible and to avert or delay the demand for long-stay residential care by providing the required support in the client's own home. No Capital or Means tests are involved to assess the financial position of applicants.

Audit Scope and Methodology

The objectives of the audit were to verify that the procedures adopted in awarding the HCHS were in line with the Department's guidelines and legal regulations, ensure that adequate monitoring and administration was being carried out on beneficiaries entitled to such service, verify that funds subsidised for HCHS were being adequately utilised and verify that appropriate and timely collection of fees from beneficiaries was being made.

An overview of methods and procedures in place was obtained by means of a meeting held with the Chairman of the Internal Board of Allocation of Services. Testing, to ensure that appropriate monitoring and administration procedures were being adopted by the Elderly and Community Care Department (ECCD), was mainly performed on:

- ten out of 494 (2.02%) new services approved during 2008;
- eighteen out of forty-five (40%) temporary approvals granted between October 2007 and December 2008;
- ten out of 214 (4.67%) terminated services during 2008; and
- ten current services.

Eleven Part Time Social Assistants' (PTSAs) personal files were tested to ensure that hours allocated by the Board tallied with hours worked as per attendance sheets. Additionally, an income figure, based on the HCHS beneficiaries' database, was calculated and compared with the actual HCHS income received.

Key Issues

Lack of Means Testing

It was observed that the HCHS is offered to elderly and persons with special needs irrespective of their capital assets or the level of income/other benefits earned. This may lead to individuals with a high level of capital assets or income, who may be making use of this service mainly for domestic chores in view of its low cost.

Fixed Rates of Payment irrespective of Service given

The weekly rates of pay for rendering of services are fixed at €2.33 for a single individual and €3.49 for more than one individual in the same household, irrespective of the number of family members, and/or the number of weekly hours of service provided to that household. The current rates are not realistic and a fixed nominal fee may create further strains on current financial and human resources as available PTSAs may be allocated to well-to-do individuals.

Deficiencies in Current Procedures and Recording of Data

Following an analysis of records of active beneficiaries and terminated cases, it was noted that:

- there is no audit trail in place as the data is continuously being updated and overwritten, with no periodic backups being taken;
- termination records did not contain basic information such as termination dates and reasons for such terminations;
- records of Board approved cases which are pending the provision of service were not readily available and were manually compiled by each Supervisor specifically for the audit; and
- information used to compile and update the above mentioned records is derived from Supervisors' individual manual records in view of unavailability of IT equipment.

This may result in less harmonisation of administrative procedures performed by the Supervisors and may create further difficulties in cases of replacement or handovers between Supervisors.

Control Issues

Opportunities for improvement were identified in the following areas:

Misallocation of Resources

It was observed that the majority of funds budgeted for HCHS are not being used for their original intended purposes, leading to a shortage of funds for the recruitment of new PTSAs and adequate provision of HCHS. The following was observed:

- Out of salaries paid to PTSAs during April 2008 from HCHS funds, €191,871 (55%) were paid to PTSAs who provide their services in Ministries or ECCD Departments other than HCHS. From these, only €6,388 (3%) pertaining to PTSAs assigned to other Ministries were refunded.
- As at February 2009, 125 households did not have a specific PTSA allocated to them. Out of these, twenty-three households were still pending the provision of the service, whilst the remaining cases were being provided service with a temporary Reliever.

Discrepancy in Home Care Help Service Income

A test was performed whereby the actual HCHS fees collected during 2008 through Social Security Division (SSD) and Welfare Committee, amounting to €381,100, were compared to a theoretical income figure based on applicable fees for each household as per HCHS database, which amounted to €348,800. In view of the resulting significant difference, this test casted doubt on the reliability, relevance and accuracy of HCHS beneficiary database and/or the information provided by SSD.

The matter was discussed with the Chairman of the Internal Board of Allocation of Services, who commented that the HCHS beneficiary database *"is up to date and reliable. Only 60 cases were not found in our records, 30 of which were new approvals not yet registered. Thus this clearly indicates that the other 30 missing records was not the reason for the huge discrepancy between the amounts collected through Social Security and the amount when compared with our data base"*.

Continuation of Temporary Services

In view of the system being completely manual and the fact that it is the Supervisors' role to keep note of the termination dates, the agreed upon termination date is at times overseen. This creates the risk that services are continued for a number of months to follow, without being covered with the Board's approval. Such services could have instead been allocated to other applicants to whom service was approved but are awaiting a PTSA.

Weakness in Collection of Fees by Social Security Division

Following a review of HCHS payments abated from beneficiaries' Social Security Benefits/Pensions through the Social Assistance Benefits Scheme (SABS), the following observations were made:

- In six out of forty-one cases, no deductions were effected throughout the duration of service.
- In two out of forty-one cases, deductions were not effected in respect of initial arrears payable from date of commencement of service up to the date when payments started being effected regularly.
- In one out of forty-one cases, deduction effected was erroneously calculated.
- In thirteen out of forty-one cases, considerable time elapsed before payment instructions for commencement or termination of service were effected.

It was observed that the majority of these cases arise either due to oversight by SSD or communication problems between the Division and the Department. These weaknesses may eventually result in deferring or even loss of Government revenue collected and an accumulation of arrears.

Arrears due to the Welfare Committee

As at December 2008, Committee debtors for HCHS fees in arrears amounted to €23,643. Service to these beneficiaries is still being provided on a regular basis. This amount is significant when considering that actual HCHS revenue collected during the year by the Committee amounted to €16,078. From an ageing analysis of approximately 75% of these arrears, it was noted that:

- 28% - €6,665 (forty-seven beneficiaries) have been due for one year;
- 14% - €3,224 (twelve beneficiaries) have been due for one to two years;
- 15% - €3,498 (nine beneficiaries) have been due for two to three years;
- 10% - €2,367 (four beneficiaries) have been due for three to four years;
- 5% - €1,096 (one beneficiary) have been due for six years; and
- 4% - €1,006 (one beneficiary) have been due for more than eight years

Limitations in Assessments and Approvals of Services

- It was observed that Social Worker home visits and subsequent assessments are only carried out for new cases or upon reported or known changes in beneficiaries' circumstances. Thus, beneficiaries' conditions and/or circumstances might change without their current needs being reviewed. One instance was noted where no home visit had been carried out since the original assessment in April 1991.
- No guidelines exist regarding the allocation of hours of service to beneficiaries by the Board. The process is subjective to each individual case. It is not clear as to the weighting given by the Board on the number of hours of service recommended by the Social Worker performing the home visit and assessment. Consistency of decisions cannot be ascertained and there is the risk that Social Worker assessments are being overlooked or beneficiaries being awarded a minimum number of hours.

Incompleteness or Inadequacy of Documentation

While reviewing new cases approved during 2008, it was observed that:

- three instances out of ten cases examined were noted where no Social Worker assessment was found in the beneficiaries' personal file; and
- one instance out of ten cases examined was noted where the Medical Report submitted with the application was completed and endorsed by a Medical Doctor who was a relative of the beneficiary.

Shortcomings in Board Minutes Approvals

- Two instances were encountered where the approval on a permanent basis for the extension in hours of service provided was found minuted in the beneficiaries' personal file, but could not be traced to the signed Board minute approvals. Another instance was observed where approval for deduction of hours of service provided was found in beneficiary's personal file, but could not be traced to board minutes.
- Board minutes approvals for the provision of service on a temporary basis do not specify whether upon expiry of such temporary period, the service is to be reassessed by the Board, or whether it is to be automatically terminated. This information is only documented in each beneficiary's personal file, which is not verified and endorsed by all Board members.

These observations may be due to the Board members' decision being overridden or human error risk factor. Until such cases are reassessed, the provision of service may continue unnecessarily.

Inconsistencies in Payments of PTSAs' Salaries

- No notes were found in PTSAs personal files for seven beneficiaries who signed attendance sheets with an 'X' as notification that the beneficiaries do not endorse attendance sheets with their signature.
- An instance was observed where attendance sheets were endorsed with three different signatures for one particular beneficiary. No note was filed in this beneficiary's personal file as notification that relatives may sign on the former's behalf.
- One instance was observed where the list of beneficiaries in the PTSA's personal file did not include the name of a current beneficiary receiving the service as per attendance sheet, whereas it still included the name of a terminated beneficiary.

- Two instances were noted where beneficiaries bearing the same name were being provided the service by PTSAs. No means of identification was available on attendance sheets to distinguish between each beneficiary.

- A case was noted where a beneficiary did not sign on the attendance sheet during the PTSA's first week of work. The PTSA was still paid for hours of service given to the beneficiary.

Such instances indicate that either PTSAs' salaries were calculated without inquiry as to the authenticity of attendance sheets or else, if inquiry was made by the Salaries Section to Supervisors, no office note was ever included in the file.

Recommendations

Key Issues

Lack of Means Testing

Means testing is to be introduced when evaluating individuals applying for the HCHS, enabling better use of the available PTSAs and reduce any deficiencies that there might be in the current system. This will ensure the provision of service to those who are in real need.

Fixed Rates of Payment irrespective of Service given

The current rates are to be revised, taking into consideration both the number of eligible individuals in the household and the number of hours of service provided, thereby having the fee change reflecting the actual service being provided.

Deficiencies in Current Procedures and Recording of Data

HCHS is to issue guidelines to ensure that administrative procedures are harmonised amongst Supervisors and that periodic backups of data are made. The possibility of increasing availability of IT equipment to Supervisors and awareness through training should be assessed.

Control Issues

Misallocation of Resources

- It is to be ensured that all salaries in relation to PTSAs not assigned to HCHS are to be refunded. Budgeting of funds should also reflect actual PTSA allocations.

- Following a review of PTSAs carrying out duties not related to the scheme, ECCD is to consider whether its pool of PTSAs is sufficient to ensure the provision of a regular service to all eligible applicants.

Discrepancy in Home Care Help Service Income

Management should consider its reliance on the manually administered information system currently in use. A thorough exercise should also be performed between HCHS and SSD, to analyse and review the current information against source documents in order to establish its correctness and completeness and to identify any other reasons causing the discrepancy noted.

Continuation of Temporary Services

An alternative to the current system used should be introduced whereby Supervisors would be reminded of approaching terminations so that action could be taken prior to termination.

Weakness in Collection of Fees by Social Security Division

- Any weaknesses in relation to the collection of fees should be identified and rectified, mainly through regular review procedures.

- Communication between the Division and the Department should be enforced with the aim of minimising the frequency of errors.

- Payment instructions are to be effected in a timely manner.

Arrears due to the Welfare Committee

It is to be ensured that follow-up action is taken in respect of defaulting beneficiaries in a timely manner so as to avoid any loss of Government revenue. If beneficiaries remain in default, provision of service should be reconsidered.

Limitations in Assessments and Approvals of Services

- Social Worker assessments are to be carried out on a periodic basis to ensure that beneficiaries' needs are assessed and the number of hours of service allocated is adequate in relation to their circumstances.

- The basis of Board's decision for allocating HCHS, including reference to the Social Worker's assessment, should be clearly documented and filed.

Incompleteness or Inadequacy of Documentation

It is to be ensured that:

- any Medical Report provided with the application is not filled in and endorsed by a relative of the beneficiary; and

- the Social Worker assessment is formally documented and filed in the beneficiary's personal files at all times.

Shortcomings in Board Minutes Approvals

Regular review procedures by the Board should be enforced to identify and rectify any errors. Board decisions should be clearly documented and compliance thereto followed, without exception or fail.

Inconsistencies in Payments of PTSAs' Salaries

An exercise should be performed whereby beneficiaries' and PTSAs' personal files should be noted and updated as necessary prior to issuing PTSAs' salaries. HCHS should ensure that policies and controls in this regard are introduced and enforced so that records are kept updated with current beneficiaries and related information at all times.

Management Comments

Management expressed their appreciation for the detailed analysis carried out. Issues raised and recommendations have been noted and agreed with. Management also remarked that a process of internal consultation for a reform in the Home Help Service has been carried out, having some of the recommendations made by NAO tallying with Management's recommendations.

Ministry for Investment, Industry and Information Technology

Reimbursements - Main Sewer Contributions

Background

Applications for a permit to develop land are subject to a Development Permit Fee (DPF) and an Infrastructure Services Contribution (ISC), as regulated by Articles 41 and 42 of the Development Planning Act, 1992 Cap. 356. Article 43 of the Act further stipulates that no development permission shall be granted unless and until all fees due have been paid to and received by the Malta Environment and Planning Authority (MEPA).

MEPA is required to charge a DPF and an ISC, as per Articles 3 and 4 of the Subsidiary Legislation 356.05: Building Levy Rates Regulations. The rates applicable are found in the First and Second Schedules of these Regulations respectively. The rate charged varies according to the type of development being proposed.

The Main Sewer Contributions (MSC) - falling under the ISC category - collected by MEPA are to be forwarded to Government[1] each year after a deduction therefrom is made to cover the reasonable costs incurred in the determination and levying of the said contribution, as regulated by Article 42(3) of the Act. Another type of ISC, the Street Contribution (SC), is also collected by MEPA on behalf of Government. During the first quarter of 2008, these fees were forwarded to the Roads Department within the Ministry for Urban Development and Roads (MUDR). Thereafter, such fees continued to be forwarded to the Roads Department within the Ministry for Infrastructure, Transport and Communications (MITC), following the reshuffle of Ministries after the 2008 General Elections.

Every year a budgeted amount to be collected by MEPA is estimated and approved in Parliament. The approved estimate for the Financial Year 2008 amounted to €4.9 million, whilst amounts transferred to Government in 2008 amounted to €2,637,872.

Audit Scope and Methodology

The scope of this audit was to ascertain whether sound internal controls are in place to ensure that the revenue generated from the MSC, is correctly recorded by MEPA and entirely forwarded to Government (less deductions aforementioned) as per governing Legislation.

This objective was achieved by means of meetings held between NAO representatives and MITC and MEPA officials, to obtain an understanding of the collection procedures in place at MEPA and the subsequent payment procedures of collected contributions to MITC. The monthly statements provided by MEPA to MITC, portraying the MSC collected by MEPA and falling due to MITC, were also analysed.

This audit also aimed at verifying the validity of the budgeting procedures in evaluating the measures adopted by the Ministry in its calculation of the €4.9 million budgeted revenue relating to the MSC for the year 2008. During the initial phase of the audit, NAO was informed that the current procedure relating to budgeting of Revenue Items is not carried out by the Ministry concerned, but by the Budget Office within the Ministry of Finance, the Economy and Investment.

[1] In this case the sums due are forwarded to the Ministry for Infrastructure, Transport and Communications.

Control Issues

Opportunities for improvement were identified in the following areas:

- Internal controls embraced by MITC are not sufficient to ensure that all contributions received by MEPA are entirely forwarded to MITC and are being correctly disclosed by the Ministry. The Ministry fails to carry out any reconciliations by utilising the monthly information forwarded by MEPA. It relies entirely on figures as calculated by MEPA without carrying out any further verifications to ensure the correctness of amounts forwarded to MITC. This increases the risk of incomplete or misstated contributions received remaining undetected.

- During 2008, no payments of MSC were forwarded to MITC, except for a direct credit of €200,000 on 30 December 2008, leading to approximately €2.7 million MSC collections by MEPA pending at year end. To offset these owing balances, MEPA relinquished its subvention due from Government to set off ISC dues in respect of MSC and SC. During the initial phases of the audit, MITC observed that the amounts regarding MSC and SC were erroneously interchanged, leading to a transfer of €1,635,308 relating to MSC funds being effected from the Roads Department within MUDR to MITC.

- MITC is not verifying that the documents submitted by MEPA and the attached payments both relate to MSC, increasing the risk of having account details not reflecting the actual amount of MSC remitted by MEPA to Government. In October 2007, MEPA erroneously forwarded to MITC a cheque payable to MUDR for the amount of Lm43,595.45 (€101,550.08) relating to SC. Conversely, on the same date, MEPA forwarded to MUDR a cheque for the amount of Lm79,651.11 (€185,537.18) payable to MITC relating to MSC. Both Ministries deposited the cheques erroneously received in their respective revenue account. These entries were adjusted three months later, in January 2008, by means of a Transfer Schedule of Payments.

Compliance Issue

10% Administrative fee charged by MEPA not documented

Article 42(3) of the Act specifies that: *"The sums collected by the Authority under this article shall be paid to the Government each year after a deduction therefrom is made to cover the reasonable costs incurred in the determination and levying of the contribution."*

The Act does not specify the amount of charge that should be retained by MEPA. However, MEPA charges a 10% administrative fee on the ISC collected sums net of refunds. According to MEPA and MITC, no written agreement exists regarding the setting of this percentage charge, including workings justifying how the reasonable costs have been arrived at.

Recommendations

Control Issues

- MITC should request MEPA to additionally forward on a monthly basis, the Refunds account and the Bank Daily Utility Reports as forwarded to MEPA by the three Commercial banks. MITC should then reconcile the stated documents against MEPA payment. A reconciliation between the Trading Income Account and the Bank Utility Reports would ascertain that the MSC reported in the Trading Income Account were entirely recorded and thus be in a better position to validate the amount due to Government.

- MITC should ensure that payments regarding both MSC and SC are forwarded by MEPA on a regular basis. Payments are to reach MITC preferably by the fifteenth day of the month following the month to which the payments relate. On the other hand, NAO is of the opinion that ideally a Ministry should be held accountable for revenue collection only in respect of entities falling under its portfolio.

- MITC should implement appropriate internal controls, so that errors are detected without undue delay and corrective measures taken accordingly. Verification of payments received must be performed by means of proper reconciliations with accompanying data attached with such payments. In this way, risks associated with the incorrect amounts being forwarded to MITC will be drastically reduced.

Compliance Issue

10% Administrative fee charged by MEPA not documented

It is recommended that a written agreement on the administrative charge that MEPA should retain from ISC collected, be signed by both parties. MITC should be satisfied that the amount charged by MEPA is reasonable to cover the costs incurred in administering such scheme in line with Article 42(3) of the Act.

Management Comments

Management concurred with the findings mentioned in our report and has already taken the necessary corrective action to implement the majority of recommendations provided.

In their reply, Management expressed some reservations regarding the extent of recommended verifications from the Ministry's side upon MEPA, since it does not fall under the MITC's Ministerial portfolio. Management also pointed out that such verifications will prove futile unless MEPA forwards to Government the amounts due on a regular basis.

Despite this, the Ministry has already appointed an officer to carry out the reconciliation process between the Bank Daily Utility reports against the actual amounts paid to MITC. Management disagrees that it should also verify MEPA's Trading Income Accounts against the Bank Daily Utility reports, concluding that the reconciliation of the Bank Daily Utility reports should suffice. MITC also reiterated that *"……the law gives MEPA absolute discretion as to the amount to retain as reasonable administrative costs. MITC has no legal basis on which to challenge the costs retained by MEPA, more so when considering that MEPA falls under another ministerial portfolio not MITC's."*

MITC has requested MEPA to forward the Ministry with a copy of the Refunds accounts and the Bank Daily Utility reports, including ISC payments on a regular basis. The Ministry has also sent to MEPA a draft agreement to confirm the 10% administrative charge currently being levied on payments effected, net of refunds. A copy of this correspondence has been forwarded to this Office.

Up to the writing of this report, MEPA has not submitted pending ISC due to MITC and neither signed the agreement. On the other hand, the documents requested from MEPA have been forwarded to the Ministry.

Ministry for Rural Affairs and the Environment

Contractual and Professional Services

Background

The Ministry for Rural Affairs and the Environment's[1] (MRAE) budgetary allocation for Financial Year 2007 in respect of Contractual and Professional Services stood at €209,644 and €97,834 respectively. This covered the Ministry, as well as four other Cost Centres, namely, 'Agricultural Services and Rural Development', 'Food and Veterinary Regulation', 'Fisheries and Conservation Control' and 'Environment'. By end 2007, the revised budget line for Contractual Services was decreased by approximately 42%, while that for Professional Services increased by 53% over the original budget.

For Financial Year 2008, the trend was similar to that of 2007, whereby the revised budget line for Contractual Services by end of year was decreased by approximately 39% from the original allocation of €210,000, while that for Professional Services increased by 32% over the original budget of €98,000.

Audit Scope and Methodology

The scope of the audit was to ensure that expenditure in respect of Contractual and Professional Services was appropriately recorded and processed according to the General Financial Regulations (GFRs) 1966 and other pertinent Regulations and Circulars.

In order to carry out verifications on the process of the award of contracts to the service providers, a number of departmental files, relating to the transactions chosen in the audit sample, were obtained and the relevant documentation and minutes reviewed. Apart from ensuring mathematical correctness of invoices, further verifications were carried out to ascertain whether payments were effected according to agreements or, in their absence, as per quotations submitted by the selected bidders or letters of acceptance issued by the Ministry following the award of tenders or quotations.

Most of the observations and recommendations in this report are based on an analysis of the documentation obtained, meetings held with various officers, as well as other general remarks noted in the course of the audit. Observations incidental to the audit, on inefficiencies in the management processes in use and the administration of public funds, even those relating to pre- and post- 2007, were also made.

Key Issues

No Agreements with Service Providers and/or Procurement Regulations not followed

A total of thirty-two files relating to the services falling within the audit sample were obtained and reviewed during the audit. In the following nine instances, no agreement was entered into between the Ministry and the service provider and/or the Procurement Regulations were not adhered to in the award of contract:

- The agreement for Consultancy Services relating to the *Incineration Project at the Civil Abattoir,* the direct order cost of which was estimated at €477,521.55, could not be traced. This hindered testing on the amount of €51,139.20 paid in 2007 for the upgrade of the Civil Abattoir.

[1] The Ministry's name changed during 2008. However, throughout this report it shall be referred to as MRAE, or the Ministry, since the findings mainly relate to MRAE 2007 expenditure.

- Neither the agreement nor documentation regarding the engagement of a company providing various *Consultancy Services* totalling €45,918.82 in 2007 and €14,411.02 in 2008 was made available.

- The contract for the *Provision of Skips at the Pitkali Markets* was awarded following the issue of a call for quotations notwithstanding that a call for tenders was required. Information regarding the names of the suppliers submitting quotations and the rates offered was not made available, hindering verification in this respect. Since no agreement or bank guarantee were traced, payments for this service amounting to €41,572.79, €31,508.94 and €26,560.41 in 2006, 2007 and 2008 respectively could not be verified.

- Due to urgency of matters, architects carrying out works in connection with the *Refurbishment and Improvement of the Civil Abattoir* were engaged directly by MRAE. However, written evidence of approval from the right level of authority, if any, to procure the service direct from the open market, was not provided. No agreement was signed between the service provider and the Ministry. This hindered verifications on the amounts of €26,492.94 and €5,954.06 paid in 2007 and 2008 respectively.

- Payments effected in respect of the daily *Hire of a Forklifter and Dumper* totalled €20,065.22 during 2007 and €25,370.91 for 2008. No tender documents, quotations or any other correspondence was made available with regards to the provision of this service.

- The agreement between MRAE and the consultants carrying out services in connection with the *Ta' Qali Animal Welfare Centre Project* could not be traced, hindering audit testing on invoices paid which totalled €13,081.50 in 2007 and €4,970.76 in 2008. These consultants were already carrying out duties within the Ministry during the same period.

- Amounts charged for *Consultancy* on the *Xrobb l-Ghagin Nature Park Project,* amounting to €7,971.12 in 2007 and €5,827.16 in 2008, could not be verified since the agreement between the directly engaged consultants and the Ministry was not made available for audit purposes.

- In the absence of a formal agreement, the payment of €2,911.72 for *Consultancy Services* in connection with the *Salini Rehabilitation Project* during 2007 was only verified against the limited correspondence available. A further €7,814.34 was paid to the same consultant in 2008 by the then Ministry for Resources and Infrastructure.

- In 2001, the *Cleaning of the Pitkali Market Complex* was awarded only after selecting the cheapest out of a total of five quotations received. Since the total estimated contract value was over €58,234 *per annum,* a call for tenders should have been issued as per Public (Procurement) Regulations. The service commenced on 3 September 2001 and was still ongoing up to at least mid-2003. However, in the absence of an agreement and the respective bank guarantee, the conditions and the exact duration of the contract are not known.

No Formal Extension of Existing Agreements

Although an agreement was signed between MRAE and the respective service provider, a formal extension of this agreement covering payments effected in 2007 and 2008 was not traced in the following cases:

- During both 2007 and 2008, MRAE were invoiced for services relating to the *upgrade of the Civil Abattoir to European Union (EU) Standard*, with payments effected totalling €112,666.22 in 2007 and €55,573.72 in 2008. Although the agreement signed on 26 September 2006, stipulated that the project had to be carried out *'as soon as possible and within the year 2006'*, it was not formally extended to cover the 2007 and 2008 payments.

- According to the Letter of Acceptance, the agreement for the *Removal of Offals at the Fishmarket* was deemed to expire end August 2004. A request for Ministerial approval to issue a departmental tender for this service was recommended by the Director General (DG) on 1 November 2004. Even though a new tender was not issued by end 2008, payments of €15,703.59 and €15,745.54 were made by the Ministry for this service during 2007 and 2008 respectively.

- Whereas the contract for the *Removal of Offals and Hire of Skips at the Civil Abattoir* expired on 5 April 2006 and no formal extensions were traced, bank guarantees were submitted covering the period up to 15 March 2008, implying that the service was still being rendered at least up till this date. Payments for this service totalled €42,524.53 in 2007 and €25,880.61 in 2008.

Shortcomings in Claims for Reimbursement by WasteServ and Incorrect Reimbursement effected

No agreement between WasteServ and MRAE, stating that all expenditure incurred by the former is reimbursed[2] by the latter, was provided for audit purposes. As a result,

[2] Reimbursements are issued by the Ministry on the basis of claims forwarded by means of a statement indicating details of the invoices paid by WasteServ.

it could not be ascertained that WasteServ were entitled to a full reimbursement of all expenses incurred and that the payments effected during the year were justifiable and accurate.

From testing carried out on the largest three payments totalling €2,177,201.53 made to WasteServ during 2007, it transpired that a total amount equivalent to €244,893.79 was not supported by invoices to substantiate the statement requesting reimbursement. Furthermore, several amounts as indicated on the invoice did not tally with the respective amounts as indicated on the statement. A double payment of €2,177.96 was also noted.

Control Issues

Opportunities for improvement were identified in the following areas:

Contribution not backed by a Signed Agreement

An agreement between the Ministry and a private non-profit making organisation granting an annual contribution of €9,317.49 for three years was neither signed by the latter nor dated as at time of audit. Nonetheless, the contribution for the first year was paid by the Ministry in December 2007.

Amounts charged by Service Providers not Verifiable

- The amount of €12,437.69 paid for Consultancy Services relating to the costing of a Waste Management Scheme and €9,895.18 for the implementation of an eco-contribution exemption/refund mechanism could not be verified since the invoices failed to indicate the number of hours charged for.
- The number of days, during which the service of removal of offals and the hire of skips at the Civil Abattoir was to be provided, was not given. As a result, payments totalling €42,524.53 in 2007 and €25,880.61 in 2008 could not be verified.

Shortcomings in connection with Payments to a Consultant

Various shortcomings noted in connection with payments issued to an architect and planning consultant included the following:

- The payment of €3,540.65 for services rendered by the consultant during 2006 was not covered by a valid contract.
- During 2007 the Ministry had already paid invoices totalling €2,256.65 by the date of the request for Ministry of Finance (MFIN) approval to enter into a contract with the foregoing consultant.
- The request for direct order approval and its subsequent approval by MFIN failed to indicate the date as to when the agreement with the consultant was expected to commence. This, together with other misinterpretations on the effective contract date, resulted in payments not covered by MFIN approval.
- No agreement was entered into at time of the conduct of the audit in July 2008 with this consultant. Hence, the amount of €4,669.04 paid in 2008 was not covered by a valid agreement.

Contract for the Removal of Fish Offals awarded against Adjudication Board's Recommendation

The tender for the *Removal of Offals at the Fishmarket* was awarded to a service provider whose daily rate was €13.98 more expensive than that of the bidder whose quotation was recommended by the Adjudication Board. The DG (Fisheries Conservation and Control) claimed that he was against the awarding of the contract to the recommended bidder, since the latter was a subcontractor for the Cooperative who had given the Fisheries a poor service in previous years. No minutes/authorisation from the Permanent Secretary was evidenced in the files reviewed approving this decision.

Misallocation of Expenditure

In reviewing relevant 2007 and 2008 transactions posted in the line items chosen in the audit sample, it was noted that seventeen Payment Vouchers (PVs), amounting to €19,475.96 were posted to the wrong account, mainly to the 'Repairs and Upkeep' account. On the other hand, a transaction of €14,478.59 relating to Government subsidy payments was incorrectly posted to the 'Contractual Services' account.

No Tax Invoices or Fiscal Receipts attached to Payment Vouchers

A number of payments, collectively amounting to €60,505.25, issued to service providers during 2007 were not supported by either a fiscal receipt or a tax invoice. None of the defaulters identified during the audit was reported to the Value Added Tax (VAT) Division as not complying with fiscal obligations.

Recommendations

Key Issues

No Agreements with Service Providers and/or Procurement Regulations not followed

The Ministry is to duly adhere to the Procurement Regulations without exception or fail when purchasing services. When service providers are engaged directly from the open market, approval is first to be obtained from the Ministry of Finance, the Economy and Investment (MFEI), with such approval indicating reasons justifying this approach. Each service is to be backed by a signed agreement between the parties involved and supported by a valid bank guarantee, where applicable. Both the conditions of service and the duration of the agreement are to be clearly indicated. All documentation regarding the award of contracts, including the agreement itself, is to be retained by the Ministry for future reference.

No Formal Extension of Existing Agreements

In the event that the Ministry wishes to continue making use of service providers after the expiry of their contracts, the necessary MFEI approval is to be obtained beforehand and the current agreement formally extended. The bank guarantee is also to cover the extended period. On the other hand, if the Ministry is not satisfied with the service being provided, any penalties stipulated in the contract are to be imposed and the issue of a new tender is recommended.

Shortcomings in Claims for Reimbursement by WasteServ and Incorrect Reimbursement effected

No payments are to be issued unless assurance is obtained that all entries in the statements requesting reimbursements are supported by invoices and the values indicated are correct. The Ministry is also to check the possibility of invoices claimed and subsequently paid twice and recoup the amounts involved.

Control Issues

Contribution not backed by a Signed Agreement

In order to be in line with good governance practices, the Ministry is to refrain from making contributions unless backed up by a valid agreement.

Amounts charged by Service Providers not verifiable

All invoices presented to the Ministry are to include the necessary information to enable thorough checking before the payment could be duly authorised. Unless assurance is obtained that the bills reflect the service actually provided and charged according to the agreements, disbursement of funds is not to be approved.

Shortcomings in connection with Payments to a Consultant

No payments are to be effected in respect of services provided unless covered by a valid contract. Approval from OPM and MFEI, where applicable, is to be obtained prior to commencement of services. The request for approval is to clearly indicate the effective contract date, the duration of the agreement and the estimated contract value. Furthermore, the Ministry is to regularise its position, if it is still making use of the consultant's services.

Contract for the Removal of Fish Offals awarded against Adjudication Board's Recommendation

For the sake of fairness and transparency, rigid compliance with the Procurement Regulations is solicited.

Misallocation of Expenditure

Expenditure is to be accurately posted to the relevant accounts and not to any other account where funds are available. The proper Virement procedure is to be followed should there be insufficient funds in a given line item.

No Tax Invoices or Fiscal Receipts attached to Payment Vouchers

The Ministry is to ensure that it is invariably issued with either a fiscal receipt, which is to be attached to the relative original PV for record purposes, or a tax invoice as long as it remains a VAT registered entity. While defaulters should be made fully aware of Government rules, these are to be reported to the VAT authorities on a quarterly basis as detailed in MFIN Circular No. 5/2002. Business with persistent defaulters is to discontinue until the matter is rectified.

Management Comments

Management remarked that the functions of the former Director Corporate Services (DCS) and the then MRAE were only transferred to the Financial Management Directorate at MRRA in September 2008. Nonetheless, Management concurred with the majority of the observations and related recommendations made by NAO and action has already been taken to comply accordingly.

Management further remarked that:

- as soon as the new Financial Management Directorate at MRRA was formed, a set of policies were institutionalised to ensure that agreements entered into by the Ministry are monitored and kept up to date, that any existing agreements nearing their date of expiry are duly extended and that agreements which were no longer required are terminated on their date of expiry. Moreover, new controls were introduced to ensure that no payments would be made unless an agreement or contract was still in force;

- as from August 2008, MRRA is ensuring that, where applicable, agreements contain a condition that payment is linked to number of hours worked and in the case of consultants, the certifying correct by the relative Department is also accompanied by an "attendance record", so as to verify that the payment is made strictly in accordance with such agreement;

- action was taken to regularise the contract for the architect and planning consultant, as well as the position through his engagement as a Chairman with the necessary covering approvals; and

- Director (Operations) was asked to terminate with immediate effect the contract for the removal of fish offals and issue a new tender.

However, Management failed to comment on NAO's observations relating to the shortcomings in claims for reimbursement by WasteServ and incorrect reimbursement effected.

Agriculture Support Scheme
Pig Meat Subsidy

Background

The Ministry for Resources and Rural Affairs' (MRRA's) approved budget allocation in respect of the Agriculture Support Scheme, also referred to as the Special Market Policy Programme for Maltese Agriculture (SMPPMA), for the Financial Year 2008 stood at €10,310,000. This allocation was increased by approximately 6% during the year, resulting in a revised budget for 2008 of €10,890,678. Apart from fully utilising this amount, a further €40,840 was expensed from the Below-the-Line Account held by the Ministry for this purpose. Almost 27% or €2,921,524[1] of the total Agriculture Support Scheme expenditure, was paid on Pig Meat Subsidy in 2008.

The Civil Abattoir has the capacity to slaughter approximately 160 pigs per hour. Slaughtering usually takes place on three to four days a week, depending on the demand for pig meat. During 2008, a total of 102,104 pigs were slaughtered at the Civil Abattoir.

Audit Scope and Methodology

The scope of the audit was to ensure that the pig meat subsidy payments issued during 2008, were appropriately recorded and processed according to the General Financial Regulations (GFRs) 1966 and other pertinent Regulations and Circulars.

Testing was carried out on two particular weeks during which pig meat subsidy payments were effected in 2008. This resulted in audit testing covering almost 6% of the total pig meat subsidy payments. Each transaction was verified to ascertain the accuracy of the amounts paid to the respective producer, as well as to ensure that the rate applied in calculating the subsidy entitlement was in accordance with that established by the Ministry.

This report focuses on the inaccuracies in effecting pig meat subsidy payments identified while conducting audit testing, as well as on any inefficiencies that were noted in the management processes in use and in the administration of the Scheme concerning this subsidy.

Key Issues

Insufficient and unsupported Systems at the Civil Abattoir

- Information held in the Civil Abattoir's program for recording details relating to the pigs being slaughtered is sometimes lost while being uploaded from the IPC Scase Program to a more user-friendly database (known as the IHSP Database), thus rendering it unreliable. In fact, this Office encountered cases where relevant details were completely omitted from this latter database. Moreover, at times, the Civil Abattoir's program fails to automatically record the carcass weight due to technical faults. Consequently, the relevant details are noted manually by the Civil Abattoir's weigher.

- The IPC Scase Program was purchased off-the-shelf by the Civil Abattoir over ten years ago and is not supported by the Malta Information Technology Agency (MITA). Therefore, any defaults in the system have to be rectified by the Abattoir's officers.

[1] Out of this amount, €594,411 related to pig meat subsidy payments for 2007.

Total reliance on Third Party Documentation

- Subsidy payments are based on the weight values indicated in reports bearing *Koperattiva ta' Min Irabbi l-Majjal Ltd.'s* (KIM's) letterhead, rather than on information held in the Civil Abattoir's database. Furthermore, when the data on these two sources of information differ, it is the report held by the Civil Abattoir which is amended to be in agreement with that compiled by KIM, without any reasons justifying the changes.

- The officials within the Swine Section were not always in a position to reply to questions raised by NAO. On various occasions during the audit, explanations relating to subsidy payments had to be obtained from KIM and reference made to their documentation.

Inefficient System for recording Returned Defective Pig Meat

Defective pig meat returned to the Civil Abattoir is not physically weighed. Instead, the weight is either determined by approximation or reliance is placed on the values as indicated by the butcher or meat processor returning such meat. Details of returned pig meat are recorded manually on a diary, which is rather disorganised and details are at times illegible. Therefore, relevant information cannot be easily retrieved.

Control Issues

Opportunities for improvement were identified in the following areas:

Overcrowding during the Weighing Process

A considerable number of persons are present during the weighing process at the Civil Abattoir, including the Abattoir's weigher, foreman and butchers, representative(s) of KIM and the producer of the carcass being weighed. This overcrowding increases the risk of errors being made by the Civil Abattoir's weighers in noting adjustments relating to, amongst others, the carcass weight, condemned parts and technical faults. Furthermore, since the weight of carcasses' condemned parts is determined by approximation, the producers' presence can possibly influence decisions taken in this respect.

Inadequate Practices during the Weighing Process

- Each producer is responsible for marking the weight, which is called out by the Civil Abattoir's weighers, on his pigs' carcasses. The producer's back faces the weigher during this process, thus obstructing the weigher, as well as persons observing the process from the Civil Abattoir's monitoring room, from viewing the markings being made and verifying whether the correct weight is being indicated.

- Condemned or defective meat identified during the slaughtering process is not always weighed with the rest of the carcass. At times, the amount of kilograms to be deducted is approximately calculated and agreed upon by the Civil Abattoir's foreman, the KIM representative and the producer.

Various Reports held at the Swine Section presenting Inconsistent Information

A considerable number of reports and documentation is kept at the Swine Section. These range from manual sheets to reports in electronic format. However, data presented in various reports was not always consistent and at times was manually amended. In fact, a number of discrepancies, when comparing the information presented in the different source documents and reports held at the Civil Abattoir, were identified during the audit.

Such inconsistencies raise doubts on the reliability of the systems (both electronic and manual) in operation at the Civil Abattoir and further explain the need for the Department to rely totally on the reports held by KIM.

Incomplete Audit Trail with respect to Deductions in Subsidy Payments

When defective pig meat is returned to the Civil Abattoir, the corresponding subsidy amount paid to the owner of the carcass is deducted from the subsequent subsidy payment due to the respective producer. However, only the resulting subsidy amount is recorded in the Departmental Accounting System (DAS). Since the narration fails to mention whether any deductions were effected, a complete audit trail is hindered.

No Deductions in Subsidies with respect to Returned Defective Pig Meat due to Lack of Details

On four occasions during the year 2008, not all the relevant details with respect to returned defective meat were recorded. Consequently, certificates indicating the details of returned defective pig meat were not issued to the respective producers. On the other hand, in another instance, although all the necessary data was recorded in the diary, the corresponding certificate was not issued. These producers were overpaid since the necessary deductions in subsidies were not effected in any of these five cases.

Discrepancies in the Total Weight

At the end of the slaughter, each producer is presented with a manually compiled Weighing Note indicating the total number of pigs slaughtered and their respective weight. Although this data should match the source from where it is compiled, namely the IHSP Database, seven cases of discrepancies in the total weight were noted in the sample period checked. Upon enquiry, no explanation was forwarded to this Office on the nature of these discrepancies.

Incomplete Details on the Re-grading Sheets

Any adjustments relating to the carcass weight due to condemned meat, etc., as well as the grading of meat, are noted by the weighers in a document referred to as 'Re-grading Sheets'. The recording of details on these Sheets, for the two weeks chosen in the audit sample, was not always consistent and at times necessary information was lacking. On eleven occasions, it was difficult to ascertain whether the necessary adjustments were recorded in these Sheets before or after the weighing process and whether they were already taken into consideration when arriving at the final weight of the carcasses shown in the Civil Abattoir's program.

Inefficient Filing System

Unnumbered certificates, featuring the details of returned defective pig meat, are filed in the respective producer's personal file. Hence, in order to obtain these documents, all these personal files have to be reviewed. This renders the current filing system inadequate and inefficient.

Inaccurate Information presented by the Civil Abattoir

The list of the above-mentioned certificates issued during 2008, compiled following NAO's request, was not exhaustive. Whereas, according to the list, only thirty-six certificates were issued in the foregoing year, a further seventeen certificates were traced to the producers' files by the audit examiners. On the other hand, six out of the thirty-six certificates indicated in the list provided could not be traced to the producers' files.

Verifications carried out by the Swine Section not evidenced

No covering letter, claiming the verification of the report compiled by KIM, was attached to the report relating to one of the two slaughter weeks chosen in the audit sample. Therefore, it could not be ascertained that this report was duly checked, prior to being forwarded to the Accounts Section authorising subsidy payments to be made.

Recommendations

Key Issues

Insufficient and unsupported Systems at the Civil Abattoir

The Ministry, in coordination with MITA, is to consider the implementation of a new and reliable IT system, catering for the present exigencies of the Civil Abattoir. Once this system is in operation, it is to be closely monitored to ensure efficient recording and maintenance of data.

Total reliance on Third Party Documentation

Subsidies expensed out of public funds are to be based on accurate information maintained by public officers. The Swine Section is also to ensure that it is in possession of complete information, regarding pigs slaughtered at the Civil Abattoir, at all times.

Inefficient System for recording Returned Defective Pig Meat

Defective pig meat returned to the Civil Abattoir is to be inspected, physically weighed and the respective details officially and clearly documented.

Control Issues

Overcrowding during the Weighing Process

The number of persons present at the weighing point is to be kept to the bare minimum so as to avoid confusion and thus reduce the risk of error.

Inadequate Practices during the Weighing Process

Ideally, the marking of the weight on the carcasses is to be carried out by a Civil Abattoir official and producers could follow the process from the monitoring room. Condemned or defective pig meat identified during the slaughtering process is to be physically weighed.

Various Reports held at the Swine Section presenting Inconsistent Information

Instead of compiling numerous reports, the Swine Section is to ensure that the electronic system in operation is sufficiently flexible to incorporate any adjustments which need to be carried out, as is the case of returned defective pig meat, without diminishing its reliability and security. This operating system is to be the main, and if possibly, the only source of information, thus reducing on the amount of documentation held. Such system is to be reliable enough to avoid having to continuously turn to KIM for information. Documentation held by third parties is only to be referred to in exceptional circumstances.

Incomplete Audit Trail with respect to Deductions in Subsidy Payments

The Ministry is to ensure that there is a complete audit trail with respect to returned pig meat deductions so as to enable the carrying out of verifications. Narration in DAS is also to include details of any deductions incorporated in subsidy payments.

No Deductions in Subsidies with respect to Returned Defective Pig Meat due to Lack of Details

Details relating to returned defective pig meat are to be officially documented and endorsed by the Officer responsible for weighing such meat. Certificates, noting details of returned defective pig meat, are to be issued to the producers and deductions in subsidies are to be carried out accordingly.

Discrepancies in the Total Weight

The Civil Abattoir weighers are to ensure that the total weight noted on the Weighing Notes corresponds to the data recorded in the IHSP Database. Cases of discrepancies between the two sources of documentation are to be rectified immediately.

Incomplete Details on the Re-grading Sheets

A systematic method is to be adopted whereby the Re-grading Sheets are to include both the original weight of the carcasses as well as the weight of condemned parts.

Inefficient Filing System

All returned defective pig meat certified by the Veterinary Officer is to be duly recorded by the Swine Section and the respective Returns Certificates issued. These Certificates are to be numbered, grouped and filed in sequential order for ease of reference. If deemed necessary, a copy can also be kept in the producers' personal files.

Inaccurate Information presented by the Civil Abattoir

In order to effectively serve the purpose for which it was compiled, information contained in the list of certificates is to be accurate and complete in all respects.

Verifications carried out by the Swine Section not evidenced

All documents affecting subsidy payments are to be verified and certified correct by a responsible Officer. The type of tests, carried out to ensure accuracy of the information presented and whether any discrepancies were noted, are also to be recorded.

Management Comments

Management concurred with the majority of the observations and related recommendations made by NAO and action has already been taken to comply accordingly. In conjunction with MITA, the Ministry is currently finalising the implementation of a new Meat Traceability System which will replace the IPC Scase Program used at the Civil Abattoir at present. Management envisages that this new system will completely eliminate the limitations, related to the current connectivity, mentioned in this report.

Management however stated that the Civil Abattoir categorically denied total reliance on KIM for the final version of any report. These comments cannot be accepted by NAO since this observation was upheld by collected evidence, although the Ministry still maintained otherwise.

Agriculture Support Scheme
Fruit and Vegetables Subsidy

Background

Another subsidy falling under the Agriculture Support Scheme is that paid to farmers on fruit and vegetables unloaded at the *Pitkali* Markets. Out of the €10,931,518[1] utilised by the Ministry for Resources and Rural Affairs (MRRA) for the Special Market Policy Programme for Maltese Agriculture (SMPPMA) during 2008, €1,863,500[2] (i.e. 17% of the total Agriculture Support Scheme expenditure) were expensed on the Fruit and Vegetables Subsidy. The majority of 2008 payments with respect to the Fruit and Vegetables Subsidy related to amounts due to the farmers in 2007.

Local grown fruit and vegetables are unloaded by Maltese farmers at the *Pitkali* Markets Centre. Products are sold to licensed hawkers through middlemen, referred to as *Pitkala*. This Centre is mainly intended to help farmers obtain the best possible prices for their produce, sold by auction.

Audit Scope and Methodology

The scope of the audit was to ensure that the fruit and vegetables subsidy payments issued during 2008, as well as Payment Vouchers (PVs) and multi-payments expensed from the Agriculture Support Scheme Account, were appropriately recorded and processed according to the General Financial Regulations (GFRs), 1966 and other pertinent Regulations and Circulars.

Testing was carried out on a sample of fruit and vegetables subsidy payments effected in 2008. The audit sample consisted of the largest twenty-five potato subsidies for the period January to June 2007, paid to farmers who unloaded their produce at the private *Pitkala*. A total of seven Farmers' Central Cooperative Society (FCCS) members were chosen in the audit sample. Testing was also carried out on the subsidy paid to one Ta' Qali Producers Group (TQPG) member for watermelons, fruit and vegetables unloaded at the TQPG sheds during the second half of 2007. Due to logistic reasons, no detailed testing was performed on subsidy payments issued to Gozitano Agricultural Cooperative Limited (Gozitano) members.

Transactions were verified to ascertain that the number of kilograms on which subsidy payment was based matched the weight indicated in the private *Pitkala's* and Producer Organisations' computer systems. The rate applied in calculating the subsidy entitlement was also checked to ensure that it is in accordance with that established by MRRA.

Furthermore, a sample of PVs and multi-payments was selected based on materiality. These transactions were examined to verify whether amounts were correctly posted to the Agriculture Support Scheme Account.

This Report focuses on the inaccuracies in effecting fruit and vegetables subsidy payments identified while conducting audit testing, as well as on any inefficiencies that were noted in the management processes in use and in the administration of the Scheme concerning this subsidy.

[1] This includes also payments effected from the Below-the-Line Account held by the Ministry.

[2] During 2008, payments totaling €75,811 related to 2006 subsidies.

Key Issues

Pitkali Clerks not present during the unloading and sale of Products at the Pitkali Sheds

In previous years, the *Pitkali* Markets employed around forty clerks to observe all the transactions occurring at each private *Pitkal's* shed on Mondays and Thursdays. Apart from monitoring both the unloading as well as the sale of products, and updating the records accordingly, the clerks' presence was also intended to act as a deterrent for anyone trying to abuse of the system.

Gradually, the presence of the *Pitkali* clerks started decreasing. Following the audit on the Agriculture Support Scheme for the year ending 31 December 2004, National Audit Office (NAO) remarked that the clerks were not always present with all the *Pitkala*, especially during peak hours. It was further observed that there was lack of cooperation from certain *Pitkala* intended to dismiss the performance of monitoring duties required to be carried out by the *Pitkali* clerks.

The situation deteriorated in recent years since the number of *Pitkali* clerks reduced dramatically, to a maximum of eight at the time of the audit. In fact, *Pitkali* clerks are not present at all, neither during the unloading of products by the farmers, nor when the products are sold to the hawkers.

As a result, the activities at the *Pitkali* sheds are not being monitored. In addition, reliance has to be placed on data obtained directly from the *Pitkala* for any information required by the Ministry and/or external auditors.

Subsidy Payments issued to Farmers in spite of Results of Audit Exercise suggesting otherwise

During 2007, an exercise was carried out at the *Pitkali* Markets by an independent auditor. This exercise consisted of comparing the total number of kilograms of potatoes unloaded by each farmer between March and May 2007, against the total expected yield from the number of *tumoli* which the same farmer registered for growing potatoes with the Integrated Administration and Control System (IACS).

Out of the sixty-two[3] farmers chosen for the independent audit exercise, thirty-two farmers resulted as having overproduced[4], while nine farmers failed to register their land with IACS. Consequently, these forty-one farmers were not supposed to be entitled to any financial assistance. However, following changes in the parameters of the independent audit exercise, only eight farmers did not receive any subsidy for the period January to June 2007. The other thirty-three farmers were paid the full subsidy to which they were 'entitled', amounting to €90,361.66. Departmental controls should ensure that any declaration of overproduction by farmers of their produce from registered land is detected.

Limitation on Scope of Audit

- Farmers entering the *Pitkali* Markets are required to record the number of boxes of each product to be unloaded on a delivery note. However, all delivery notes pertaining to 2007 were not made available for audit purposes. This hindered verification to ensure that the amount of produce unloaded at each *Pitkali* shed, as recorded by the *Pitkala*, tallied with what the farmer declared as having been unloaded.
- Since documentation supporting the data entered in the *Pitkali* Markets Management System (PMMS) was not retained by the *Pitkali* Markets, the original documents had to be obtained directly from the *Pitkala* for audit purposes. Out of a sample of six *Pitkala* from whom information was requested, one *Pitkal* failed to forward any documentation to this Office.
- Another *Pitkal*, prior to forwarding the documentation requested for audit testing, tallied the information extracted from his computer system with that in the PMMS. In fact, in some cases, this *Pitkal* forwarded a PMMS extract instead of the original documentation, thus raising doubts as to whether data as per PMMS truly reflects the actual transactions at the point of unloading and sale.

Control Issues

Opportunities for improvement were identified in the following areas:

No verification of Data forming the Basis of Subsidy Payments

The correctness and accuracy of the weight of products unloaded by the farmers and the respective selling prices, as reported by the private *Pitkala* and the Producer Organisations, is not verified by the Department of Agriculture. In the absence of independent data collected

[3] Although a total of sixty-three different farmers were included in the independent audit exercise, two different farmers bearing the same name were erroneously considered as one person. Thus, the results of these two farmers are excluded from this observation.

[4] Overproduction may have been caused by the underdeclaration of land utilised for growing potatoes or the overstatement of the number of crates of potato produce unloaded at the *Pitkali* Markets.

by the *Pitkali* Markets[5], the information forwarded by the private *Pitkala* and the Producer Organisations cannot be corroborated, increasing the risk of discrepancies remaining undetected. The correctness of subsidy payments also cannot be ascertained.

Unjustified Payments effected to Farmers whose Land was not registered with IACS

A number of farmers were paid the equivalent of 50% of the total subsidy due for the period July – December 2007, totalling €42,571. This payment was effected in spite of the fact that these farmers failed to register their land with IACS and therefore, not entitled to any financial assistance.

Lack of Audit Trail of Payments effected to Gozitano Members

Farmers registered with Gozitano, and who unload their produce at its premises in Gozo, are not paid subsidy directly by the MRRA. Instead, a lump payment, equivalent to the total of all amounts due to Gozitano members, is effected to the Cooperative. It is then at the latter's discretion to forward the respective subsidy payment to each of its members. During the year under review, payments totalling €53,056.89 were issued to Gozitano, while only seven payments amounting to €1,918.25 were made directly to the farmers.

No explanation was obtained to justify this practice, which is inconsistent with that used by the other Producer Organisations, and whether it was approved by the right level of authority. It also cannot be ensured that Gozitano members are receiving their fair portion of financial assistance.

Uncertainty in the Legality of Subsidy Payments effected to Gozitano

During 2008, payments totalling €12,174.73 were issued to a Farmers' Registration Card (FRC) number, which pertains to a Gozitano, in relation to 2007 subsidies. The Department confirmed that this FRC number was being utilised by a number of farmers who 'gather production and send their products under this unique FRC'. This procedure is not applied in the case of the other Producer Organisations. Currently, subsidies due to this FRC number are said to be withheld due to lack of information. However, the Department failed to provide more details as to the withholding of these payments.

In the absence of an effective audit trail in place, no assurance can be obtained that the produce unloaded under this FRC number is independent from that unloaded at the Gozitano premises. Thus, the risk of subsidy payments being effected twice on the same product cannot be excluded.

Double Payments to Farmers due to Unreconciled Documentation

Documents, listing the subsidies due to farmers who unloaded their products at the private *Pitkala* between July and December 2007 forwarded for audit purposes, did not match those originally forwarded to a local bank for payments to be issued to the respective farmers. Although NAO examiners eventually reconciled both amounts, this hindered verification to ensure that each farmer was paid the correct amount of subsidy due. Such practice may also result in overpayments remaining undetected, as was the case with four farmers who were paid twice, for a total amount of €216.04.

Verifications carried out by the Pitkali Markets not evidenced

The *Pitkali* Markets claimed that the quantities of products unloaded by the farmers, as indicated in the delivery notes, are tallied with the quantities recorded in the PMMS, to ensure that the amounts are in agreement. However, evidence of such verification was not provided, raising doubts on whether the checks were actually performed.

Lack of independent verification on Calculation of Subsidy Payment

Subsidies due to farmers are calculated by the *Pitkali* Markets according to the information forwarded by the Producer Organisations or as extracted from the PMMS (in the case of private *Pitkala*). This calculation is not counterchecked prior to the issue of payment, but total reliance is placed on the amounts indicated in the documents forwarded.

No Tax Invoices or Fiscal Receipts attached to Payment Vouchers

A number of payments expensed from the Account under review, collectively amounting to €261,270.06 (i.e. almost 87% of the amount tested), were not supported by either a fiscal receipt or a tax invoice. None of the defaulters identified during the audit were reported to the VAT Division

[5] In this Report, the term *Pitkali* Markets refers to Administration of the *Pitkali* Markets, falling within the Department of Agriculture.

as not complying with fiscal obligations. The Ministry confirmed that, at least up to June 2009, the practice was to submit a quarterly Nil return. Copies of these returns were not made available for audit purposes.

Budget Overrun

During the year, the Ministry obtained the Ministry of Finance, the Economy and Investment's (MFEI's) approval for additional funds and Virements to the Agriculture Support Scheme Account, increasing the original allocation by €580,678. Out of the revised budget of €10,890,678, only €8,620,231 related to SMPPMA payments. The remaining €2,270,447 (i.e. almost 21% of the allocation) was expensed on transactions which were unrelated to subsidy payments.

Expenditure other than Subsidies expensed from the Agriculture Support Scheme Account

Apart from subsidy payments, other unrelated transactions featured in the Agriculture Support Scheme Account. These varied from advertising slots in TV programmes to professional services. Documentation backing services charged to this Account failed to specify whether the expenditure incurred related directly to the Scheme. Furthermore, authorisation for a sample of transactions, amounting to €287,281.66, unrelated to subsidies but expensed out of this Account, was either not available or was at times unclear.

No Agreements traced supporting Invoices charged to the Agriculture Support Scheme Account

No agreements were traced covering invoices collectively amounting to €34,881.45, charged to the Account under review. Consequently, the respective payments could only be verified against the invoiced amounts.

Recommendations

Key Issues

Pitkali Clerks not present during the unloading and sale of Products at the *Pitkali* Sheds

Given the importance of having a number of officers present at the *Pitkali* sheds to monitor public interest, the Ministry is to review its current clerical deployment across all the Departments falling under its responsibility and try to relocate a number of public officers at the *Pitkali* Markets. Ultimately, it should ensure that there are enough *Pitkali* clerks to oversee the process.

Subsidy Payments issued to Farmers in spite of Results of Audit Exercise suggesting otherwise

Unless justified, subsidy payments are to be recouped from the thirty-three farmers who, according to the independent audit exercise, should have been penalised. Changes in parameters or other interventions by the Ministry are to be documented and duly authorised.

Limitation on Scope of Audit

All documentation forming the basis of data input in the PMMS, as well as the delivery notes, is to be retained by the *Pitkali* Markets for future reference and also for audit purposes.

Control Issues

No verification of Data forming the Basis of Subsidy Payments

The Department is to ensure that all information forwarded by the *Pitkala* and the Producer Organisations, especially that relating to quantities unloaded is correct, since these form the basis for subsidy payments. Verifications to ensure the accuracy of this information can include the tallying of the products' weights as against delivery notes. The recording of data by public officers is also to be considered.

Unjustified Payments effected to Farmers whose Land was not registered with IACS

Non-adherence to Ministerial established procedures should be accompanied by a valid explanation. Unless the issue of payments in this respect was truly justifiable, the Ministry is to recoup the Government funds involved.

Lack of Audit Trail of Payments effected to Gozitano Members

Subsidy payments due to farmers are to be issued directly by the Ministry and not through the Cooperative of whom they are members. Any diversion from the *modus operandi* is to be justified, authorised by the right level of authority and duly documented.

Uncertainty in the Legality of Subsidy Payments effected to Gozitano

The Ministry is to refrain from issuing subsidy payments unless assurance is obtained that no financial assistance has already been paid on the produce being unloaded under the unique FRC number. Furthermore, all amounts paid under this FRC number are to be recouped if the Ministry deems that these were not legally justified.

Double Payments to Farmers due to Unreconciled Documentation

Copies of the documents forwarded to the local bank are to be retained by the *Pitkali* Markets. When these documents differ from those held by the *Pitkali* Markets, reconciliations are to be carried out justifying the resulting discrepancies. More attention is also to be given when processing payments and checks are to be carried out so as to reduce the risk of farmers being overpaid.

Verifications carried out by the *Pitkali* Markets not evidenced

All verifications carried out by the *Pitkali* Markets are to be duly documented and cases of discrepancies dealt with as soon as they are identified.

Lack of independent verification on Calculation of Subsidy Payment

The SMPPMA calculation is to be counter-checked by a senior officer prior to payments being effected.

No Tax Invoices or Fiscal Receipts attached to Payment Vouchers

The Department is to ensure that it is invariably issued with either a fiscal receipt, which is to be attached to the relative original PV for record purposes, or a tax invoice as long as it remains a VAT registered entity. Defaulters should be reported to the VAT authorities on a quarterly basis as detailed in MFIN Circular No. 5/2002. Business with persistent defaulters is to discontinue until the matter is rectified.

Budget Overrun

Every effort is to be undertaken so that initially approved budget lines are duly respected and, as far as possible, never exceeded. Large variances on any line item, which is to include only related expenditure, are to be immediately analysed and necessary corrective action taken in a timely manner.

Expenditure other than Subsidies expensed from the Agriculture Support Scheme Account

The Ministry is to ensure that allocation in Agriculture Support Scheme Account, as well as supplementary funds or Virements to this Account, are utilised exclusively for expenditure relating to subsidy payments.

No Agreements traced supporting Invoices charged to the Agriculture Support Scheme Account

All contracted services are to be duly backed by signed agreements between the parties involved, which are to be systematically filed.

Management Comments

Management concurred with our findings and favourably commented on the practical approach adopted in conducting the audit. Whilst acknowledging that NAO's recommendations are *"fully implementable"*, in particular, Management further remarked that:

- action has already been taken with Managment and Personnel Office (MPO) to have a new human resource structure and complement in line with current reform being undertaken at the *Pitkali*;
- any subsidy overpaid or unduly paid will be recouped by the Paying Agency starting January 2010;
- spot checks will be undertaken, both in Malta and Gozo; and
- as from January 2010, action will be taken with Treasury so that the Departmental Accounting System (DAS) will show the separate type of expenditure charged to the SMPPMA item.

Ministry for the Family and Social Solidarity

Contractual and Professional Services

Background

The audit covered Contractual and Professional Services at the then Ministry for the Family and Social Solidarity (Vote 44) and that of Social Security Division (Vote 45) for the year ended 31 December 2008.

The Ministry incurred Contractual Expenditure of €89,804 and Professional Expenditure of €1,700, whilst that of Social Security Division (SSD) incurred Contractual Expenditure of €168,207 and Professional Expenditure of €6,034 throughout the year.

Audit Scope and Methodology

The main objectives of the audit were to ensure that Contractual and Professional expenditure incurred is accurate, complete and free from material misstatements and that adopted procedures are adequate and comply with the relevant Financial Regulations and Circulars.

Payment Vouchers (PVs) issued to fifteen out of twenty-nine suppliers/service providers amounting to €108,720 and an additional €20,926 of payments made to the Police Department were selected in the sample.

The respective departmental files were examined to confirm that awarded contracts were properly executed. Where supplies were procured through a direct order or after requesting quotations, related documentation was reviewed. Vouchers were corroborated to supporting documentation.

Key Issues

Weaknesses regarding the engagement of the Consultant to set up the Change Management Unit

Consultant commenced rendering services prior to entering into a Formal Contract with Ministry

The consultant commenced rendering services to the Ministry for Family and Social Solidarity (MFSS) as from 1 January 2007 for a period of two years. However, the agreement and Ministry of Finance, the Economy and Investment (MFEI) Direct Order approval were signed a year later on 22 January 2008 and 21 January 2008 respectively.

Work performed additional to that specified in Agreement

The service agreement signed on 22 January 2008 and MFEI Direct Order approval issued on 9 September 2008, specify that the consultant was engaged to set up the Change Management Unit to support the implementation of the Pensions Reform. However, during 2008 some work was also performed on Rent Reform. The only document that specified this was MFEI approval granted on 2 February 2009.

Total payments in excess of MFEI Approval

Disbursements to the consultant for work undertaken in 2008 amounted to €32,068 which exceeded the amount of €26,497 originally authorised by MFEI on 9 September 2008. MFEI approval to increase the capping up to €33,000 for 2008 was granted on 2 February 2009.

Breakdown of Hours Worked not available

A breakdown of the 325 hours worked by the consultant on Pension Reform during 2007 was not available. However, full payment was effected. Management will not be in a position to control the number of hours worked if supporting evidence is not provided and its correctness certified prior to payment.

Payments issued prior to Consultant obtaining a VAT number

Four invoices amounting to €32,945 were paid by means of a multi-payment because the consultant was not yet registered with the VAT Division. Although, the rate per hour claimed was inclusive of VAT, a vatable expense was incorrectly treated as exempt.

Control Issues

Opportunities for improvement were identified in the following areas:

Incorrect Hourly Charge and Irregular Maintenance carried out for the Fire Protection and Security Systems at the IT room

Although, the maintenance agreement signed in June 2004 states that the hourly charge for labour is €26.79 (VAT incl.) the actual charge was €41.24 (VAT incl.), the latter rate differing also from the emergency call outs rate outside daytime office hours. No further agreements or documentation were available.

There are five separate maintenance schedules for the CCTV, Intruder Alarm, Smoke Detection, Gas Suppression and the Fire Door. From evidence obtained during the course of the audit, it was noted that although payments were effected in accordance with the agreement, these systems were not serviced periodically as specified in the maintenance agreement. This increases the risk of the systems failing to work properly, apart from posing additional negative implications on safety issues.

Unsigned Maintenance Agreement Contract and Monthly Preventive Maintenance not performed on the PABX System

The maintenance agreement contract dated 1 July 2003 was not signed by a Ministry representative. Payments of €7,439 for the year under review were issued accordingly even though the monthly preventive maintenance visits were not performed, on the basis that no official documentary evidence supporting monthly maintenance were forwarded to NAO during the course of the audit.

Monthly Maintenance Service Forms not traced, Unsigned Service Forms and Counter Readings not available for High Volume Network Printers

No monthly maintenance service forms were traced for January, March, May, July, August, September and October 2008. Service forms for February, April and June 2008 were not endorsed by a Ministry official indicating that maintenance visits are not being monitored.

Counter readings of copies printed were not traced for three out of four invoices paid. Therefore, it was not possible to confirm their mathematical correctness.

No Breakdown of the Hours Worked by the Legal Assistant

A legal assistant was selected to provide services to the Children and Young Persons Advisory Board at the hourly rate of €46.58 limited to €4,658.75 *per annum*. However, payments could not be verified as a breakdown of the hours worked was not included.

Weaknesses in respect of Police Escort Services

An analysis of claims made during a ten month period, with respect to the DSS and Valletta Area Office, indicated savings of €487 if officers in the grade of Police Constable were always assigned, instead of at times officers holding the rank of Police Sergeant or Sergeant Major.

A police claim issued in respect of services rendered during July 2008 at the Valletta Area Office included two charges for services which were not substantiated by signatures on the attendance sheet.

Compliance Issues

Expired Term of Tender for the Inserter and Mailing Machine

The tender for the Lease of Inserter and Mailing Machine expired in 2006. Although no documentation was made available to confirm renewal, the service was still provided under the same terms and conditions and payments issued accordingly.

VAT Receipts not available and Reports of Defaulting Suppliers not sent Regularly to the VAT Division

VAT receipts were not available with respect to a number of payments collectively amounting to €56,833.06. The suppliers who failed to provide receipts were not included in the VAT receipt exempt list as at 18 August 2008, thus confirming their obligation to issue a fiscal VAT receipt.

The Treasury Posting Batch Report highlighting suppliers who failed to submit VAT receipts was not sent to the VAT Division within six weeks from the end of every quarter. The last report forwarded as at the end of December 2008 related to defaulting suppliers for the period July to December 2007. MF Circular No. 5/2002 and Ministry of Finance letter dated 27 July 2005 are not being adhered to. This may result in VAT collections not being handed over to the VAT Division.

Incorrect Postings

A number of PVs were posted to an incorrect vote, account and/or cost centre, thus bypassing the request for virement in the case of insufficient funds.

Recommendations

Key Issues

Weaknesses regarding the engagement of the Consultant to set up the Change Management Unit

- Contracts should be signed prior to the commencement of duties and a new contract entered into should the provisions of the original contract be substantially altered. Details of work to be performed should be specific.
- Expenses should be duly authorised prior to being incurred. A signed detailed record of work performed should be endorsed by top management before effecting payment.
- Consultants who render services on a regular basis should be requested to register themselves with the VAT Division prior to issuing invoices.

Control Issues

Incorrect Hourly Charge and Irregular Maintenance carried out for the Fire Protection and Security Systems at the IT room

Basic controls are necessary to ensure that maintenance is carried out regularly. The computation of invoices is to be checked against the maintenance agreement prior to authorising payments.

Unsigned Maintenance Agreement Contract and Monthly Preventive Maintenance not performed on the PABX System

For the duration of this agreement, the Ministry should ensure that the monthly preventive maintenance visits are conducted.

Monthly Maintenance Service Forms not traced, Unsigned Service Forms and Counter Readings not available for High Volume Network Printers

The printers should be serviced monthly in accordance with the agreement and maintenance visits duly supervised. Copies of counter readings are to be kept in order to verify the computation of invoices prior to authorising payments.

No Breakdown of the Hours Worked by the Legal Assistant

A breakdown of the hours worked for each claim should be requested prior to authorising payments.

Weaknesses in respect of Police Escort Services

Management should establish the current needs and attempts be made to draw up an official agreement with the Police Department. Claims are always to be reconciled with the attendance sheets.

Compliance Issues

Expired Term of Tender for the Inserter and Mailing Machine

Action should be taken to consider what alternatives are available and to secure the option which best suits the Ministry's requirements.

VAT Receipts not available and Reports of Defaulting Suppliers not sent Regularly to the VAT Division

The Ministry/Division should ensure that suppliers duly submit VAT fiscal receipts upon receipt of relative payment. Defaulters are to be reported to the VAT Division, as specified in MF Circular No. 5/2002.

Incorrect Postings

All expenditure items must be appropriately accounted for. Management's attention is particularly drawn to MF Circular No. 3/2000 and other relevant Circulars.

Management Comments

Management concurred with the majority of the issues and will be taking action to implement the recommendations. The following comments were submitted:

- The Information Management Unit (IMU) held a meeting with the service provider during which service charge, maintenance agreements and payments issues, in respect of the Fire Protection and Security Systems at the IT room, were discussed. The service provider was requested to draft an updated Maintenance and Support Agreement indicating the updated charge to be discussed and agreed upon.

- Payments in respect of the monthly preventive maintenance performed on the PABX system are now being made subject to the receipt of schedules signed by an IMU representative. A new tender is to be issued by the end of 2009 for the upgrade of the PABX software which will also include a one year maintenance agreement.

- According to the Ministry, regular monthly maintenance is performed on the High Volume Network printers as these are used for all benefit correspondence and cheque printing. The supplier has been requested to provide a signed Service Form endorsed by an IMU employee, indicating the copy counts following each service as well as the maintenance undertaken.

- The Director General (Social Security) pointed out that *"Requests by this Division for the detailing of a police escort have indicated that the services are to be provided by a police constable. From replies by the Detail Officers of respective police stations, it has always been underlined that it is not always possible for them to provide the services of a constable. Hence the decision was always whether to provide the services of a higher official or no service at all. Obviously, this Division has always given priority to the health and security of its officials and hence we have accepted to incur the additional expense involved……………*

  As to considering an official agreement with the Police Department on the matter, this Division has been considering a review of the whole process and has decided on the issuing of a tender for the provision of security services from security companies. The successful tenderer will subsequently be asked to enter into a contractual agreement with the Division which will regulate the provision of services and payments due."

- The Inserter and Mailing Machine is now the property of the IMU and regular maintenance to the equipment is still required. Since the machine is not heavily used, IMU took the initiative to eliminate the dependency on this machine. Discussions are underway with the service provider for the formulation and signing off of a Maintenance Agreement until the Inserter and Mailing machine is decommissioned.

Social Security Division
Energy Support Measures
Energy Benefit

Background

The Energy Benefit (EB) was announced by Government as a 2007 Budget initiative. Such benefit aimed to alleviate the effect of increasing oil prices on water and electricity bills for eligible families. The scheme regulating the benefit was launched by the Minister for the Family and Social Solidarity and published in Government Gazette No. 384 on 20 April 2007. Approximately 29,000 households qualified for such benefit which was brought into force as from 1 January 2007.

This benefit replaced the actual Electricity Rebate System and entitles claimant to a voucher to claim a deduction against the water and electricity bill. The voucher cannot be cashed anywhere and is linked to a specific account number as indicated on the voucher itself.

Audit Scope and Methodology

The objectives of the audit were to verify that the procedures adopted in awarding the EB were in line with the legal regulations, ensure that adequate monitoring is being carried out on beneficiaries entitled to such benefit and assess that amounts subsidised by the relevant vouchers are being accurately and adequately accounted for.

The objectives were achieved by means of meetings held with top management to gain information on both the methods and procedures applied in granting the benefit and the internal controls adopted by the Division. Thirty beneficiaries were selected for further testing from a population of 29,258 claimants, giving a Confidence Level of 90% and a Confidence Interval of 15%.

Key Issues

Energy Benefit Vouchers calculated on Provisional and Actual Water and Electricity Bills

a) An exercise was carried out to confirm the correctness of the vouchers issued in particular periods covering both provisional and actual bills. Instances of low consumption shown in the actual bill when compared with the provisional bills for the same period were observed.

   In one particular instance, it emerged that the voucher amount paid, based on an actual bill, was less than the amount of vouchers issued based on provisional bills for the same period. As a result, the voucher amount due covering the actual bill was insufficient to deduct such amount of prior provisional bill vouchers. All vouchers issued were redeemed by the claimant.

b) Vouchers are issued for every bill generated with a validity period of six months. It was observed that actual vouchers are issued with the provisional voucher amounts deducted notwithstanding that their status may still not be confirmed.

   For example, in one case the voucher was issued net of the previous provisional vouchers for the same period. One voucher resulted as being expired and the other had not yet been redeemed thus effectively resulting in an underpayment.

Beneficiaries of Energy Benefit exceeding Means Limit

a) A review of the EB entitlement of beneficiaries chosen within the sample was carried out. Such verification was made to confirm claimant's eligibility for the Key Benefit after taking into consideration the capital and means test.

From the relative tests performed NAO concluded that there are indications of weaknesses in the internal control mechanisms. It resulted that in five out of twenty-eight cases available for examination, the claimants were found not to be eligible for the EB. In fact, these beneficiaries were entitled to the Children's Allowance as their Key Benefit, and their annual means exceeded the limits of €7,614 (year 2007) and €7,796 (year 2008) specified for EB entitlement.

b) In a particular instance, a claimant eligible for the EB was living in a guest house and therefore the water and electricity bill was not addressed to the claimant personally. Moreover, the voucher cannot be redeemed either by this claimant or the owner of the guest house, thus making his entitlement for the benefit questionable. One is to note that up to November 2008, said vouchers were not yet redeemed by the claimant.

Control Issues

Opportunities for improvement were identified in the following areas:

- It was observed that claimants' in receipt of Age Pension and/or any type of Social Assistance are being awarded the EB automatically. There may be cases where the claimant's circumstances affecting their eligibility to the EB, may have changed since the original application date, without the Division noticing or being cognisant of such change. Furthermore, no specific file is being created for the EB and any information used is that found in the original file of the Key Benefit applied for.

- Lack of departmental follow up of claimants' declarations was noted. Cases in question relate to exchange of one's residence and investments or other funds.

  In addition, assets (in their totality consisting of motor vehicles) listed by six claimants in the respective applications do not include details showing sufficient information as the assets' respective value.

  Access to sensitive information on claimants (such as property and number of motor vehicles owned) is only used by the Division in exceptional cases. In the majority of cases, it is assumed that the claimants' declarations are correct and no further checking is carried out.

- From the examinations carried out on Social Assistance Benefits Scheme (SABS), it emerged that it is not possible to obtain the following details on vouchers issued to eligible claimants:

  a) Detailed calculations and any adjustments carried out resulting in the EB payable.
  b) Explanation of any adjustments made in connection with any anomalies encountered.
  c) Date of voucher redemption by the claimant.

  Instances were encountered where it could not be established whether the calculation carried out for the EB amount included in the voucher was correct. Moreover, it could not be ascertained whether any manual adjustment or calculations were performed and the reasons for such practice.

- Various inconsistencies were noted when comparing household compositions between SABS, applications submitted, CdB and the EB database in four particular cases. Such inconsistencies emerged particularly in instances of separated claimants, those with children and other possible relatives living in the same address.

Recommendations

Key Issues

Energy Benefit Vouchers calculated on Provisional and Actual Water and Electricity Bills

The Division is to assess the current system of vouchers issued on provisional bills and consider any further enhancements deemed necessary to ensure that vouchers issued reflect the actual amount due as per actual bill. Any corrections are preferably to be carried out in the same period.

Moreover, any discrepancies arising between provisional and actual amounts paid by the claimants are to be checked and adequate action taken without undue delay.

Beneficiaries of Energy Benefit exceeding Means Limit

The internal control mechanisms are to be enhanced to ensure that the incidence of such shortcoming is minimised by catering for the timely detection and continuous prevention of errors. Necessary action is to be taken to rectify the irregularities identified and recover any EB vouchers issued erroneously.

Control Issues

- The Division is to continuously monitor and update its records upon every claim received.

- The Division is to ensure that any information submitted by the claimant is correct. All property and assets listed in the applications are to include a detailed description and value backed by documented evidence, whenever available. Furthermore, the status of any property, investments and/or shareholding held is to be reported at the end of each year and adequately followed up by the Division. Such details are also to be backed up by an official document.

  Any source of information available to the Division is to be utilised to confirm the validity of the information submitted by claimants within applications. As a minimum requirement, the Division should regularly carry out sample checks on applications submitted to validate the details included therein, but should also hold the claimant legally responsible for failure to inform the Division of any changes following submission of application.

- The Division is to ensure that all necessary details are electronically disclosed to ascertain that each voucher issued can be adequately monitored and followed up from the issue to the redemption stage.

- Household records are to be thoroughly reviewed for correctness against all available sources of information such as SABS, CdB and the EB household. Particular attention is to be given to those cases where the household composition may have changed, since this effects the entitlement to the benefit and the amounts covered by the voucher issued by the Division. In case where any discrepancies are noted, adequate and timely action is to be taken to rectify the matter.

Management Comments

Not all issues raised by the Office were completely addressed by Management. NAO was not informed of the corrective action and supporting evidence on particular cases highlighted. Management took on board some of NAO's recommendations and also made the following reservations:

- The voucher issued on the actual bill can be less or more than the two previous provisional bills. If it is less than the vouchers already issued on the provisional bills, than the next voucher is adjusted accordingly.

- When vouchers expire they are either re-dated or taken into consideration in the next voucher and the amount due adjusted accordingly to reflect the correct subsidy due as per actual bill. NAO is not in agreement with Management's comment that *"As the software stands today if adjustment was paid as suggested in the Management Report, the Division would have overpaid the actual amount due."*

- The five cases mentioned in the report should have received EB up to 05/07/07 but due to a bug in the software, payment of EB continued. EB Section is now analysing the payments effected so that necessary action will be taken to stop entitlement and also to recoup the overpayments involved.

- The fact that the WSC bills are issued on the account holder does not preclude claimant from the award of EB. NAO questions the validity of Management's comment whereby *"The amount of the voucher will be deducted by the landlord (on whose name the voucher is issued) from the rent due because persons living in guest houses and furnished flats have this arrangement."*

- The Division embarked on an on-going exercise to review all cases of non-contributory benefits/assistances to update the claimant's eligibility for such benefits/assistances. There are two main initiatives that were undertaken. One was A Macro Review of the Malta Social Security Act, which the Working Group submitted to the Minister in June 2007 and the Single Income Means Testing issue. There is an *ad hoc* Working Group composed of all stakeholders that was appointed by the Minister to address the latter issue. Management failed to inform NAO the exact date this Working Group was set up. Moreover, the Ministry started holding also internal meetings, chaired by the Permanent Secretary, on the former issue. These meetings will eventually lead to the analysis of the non-contributory benefits and assistances and the way forward.

- Cases that declare more than one property and private car are investigated accordingly. NAO queries what action is taken in respect of individuals who do not declare more than one property/private car.

- Any declared local investments in the Malta Stock Exchange are always considered as originally declared on first application irrespective of any increases/decreases experienced in the original capital declared.

- The Division pointed out that ownership of a private car and immovable property are not taken into consideration. However, NAO feels that it is pertinent to point out that Cap. 318: Social Security Act Second Schedule Part IV paras. 1 and 4 and Part V paras. 1 (a) and 4 state that account shall be taken of any property (excluding the house of residence).

- The Division requests that changes in circumstances are backed by documentary evidence and where it is not satisfied with the documents provided, case is further investigated by requesting a personal profile from the Tax Compliance Unit (TCU).

- Comments in relation to Control Issues - Adjustments and related explanations not featuring in SABS did not specifically address NAO's concern. Management forwarded additional information but failed to state the necessary details to fully substantiate the comments forwarded. EB payments are subject to full assessment at the invoice processing stage and different circumstances affect the entitlement period. All these factors make EB assessment quite a complex process. Manually tracking back the workings is not straight forward when these changes occur.

- The Division relies on the information submitted by claimant. The data available on CdB does not always reflect the circumstances of the cases in question. The majority of the cases on SABS rely on applications submitted for children allowances and therefore portray a true picture of the household composition. The necessary documents are requested to confirm such changes.

Ministry of Foreign Affairs

Forum Malta fl-Ewropa

Background

Set up in 2005 within the Ministry of Foreign Affairs (MFA), Forum Malta fl-Ewropa (FME) encompassed the roles that had been assigned to the Malta – EU Steering and Action Committee (MEUSAC) and Malta – EU Information Centre (MIC). In May 2008, MEUSAC was re-activated and subsequently FME was integrated within the new MEUSAC structure in July 2008.

The audit covered the expenditure affected by FME with a focus on payments issued to the four Social Partners[1] and other Non-Government Organisations (NGOs) from the Civil Society Fund (CSF). This fund aims at assisting constituted bodies and representative organisations to keep abreast with developments in the European Union (EU).

Audit Scope and Methodology

The scope of the audit was to ascertain that procurement and contracting activities, carried out by FME, were in accordance with standing regulations, policies and procedures, thus ensuring efficient management of public funds. An assessment of internal controls and their operations, as well as an evaluation of the adequacy of internal policies and procedures related to the areas covered in the audit, was also carried out.

Relevant rules and policies were reviewed and an examination of the documentation as well as further substantive testing was carried out.

Key Issues

Lack of Source Documentation and Evidence supporting Payments

In a number of instances source documentation, such as contracts and agreements indicating tariffs and stipulating the 'Terms and Conditions', were not readily available. Thus, correctness of certain payments could not be ascertained.

Invoices preceding Local Purchase Orders

In nineteen out of twenty-four payments covered by a Local Purchase Order (LPO), suppliers' invoices preceded the LPOs.

Agreement not traced

The *Tripartite Agreement* from where the entitlement of €58,234 emanates, payable to each of the Social Partners, could not be traced, although NAO was informed that these funds were approved at Ministerial level by means of a *Tripartite Agreement* between the MFA, the Office of the Prime Minister (OPM) and the Ministry of Finance (MFIN) which dated back to pre-accession days. Attempts to obtain the documented agreements proved futile. The amount awarded to one of the NGOs was increased to the foregoing amount over the three year period 2006 – 2008. However, no related written documentation and/or approvals were made available.

[1] The Social Partners are Union Ħaddiema Magħqudin (UĦM), General Workers' Union (GWU), General Retailers and Traders' Union (GRTU) and Malta Employers' Association (MEA).

Control Issues

Weaknesses in the Procurement Process for Security Services

Copy of Contract / Agreement not available

An agreement was entered into in 2002 for the provision of security services after obtaining three quotations. Despite the fact that during an audit carried out by NAO in 2003 it was reported that the agreement was not provided, five years later the same agreement was still not readily available but was sought by MEUSAC during the audit, following NAO's request. In the absence of such documentation clearly indicating applicable rates, the basis on which officers were certifying invoices and approving subsequent payment, could not be determined. MEUSAC Officers verbally declared that they never questioned the rates charged.

No Tenders issued for the Procurement of Service

Notwithstanding the amount of €13,546 paid to the service provider in 2008 in respect of security services, no tender was issued for the procurement of this service.

Overtime Charges

Though the agreement stipulates that security service is to be provided for an uninterrupted twelve hour period from Monday to Friday, very often overtime rates were being applied to monthly hours worked in excess of 174 hours, i.e. based on a daily average of eight hours duty.

Overtime Records

The records for overtime were compiled and signed by the security guard herself, without being endorsed by any of MEUSAC officials for their validity.

Shortcomings in the Procurement of Services rendered by the Cleaner and Courier

Contract for Service not in line with Regulations

The services of a cleaner and courier carrying out duties at FME/MEUSAC were not procured in line with standing regulations. In 2004, OPM advised that their contracts be terminated. Notwithstanding such advice, service still continued and in January 2008 the contracts of these individuals were renewed again by MFA for a further period of three years.

Inaccurate Method of recording Transactions

The foregoing two employees were expected to be VAT registered. However, payment for services rendered was effected through a multi-payment system, bypassing the Purchases Ledger.

No Agreement for Leased Car

The amount of €5,031 paid in 2008 in respect of a hired office car could not be substantiated as no lease agreement was made available, neither from MFA nor from FME. Following NAO queries, the car was returned to the supplier.

Payment for "Assistance in setting up MEUSAC's EU Funds Unit" not substantiated

Since no agreement or contract for the provision of services in connection with the setting up of the EU Funds Unit was traced, correctness of the hourly rate charged and hours of service paid for, covering the amount of €2,242 could not be verified. Moreover, VAT receipt supporting the payment was only requested from the supplier and subsequently submitted following NAO's request.

Procurement of Services for Focus Newsletter not in line with Regulations

Artwork service for the Focus Newsletter was not procured in line with standing regulations. The costs involved, totalling €6,761, required a call for tender. However, only one quotation was obtained, without seeking approval from the Ministry of Finance, the Economy and Investment (MFEI) for direct order. This situation was rectified with respect to newsletters issued in 2009.

Posting in Wrong Line Item

- The amount of €39,399 paid to a private contractor in respect of the printing of Focus Newsletter was erroneously charged to the account meant to be used for payment of printing matters at the Government Printing Press (GPP).

- A Schedule of Payment amounting to €4,524 issued in favour of the Ministry for Gozo (MGOZ) was also debited to the account mentioned above, irrespective of the fact that the invoices attached to the schedule, covering printing and design of a booklet, were issued by private contractors.

Lack of Audit Trail in the Allocation of Civil Society Fund Grants

Lack of audit trail was noted in the evaluation of applications of CSF and the allocation thereof, both in 2007 and 2008. The projects for which funds were being granted could not be identified since it was not indicated in the documentation. Also, certain documentation was not endorsed by any of the listed Board members and recommendations in the 'Conclusion' part were not filled in.

Reimbursement of Unsubstantiated Expenditure

At times, the receipts submitted by the recipients did not reflect the 100% expenditure incurred in line with the 'Procedures and Conditions for Disbursement'. Organisations benefiting from CSF had to submit original invoices and receipts. However, this condition was violated both in 2007 and 2008. In certain instances, though neither invoices nor delivery notes were submitted, funds were still paid in full.

Shortcomings in Refunded Travel Expenses

Flight Tickets

Although the CSF 'Terms and Conditions' stipulate that only the most economical air fare was eligible for reimbursement, applications for refund were not supported with any quotations to substantiate this. Moreover, in many instances, air fares were still being considered as eligible even though neither the respective air tickets nor boarding passes were produced.

Expenses claimed by an organisation in 2007, in connection with travel amounting to €25,183 were only covered by a statement of account and no air tickets were made available. Moreover, there was no indication of the purpose for such travel. Thus, it could not be confirmed whether these expenses were incurred on official business and on EU related matters.

Accommodation

Besides reimbursement of flight tickets, the 'Procedures and Conditions for Disbursement' grant an allowance of €150 *per diem,* with 20% of the expenditure expected to be paid out of the funds of the constituted bodies. With the exception of one entity, this clause was not being applied. Entities were reimbursed 80% of the accommodation costs claimed, together with taxi/transport as well as other expenses such as dinner/lunches, internet access and parking at the Malta International Airport (MIA). In a particular instance, a claim in respect of accommodation for two nights at a total cost of €1,000, as well as additional sundry expenses amounting to €152, was not even evidenced by the individual's participation. The amount was reimbursed without any questioning on the part of the CSF Committee.

Extended Visits Abroad

Occasionally, visits abroad were extended beyond the duration of the alleged meeting or activity or else participants were accompanied by their spouses. Quotations for the variance in accommodation and flight costs were not obtained, having the amount claimed paid out of public funds without any subsequent reimbursement from the individuals.

Claims not Supported with Evidence of EU related Duties

Supporting documentation in respect of claims for the reimbursement of remuneration expenses incurred in areas connected to the EU, such as EU consultancy or operations of EU Desk, consisted mainly of FS3s. Although no evidence of EU related activities was given with such documents, the claims were still considered as eligible. In certain instances, copies of cheque images and copies of the monthly payslips were sent as evidence of salaries paid out. Due to the lack of documentation outlining the role of these employees, it could not be ascertained whether their duties were EU related in order to validate this expenditure.

Compliance Issues

Forum EU Episodes on Education 22 not authorised in line with Regulations

Authorisation from the Minister or his delegate, as required in terms of Article 19 (1b) of the Public Contracts Regulations, was not evidenced in relation to a payment of €5,600 in favour of Education 22 channel for the production, presentation and transmission of eight episodes of Forum EU.

No VAT Receipts attached to Payment Vouchers

From a sample of sixty-seven Payment Vouchers (PVs), VAT receipts were not attached to the PVs in thirty-two instances. PVs were filed and stored at MFA, while the respective VAT receipts received by MEUSAC were not forwarded to the Head Office.

Non-adherence to Deadlines

Notwithstanding the fact that deadlines for the submission of the implementation reports of the four Social Partners for funds granted were not met, organisations were still granted funds in the subsequent year. Documentation bearing a deadline, such as application forms, was not stamped by FME/MEUSAC showing the date when records were received.

Recommendations

Key Issues

Lack of Source Documentation and Evidence Supporting Payments

All transactions are to be clearly documented and supported by complete and accurate records enabling each transaction to be traced from its inception to completion.

Invoices preceding Local Purchase Orders

As far as possible, LPOs are to be raised prior to the placing of orders for goods and services with the supplier, ensuring that adequate authorisation is sought beforehand.

Agreement not traced

MEUSAC is to ensure that it has all the required documents, agreements and approvals, from the right level of authority, prior to effecting disbursements from public funds.

Control Issues

Weaknesses in the Procurement Process for Security Services

Copy of Contract / Agreement not available

Officers verifying and endorsing invoices are to be provided with all the information required for such review. Officers should be aware that once they are certifying the correctness of the invoice, they are assuming responsibility for such payment. Moreover, double checking of one's work by an independent officer at the Accounts Section is recommended to ensure accuracy of payments.

No Tenders issued for the Procurement of Service

The agreement in force is not to be renewed. A fresh call for tenders is to be issued and a more advantageous service contract may then be negotiated. All contracts entered into should be made available upon request.

Overtime Charges

Tighter controls are to be implemented in order to ensure that overtime is resorted to only in unavoidable and exceptional circumstances.

Overtime Records

Overtime is to be adequately recorded, verified and endorsed by MEUSAC officials prior to effecting payment.

Shortcomings in the Procurement of Services rendered by the Cleaner and Courier

Contract for Service not in line with Regulations

Approval from the right level of authority is to be obtained, otherwise contracts are to be terminated and a new call for applications is to be issued.

Inaccurate Method of recording Transactions

Payments to vendors are to be processed via the Purchases Ledger.

No Agreement for Leased Car

Procurement regulations are to be abided with. 'Terms and Conditions' are to be clearly stipulated in the agreement.

Payment for "Assistance in setting up MEUSAC's EU Funds Unit" not substantiated

In similar cases in the future, an agreement is to be entered into with the service provider clearly indicating any 'Terms and Conditions', together with the rates to be charged. Supporting documentation signed by both parties is to be kept as evidence of the provision of service. Prior to effecting payments, invoices are to be verified to ensure correctness of hours and rates invoiced. Fiscal receipts are to be requested upon submission of payment.

Procurement of Services for Focus Newsletter not in line with Regulations

Management is to emphasise compliance with Standard Procurement Regulations. OPM, who are now administering MEUSAC's funds, should consider informing MEUSAC that any commitments not in line with regulations will not be honoured.

Posting in Wrong Line Item

More diligence is to be exercised when allocating expenses to ensure that expenditure is correctly reported under the pertinent line items, as this could distort Management information and may have an effect on future budgets.

Lack of Audit Trail in the Allocation of Civil Society Fund Grants

Management is to ensure that the process of fund allocation is fair and transparent. Ideally, final decisions about allocated amounts are to be endorsed by all members of the Committee.

Reimbursement of Unsubstantiated Expenditure

CSF regulations are to be fully adhered to. Any claims for reimbursement not supported by invoices, clearly indicating the project to which they relate, should not be paid. Moreover, it is to be ensured that invoices submitted relate to the approved projects.

Shortcomings in Refunded Travel Expenses

Flight Tickets

CSF Committee is advised not to approve reimbursements unless claim is supported with necessary records, particularly boarding ticket, and regulations are fully adhered to.

Accommodation

Organisations are to be granted only €150 *per diem* allowance, out of which travelling expenditure is to be fully paid out. If the expenditure exceeds such allowance, this is to be borne by the respective organisation.

Extended Visits Abroad

Claims in respect of travel are to be properly vetted. The attention of the organisation concerned is to be drawn in that only justified claims will be accepted.

Claims not Supported with Evidence of EU related Duties

Remuneration expenses are to be reimbursed only upon the submission of the contract of service of the employees concerned, enabling one to ensure that the duties carried out by the respective employees are within the scope of the CSF regulations.

Compliance Issues

Forum EU Episodes on Education 22 not authorised in line with Regulations

Procurement regulations are to be abided with and authorisation from the right level of authority is to be sought prior to procurement, ensuring that established controls for significant value purchases are not bypassed.

No VAT Receipts attached to Payment Vouchers

VAT receipts are to be regularly forwarded to the entity where the respective PVs are being kept. A quarterly return, highlighting those suppliers not complying with VAT regulations, is to be duly filled and submitted to the VAT Division as per MFIN Circular No. 5/2002. In cases where suppliers fail to adhere to VAT regulations, purchasing from such suppliers is to be discontinued until the situation is rectified.

Non-adherence to Deadlines

While deadlines set are to be adhered to, penalties are to be imposed on those who fail to comply. Otherwise their effectiveness is substantially reduced. Submitted documentation is to be dated and initialised by the person receiving it.

Management Comments

Management upheld most of the observations and will be implementing a number of recommendations.

Management expressed reservations on the following issues:

Lack of Source Documentation, Weaknesses in the Procurement Process for Security Services, No Agreement for Leased Car: Management argued that MEUSAC and FME inherited arrangements that were entered into prior to the establishment of the two entities and since payments, as a result of such arrangements, were regularly affected and never questioned by the Corporate Services Directorate, it was assumed that these were regular and payments were authorised accordingly.

Inconsistency in treating Eligible Reimbursement: Management maintained that local newspapers as well as the Government Gazette are considered as 'eligible expenditure' since they address EU related issues. In the case of the Government Gazette, these include Call for Tenders and Notices by EU related entities as well as Maltese legislation transposing EU directives.

Issues listed hereunder were not properly addressed by Management or not addressed at all:

- Payment for 'Assistance in Setting up MEUSAC's EU Funds Unit' not substantiated.
- Posting in wrong Line Item.
- Reimbursement of accommodation expenses.
- Extended Visits Abroad – payment of private visits out of public funds.
- Forum EU Episodes on Education 22 not authorised in line with Regulations.

Malta High Commission in London

Background

The Malta High Commission in London (MHCL), situated at 36-38 Piccadilly Street, is in charge of the promotion of Malta's interest and the Maltese identity in the United Kingdom (UK). It occupies the 1st, 5th and 6th floors of a building in central London. Staff at the High Commission network effectively with the Maltese living in the UK and provide a number of Consular services, including passport service, citizenship, authentication of documents, oaths, residence, legalisations and Visas.

In addition to the above, MHCL through one of its officers referred to as the Medical Liaison Officer (MLO), assists with the organisation of transport for Maltese patients receiving treatment in the UK.

Audit Scope and Methodology

The main objectives of the audit were to ensure efficient administration of public funds, and compliance with standing Laws and Regulations, policies and standard operating procedures. The audit was also carried out to assess the efficiency and effectiveness in managing the Mission as well as to determine whether sound internal controls were in place.

This exercise entailed examination of accounts and applicable Legislation. Interviews, reviews of files, and an evaluation of internal operating procedures, were carried out both at MHCL as well as at the Head Office (HO) at the Ministry of Foreign Affairs (MFA).

Key Issues

Limitation of Scope

Testing and verification was limited due to the fact that source records, such as vehicle log books, documentation specifying floor area occupied by the Mission, and the basis for Sinking/Reserve Fund charges, were not available for audit purposes.

Budget Overrun

The Mission's budget for 2008 stood at €1,267,900. According to the Departmental Accounting System (DAS) records, this was exceeded by €63,896. These figures however, exclude a number of expenses amounting to over €21,000 that were traced in the records of the Mission, chargeable to various accounts, but could not be traced in DAS, indicating that the actual expenditure was in excess of the amount mentioned above.

Insufficient Internal Controls

Lack of controls was evident in various areas. The absence of basic controls led to undetected errors, overpayments as well as non-compliance with standard Rules and Regulations.

Lack of Segregation of Duties

- A Malta Based Officer (MBO) was carrying out a number of administrative duties including ordering/purchasing goods, certifying invoices (including those in connection with his own payments), endorsing cheques and Payment Vouchers (PVs), updating Leave records (including his own), and a number of other tasks. All procurement requisitions (where applicable) were authorised by this MBO. In many instances, this Officer was authorising requisitions raised by himself, notwithstanding that the Mission was headed by a High Commissioner during most of 2008.

- During 2008, self-payments amounting to £2,520 (€3,258)[1] were issued by this Officer as re-imbursement for expenses and purchases (excluding medical expenses, mobile phone bills and residence phone bills) made by himself. Invoices and payments were solely endorsed and authorised by the same Officer.

- The lack of segregation of duties also resulted in non-compliance with instructions issued by the MFA to Heads of Missions in 1999.

Government owned Company's Operations in London managed by a Sole 'Property Manager'

The operations in London of a Government owned company, managing the seven storey building in Piccadilly Street, are exclusively managed by an individual under the title of Property Manager, notwithstanding the substantial revenue involved. Income to this company solely from MHCL during 2008 (excluding Insurance Premium and charges in connection with the assessment of proposed works) amounted to £340,328 (€440,049)[1]. Other revenue to this company is that received from other tenants occupying the remaining area of the property in Piccadilly Street.

Shortcomings in payments effected to the Government owned Company in respect of Service Charges

In the service charge breakdown reconciliation statements covering period 2007 and 2008, both endorsed by the Government owned company's Financial Controller, the advance payment billed by this company was understated. This was not detected by MHCL and the invoice was subsequently paid in full, resulting in an aggregate overpayment of £6,018 (€7,781)[1] including unrecoverable VAT.

Moreover, the amount of £91,103.41 (€117,798.11)[1] billed by this company in 2008 as service charges, could not be verified. These charges were being allocated to tenants on the basis of floor area occupied by same. However, no documentation was traced at MHCL confirming the floor area occupied by the latter. Due to this reason, correctness of the charges invoiced could not be ascertained. The basis on which invoices were being certified correct could also not be determined.

No Basis for Sinking/Reserve Fund Charges

Amounts totalling of £33,408 (€43,197)[1] were paid during 2008, as Sinking/Reserve Fund charges, covering the period 25 December 2007 to 24 December 2008. These funds were intended to be used for the eventual improvements to the building. However, source documentation supporting these amounts claimed by the company was not available, and thus correctness of the payments could not be warranted. Moreover, these charges were also said to be allocated on the basis of floor area. Notwithstanding the lack of information, all invoices were paid in full.

Non-refundable VAT paid on Rent, Service Charges and Sinking/Reserve Fund

In August 1989, the Government owned company opted to tax transactions relating to the building, in Piccadilly Street, notwithstanding the fact that the default position is not to tax. As a result, the company charges VAT on rent bills and on service charges footed by MHCL, as well as on the transfer of funds to the Sinking/Reserve Fund.

During 2008, the amount of £50,687 (€65,539)[1] was paid by MHCL to the company, being VAT on the above mentioned services, which amount is not refundable to MHCL.

Annual substantial amounts are being paid to the UK Government in terms of non-refundable VAT on rent due to a transaction involving the MHCL and the Malta Government owned company. Being a Malta Government owned entity, the option to tax could also result in further loss of revenue to the Maltese Government. When compared to other companies in the same line of business, but which are not VAT registered, this company will have to charge higher rental charges than those of its competitors, risking not to find the right clients, if at all. Alternatively it will have to forfeit the VAT portion, in order to be competitive, thereby affecting public funds in an adverse manner.

Control Issues

Salaries, Allowances and Benefits

Shortcomings in connection with Locally Engaged Personnel Salaries

- In June and December 2008, all Locally Engaged Personnel (LEP) received the equivalent of the €135

[1] The Euro equivalent of 1.2928 to the Sterling is an approximation based on the average exchange rate for 2008.

bonus each that is paid to MBOs. This resulted in an additional expense of £2,361 (€3,053)[1] to the Mission. Payment of the bonus was not included in the LEP's Engagement Contracts and thus this was not due to them.

- Allowances, arrears in salary, and bonuses received by LEPs were not being declared for tax purposes.

Malta Based Officer enjoying Benefits to which he was not entitled

- During the period under review, the MBO referred to earlier was enjoying the use of a fully expensed car, which was not sanctioned at his level. Moreover, no fringe benefit tax was being deducted. The same Officer was also reimbursed for the rental of two fixed lines at his private residence, for a period of six months during 2008, when he was entitled to one line only.

- The same Officer was also refunded the amount of £1,587.75 (€2,052.98)[1], almost entirely covering his mobile phone bills totalling £1,689 (€2,184)[1], even though he was not entitled to the use of a mobile phone at Government's expense.

- Though it is acknowledged that the Officer may have been carrying out duties higher than his grade in the absence of the High Commissioner between September and December 2008, it was noted that self-payment of the aforementioned benefits was made throughout all of 2008.

Re-imbursement of Medical Expenses to Malta Based Officers

- During 2008, the amount of £9,907 (€12,822)[1] was refunded to the same MBO, of which £9,154 (€11,836)[1] (i.e. 92%) were claimed in respect of his spouse, mainly relating to pregnancy and birth of a child. It is not clear to what extent pregnancy treatment is covered under reimbursable medical expenses, as guidelines in this regard are not exhaustive.

- The provision in the Conditions of Service for Officers Serving Overseas (CSOSO) stipulates that, in cases where the cost of an extended treatment exceeds €2,330, approval is to be sought from the Permanent Secretary prior to effecting payment. However, no such approval was evidenced in the claims presented for reimbursement by the foregoing MBO, where the estimated cost of treatment exceeded the stipulated threshold. The forms were signed by the Director Corporate Services (DCS) on behalf of the Permanent Secretary without having the proper delegation.

- In at least two instances, the MBO reimbursed himself the amount without having first obtained all the necessary approvals. On June 16, he was reimbursed the amount of £2,578 (€3,333)[1], while DCS only approved the claim form on 30 July 2008. Moreover, on June 30, the same Officer was reimbursed the amount of £2,335 (€3,020)[1]. The claim for reimbursement was only endorsed by the claimant at date of payment, while approval from the DCS was obtained a month later.

Allowance to Medical Liaison Officer

The MLO was granted a mobile phone allowance of 12.5% as well as a medical allowance of 18.5% of her basic salary. As a result, every time the Officer receives an increment the allowances increase. In spite of the mobile allowance given, the entire bills in respect of the mobile phone used by the MLO are paid out of public funds. Moreover, these allowances were treated as tax free.

On fourteen days, covering different periods, the MLO was on Vacation Leave (VL) or Time-Off-In-Lieu (TOIL), but was still paid both allowances in full, against standing agreements.

Outdated Conditions of Service

Notwithstanding that the CSOSO is the only document available to MBOs which provide guidance relating to the efficient administration of a Mission and create uniformity in the policies and procedures adopted by the various Embassies, some of the benefits enjoyed by Ambassadors and other issues raised in previous Audit Reports have still not been addressed in the recently revised version of the CSOSO.

Procurement

Contracts/Agreements not Abided with

- The rates being charged for the lift maintenance at the High Commissioner's residence, differed from the rates quoted in the original agreement effective as from 1983. Though the latter states that rates shall be varied in accordance with any rise or fall of such costs from time to time, no further documentation was traced indicating what are the applicable costs for 2008. Thus, correctness of the amounts paid to the service provider during the year under review could not be ascertained.

- No documentation was traced justifying the increase in the quarterly maintenance fee for the telephone system at MHCL.

- Rates invoiced for Safety Systems Service and Maintenance were overstated when compared to the charges agreed upon on 25 February 2008. Notwithstanding this, invoices were paid in full.

Unsubstantiated Payments for TV Package

A PV was issued to the above-mentioned MBO as refund for the first payment made to the service provider, said to be in respect of the subscription for TV package at the official residence. While the PV was raised and authorised by the same Officer, no proof of the expense incurred was provided except for a note by the same Officer. Moreover, monthly payments were higher than the rate indicated by the service provider. Except for the PV, no further documentation was traced substantiating the amounts paid.

Revenue

Completeness of Income not Warranted

- During 2008, a total amount of £7,712 (€9,972)[1] was received from various entities to finance events organised by MHCL. No receipts were issued by the Mission backing these amounts, and thus correctness of same could not be warranted.

- Application forms available at the Mission do not cover all possible consular services offered, thus £5,933 (€7,671)[1] revenue reported could not be confirmed. Moreover during the audit, it was noted that Officers at the Mission were not aware of MFA Internal Circular 01/2009 setting the new layout of such application forms which should have been circulated to all Missions following NAO's recommendation last year.

Loss of Revenue

- Despite the fact that a number of passports processed during 2008 were marked as urgent, the normal rates established in Legal Notice 244/2008 were being applied as there is no legal document indicating fees to be charged by an Embassy in such cases.

- For legalisations, one flat charge is applied, irrespective of the fact that a counter legalisation of a foreign document involves much more work than a Maltese document and may merit double the charge.

Visa Revenue Reports prepared Manually rather than from the Automated System

Records of Visas issued, and revenue generated thereof, were being manually inputted in a spreadsheet since Officers in charge of the Visa Management System at the MHCL were not knowledgeable of the embedded features in the system enabling users to generate a number of reports.

It further transpired that the automated Visa system still has some technical faults and in certain instances it tends to over-report the revenue. Unless this shortcoming is rectified, discrepancies will arise between the figures manually reported and those extracted from the automated system.

Transport

No Log Books/Mileage Records

No log books/mileage records controlling the use of Government owned vehicles were kept. Due to this, correctness of the payment amounting to £2,559 (€3,309)[1], for excess mileage covered by one of the Mission's vehicles, could not be ascertained. Notwithstanding the lack of relevant details on the invoice, such as the amount of excess mileage charged for, the invoice was still endorsed by one of the MBOs and paid in full, although no verification could be performed.

No Fuel Requisitions

The amount of £8,980 (€11,611)[1] (VAT incl.) was spent on fuel in 2008. These purchases were not covered by authorised fuel requisitions. Instances were also noted where the same vehicle was shown as having received both Diesel and Unleaded fuel. It was also noted that on seven instances, apart from the two official vehicles, other vehicles also received fuel.The number plates on the printed invoices were however later manually amended to reflect the registration number of one of the Mission's vehicles.

Transport Provided to Maltese Patients Receiving Treatment in the United Kingdom

- A garage was providing transport to Maltese patients receiving treatment in the UK in the area of Surrey outside London. However, no agreement stipulating the applicable rates was in force.

- Invoices paid to the foregoing service provider were not supported by any evidence from the respective patients confirming that trips invoiced were actually performed. Though the invoices indicated the pick-up points and the final destination of the journey, these were not substantiated by further documentation confirming that trips were in fact made by the patient and not by any relative.

- From a sample of payments reviewed, it was observed that at times trips were not efficiently planned and two separate trips were charged to pick-up patients from the same location at the same time.

- Different rates were noted to have been charged for occasional trips performed from Surrey to the Royal Marsden Hospital in Fulham London. Also, there was no consistency in the rate being applied for trips that included waiting time.

Hospitality

Unsubstantiated Payments

- Though the original budget on the Hospitality Line Item stood at €2,500 and was later revised to €3,376, MHCL managed to obtain additional sponsorships and financial contributions amounting to €9,973. Such expenditure does not include the amount of £2,720 (€3,517)[1] paid to various individuals for waitering, cheffing, security duties and other services performed during receptions held, that was debited to Line Item 3060 – Contractual Services.

- Individuals performing the above services were being paid in cash after signing a piece of paper confirming receipt of the money, sometimes without even indicating the number of hours worked.

- On the 10 and 11 December, the First Counsellor, in the absence of a High Commissioner, organised two lunches and two dinners. The amount of £400 (€517)[1] was paid to one individual covering sixty hours of waitering services by three waiters in the aforementioned period. No further documentation such as the number of hours worked by each waiter was submitted, thus correctness of this payment could not be warranted. Another two payments amounting to £200 (€258)[1] and £140 (€181)[1] respectively were issued to another individual covering an aggregate of thirty-four hours of 'services' at £10 (€13)[1] an hour. No details were provided indicating what these services consisted of.

- The monies indicated above were paid by cash by the Officer organising the lunches/dinners, and PVs were endorsed by the same Officer. Moreover, no approval was traced covering any of the amounts posted under Hospitality in line with the relevant provision of the Public Service Management Code (PSMC).

Visits to Northern Ireland and Liverpool

- A reimbursement of £1,500 (€1,939)[1] was issued to the High Commissioner in May 2008 as refund of payment in connection with events organised at the Honorary Consulate in Northern Ireland. The only documentation substantiating this payment was a declaration by the High Commissioner that the latter paid the aforementioned sum. No further evidence was traced.

- During this visit in Ireland, as well as on another two day visit to Liverpool, the High Commissioner was accompanied by another person. The latter was also paid for four nights subsistence allowance at €138 per night. The CSOSO specifies that such individuals are entitled to subsistence allowance either when they are accompanying the Ambassador to present credentials in a non-residential post, or when they have been invited together with the Ambassador to attend official functions of special relevance to Malta. However, no official invitation was made available, and the reasons specified on the duty travel advance request form were not related to the presentation of credentials.

- The source of the subsistence rate paid to the accompanying person could not be determined.

Working Schedule and Upkeep of Records

Working Hours of Staff Differing from those of the Public Service

- The working schedule at the Mission is an average of thirty-five hours per week i.e. five hours weekly short of the official timetable. Approval from the Management and Personnel Office (MPO) authorising such divergence was not obtained.

- Due to the fact that staff at MHCL work shorter hours per day, MBOs availing themselves of VL are being deducted seven hours for each day of absence, since VL is deducted on an hourly basis. As a result, MBOs working at MHCL are ending up with more VL than they are entitled to.

Shortcomings in Leave Records

- Incorrect deductions and other errors gave rise to discrepancies between the 'Leave Records Monthly Reports', which are the official records submitted to HO on a quarterly basis, and other records provided by MHCL for the period under review (December 2007-December 2008).

- Incorrect calculation of VL availed of by an officer.

- Though a number of officers were shown as availing themselves of TOIL on a number of instances, said to have been accumulated during various official activities, no records substantiating the TOIL entitlement were traced. Thus, correctness of TOIL availed of could not be warranted.

Other Shortcomings in the Upkeep of Records

- The Cash Book kept by the Mission cannot be considered a proper Cash Book as this document was mainly a list of expenditure incurred in a particular month. Income received was only reported upon in separate reports. Moreover, no opening/closing balances were shown. Reconciliations were regularly being carried out.

- Revenue representing sale of items during MHCL's participation in different activities, was not substantiated. The only documentation attached showed the items sold and their cost price. In these circumstances, verification to ensure correctness of same amounts was hindered. Moreover, expenditure and revenue generated from such activities were not shown separately in the Cash Book and revenue reports, but only the net amount was shown as deposit to bank.

Lack of Communication between Malta High Commission in London and Ministry of Foreign Affairs

Lack of communication between MHCL and HO at MFA resulted in a full month's training subsistence allowance overpaid to a Maltese student undertaking a scholarship in the UK. The overpayment, amounting to £2,098 (€2,660)[1], was partly recovered on 13 February 2009. However, as at September 2009, according to HO, the balance of €499 was still pending notwithstanding a reminder sent to the student in May 2009.

Inventory

Unrealistic Values of Inventory Items

A number of items traced in the inventory records and visited on site were noted to be recorded at an overstated value, resulting in misleading financial information. Moreover, no reference to source documents, substantiating the amounts, was included in the database.

Internal Transfer of Assets not updated in Inventory Records

Transfer of items from one location to another, mostly at the High Commissioner's residence, was not reflected in the official inventory records. Furthermore, no transfer note was in use that could support changes of location of a particular inventory item.

Heritage Assets

A number of paintings, whose nature could well be classified as 'Heritage' under the Inventory Control Regulations, were not marked as such in the inventory database.

Assets not tagged with Identification Number

During the physical inspection of inventory items, both at MHCL and at the private residence, it was noted that practically none of the items had the Asset Identification Number labels affixed to them. Consequently, inventory items inspected at MHCL could not be verified without staff assistance since sufficient details, such as serial numbers, were also not noted down in the inventory database.

No Room Inventory Lists

Room Lists for all the distinct sub-locations, both at MHCL and at the private residence, were not evidenced as required by MF Circular No. 14/99.

Other Matters

Utilities – Telephone

In addition to shortcomings in connection with telephone expenditure indicated earlier in this Report, it was noted that all staff at the Mission have direct access to international and mobile calls from their offices' landlines.

Misallocation of Expenditure

During 2008, the amount of £133,549 (€172,681)[1] paid to the Government owned company was debited to the Rent Account, notwithstanding the fact that the amounts paid did not cover rent, but were in respect of Service Charges, Insurance Premiums and Sinking/Reserve Fund Charges, meant for maintenance or improvement to premises.

Compliance Issues

Non-Compliance with Financial Management and Monitoring Unit Instructions

The option selected and approved by the Financial Management and Monitoring Unit (FMMU), in connection with one of the leased vehicles used by MHCL, indicated a buy back of the vehicle within three years and retention of the same vehicle for at least a further three years. Notwithstanding this, following MFA's approval, a new agreement dated 3 November 2008 was entered into with the supplier for the lease of a new vehicle to replace the one in question.

Return not submitted to Head Office

MFA Internal Circular 10/2008 requires Heads of Missions to inform the Ministry in writing what rates they are charging for the processing of passports. However, no such return could be traced at HO from MHCL.

Recommendations

Key Issues

Budget Overrun

Initially approved budget lines are to be respected and possibly not exceeded. Large variances on any line item are to be immediately analysed and the necessary actions taken. Moreover, regular reconciliation is to be carried out between DAS records and other source documents kept by the Embassy.

Insufficient Internal Controls

It is recommended that the Mission develops its own internal control procedures having regard to its specific circumstances and characteristics. Controls should reflect sound business practice, remain relevant over time in the continuously evolving business environment, and enable the Mission to respond to specific needs.

Lack of Segregation of Duties

Lines of responsibility should be clearly identified and communicated to all employees. Different levels of the procurement process are to be undertaken by different individuals, where this is possible. Levels of purchasing authority are to be considered. Moreover, the basic internal control of segregation of duties is to be introduced to avoid self authorisation of purchases and payments thereto.

Government owned Company's Operations in London managed by a Sole 'Property Manager'

In view of the substantial revenue involved, Management is to delve immediately into the matters to mitigate this company's financial risks.

Shortcomings in payments effected to the Government owned Company in respect of Service Charges

Reconciliation between the amounts paid and outstanding amounts is to be carried out by MHCL on an annual basis and any discrepancies arising, following receipt of invoices, rectified immediately. Strong internal controls are to be implemented and invoices are not to be paid prior to being thoroughly checked and certified as correct by an authorised officer at MHCL. Ideally, statements submitted by the company are to be backed up by bills/receipts supporting amounts being charged.

Moreover, MHCL is to confirm the floor area occupied by the Mission, which information is to be sought ideally from a completely independent source. Once relevant details are obtained, charges attributed are to be reviewed to ensure correctness of the basis being applied.

No Basis for Sinking/Reserve Fund Charges

It is the responsibility of MHCL to ensure that it has all the required information to be in a position to exercise adequate control. At the beginning of the year, staff is to ensure that they know the share due by the Mission for that year in accordance with planned works, supported by reliable estimates/quotations. At the end of the Financial Year, MHCL is to request a statement of detailed expenditure. Only after a reconciliation exercise is carried out should additional invoiced amounts be paid. Overpaid amounts advanced are to be recouped against subsequent bills.

Non-refundable VAT paid on Rent, Service Charges and Sinking/Reserve Fund

As stated by MHCL, there appears to be a possibility of the option to tax being revoked after twenty years have elapsed since the original decision opting to tax took effect. Noting that the twenty year period will accrue around 2015, all parties concerned are encouraged to take immediate action on the matter, seek legal advice and draw up a strategic plan to achieve the best possible outcome.

In the meantime, alternative scenarios may be considered, and legal advice sought on the possibility of removing the VAT charge payable by MHCL.

Control Issues

Salaries, Allowances and Benefits

Shortcomings in connection with Locally Engaged Personnel Salaries

MHCL is to ensure that any additional monies payable to employees, over and above those regulated in their contracts of employment, are effected on the grounds that appropriate approvals from the relevant authorities are sought prior to the introduction of such payments.

As an employer, MHCL has a legal obligation to operate Pay

As You Earn (PAYE) on the payments issued to employees if their earnings reach the National Insurance Lower Earnings Limit (LEL). Thus, the Mission is to ensure that tax is duly deducted on all payments effected to employees and the relevant funds transferred to Her Majesty's Revenue and Customs (HMRC) on a regular basis. The implications of declaring the amounts which have not been reported to the Tax Authorities are to be considered, and the best possible course of action adopted.

Malta Based Officer enjoying Benefits to which he was not entitled

It is to be ensured that MBOs are only paid those benefits stipulated in the CSOSO. Additional expenses are to be borne by the Officers concerned. Any overpayments and/or monies paid to the MBO, for which he was not entitled to, are to be recouped.

Re-imbursement of Medical Expenses to Malta Based Officers

As already recommended in previous Reports, to reduce ambiguity, HO may consider drawing up a comprehensive definition of what constitutes a 'medical expense' and 'medical treatment'. Such definition may be included in the CSOSO. In addition, in consultation with the Ministry of Finance, the Economy and Investment (MFEI), MFA may also carry out a cost benefit analysis to determine whether providing the Officers with a medical insurance cover would be more economical. If in the affirmative, such option may be considered.

Payment should not be effected unless approval from the right level of authority is sought.

Allowance to Medical Liaison Officer

The salary package of the MLO is to be reviewed and adjusted in a way that this does not exceed that of an Executive Officer (EO). An annual fixed allowance may be set which will not be linked to the basic salary.

Mobile phone bills are to be properly verified and personal phone calls reimbursed by the MLO. Tax is to be deducted on all income, including allowances in line with Her Majesty's Revenue and Customs guidelines. Payments to which the MLO was not entitled to, are to be recouped.

Outdated Conditions of Service

The Ministry may consider undertaking an in-depth review of the benefits to which Ambassadors and other MBOs may be entitled to and update the CSOSO accordingly.

Procurement

Contracts/Agreements not Abided with

Rates and fees agreed upon are binding for the term of the Contract. Any discrepancies between the amounts due and those actually charged are to be immediately queried and rectified.

Unsubstantiated Payments for TV Package

Reimbursements are to be substantiated with proof of payment and in line with agreed rates. Divergence from established rates is to be acknowledged by an officer with the right level of authority and an explanation is to be given for such divergence.

Revenue

Completeness of Income not Warranted

Receipts are to be issued for all income received by the Mission, having the former cross-referenced to the respective application forms.

Application forms are to be introduced for all services in line with MFA Internal Circular 01/2009.

Loss of Revenue

The Ministry may consider revising the Legal Notice regulating fees for Foreign Legalisation and that for urgent passports requested through the Missions. This has to be done with the concurrence of MFEI in line with the Fees Ordinance – Cap. 35 in order to cover the costs incurred in providing these services.

Visa Revenue Reports prepared Manually rather than from the Automated System

MFA is to take the necessary actions to rectify the shortcomings in the automated Visa system so that accurate computerised revenue reports could be extracted, thus minimising the possibility of errors and unreported revenue.

Transport

No Log Books/Mileage Records

Appropriate records showing trips performed as well as the consumption of fuel are to be kept. These records are to be monitored on a regular basis to ensure that any abuse is curtailed. Moreover, MHCL is to request full details for extra mileage charged by the supplier. Invoices are to be properly verified against the respective vehicle's log book before approving payment.

No Fuel Requisitions

Prior to the purchase of fuel, a pre-numbered requisition is to be drawn up and authorised by an accountable officer on the basis of mileage covered. Invoices are then to be verified against these requisitions. Discrepancies are to be supported by a revised invoice.

Transport Provided to Maltese Patients Receiving Treatment in the United Kingdom

If MHCL intends to carry on using the service of the supplier in question, it is to enter into a formal contract, stipulating applicable rates. Moreover, to implement adequate controls, MHCL is to compile a list of all trips requested on the patients' behalf. Invoices are to be supported with a transport voucher, endorsed by the respective patient(s), covering each trip being charged. Payments are only to be effected following proper verifications and after ensuring that adequate assurance is obtained of the validity and accuracy of bills. Proof of each patient's hospital visit is also recommended to be obtained.

Hospitality

Unsubstantiated Payments

Amounts paid out of public funds are to be supported by adequate documentation enabling appropriate audit trail and verification of same amounts. Authorisation from the right level of authority is to be sought before effecting any payments. Moreover, where possible, tasks are to be delegated to a number of different officers.

Visits to Northern Ireland and Liverpool

Evidence of expenditure incurred is to be attached to PVs substantiating the payments. Subsistence allowance is only to be granted in line with standing Regulations.

Working Schedule and Upkeep of Records

Working Hours of Staff Differing from those of the Public Service

Employees are obliged to input daily (or weekly) hours as stipulated by the PSMC. Changes in the normal timetable should only be adopted after the necessary consultations and approvals with MPO have taken place. Moreover, MFA is recommended to take immediate action so that matters regarding current working hours are resolved with the least repercussions.

Shortcomings in Leave Records

An updated VL card, in line with the standard form indicated in the PSMC (i.e. GP44) is to be kept for each officer. All VL is to be approved beforehand by an authorised officer and an annual reconciliation may be carried out between attendance records and VL cards, ideally by an independent officer differing from the one approving the leave. Any discrepancies are to be queried and rectified. Moreover, appropriate records of TOIL are to be kept. Entitlement as well as utilisation thereof are to be authorised by the right level of authority.

Other Shortcomings in the Upkeep of Records

A proper Cash Book in line with the relevant standards is to be drawn up enabling appropriate audit trail and verification of amounts included therein. Statements of Income and Expenditure are to be drawn up for each activity and amounts included in these statements are to be substantiated by source documents.

Lack of Communication between Malta High Commission in London and Ministry of Foreign Affairs

In similar cases, important details such as commencement and termination dates of the course are to be confirmed from the outset by the responsible desk officer at MFA and communicated in writing to the officer responsible for payment at the respective Mission.

Inventory

Unrealistic Values of Inventory Items

Ideally inventory values are to be supported by a readily available suppliers' invoice or a statement of management's valuation. Reference to these supporting documents is to be made in the inventory records.

Internal Transfer of Assets not updated in Inventory Records

Movements of inventory items from one location to another are to be reflected and updated in the official inventory records. Cases of moved inventory discovered during physical checks are to be reported to the officer in charge of the inventory for corrective action. Management may consider the introduction of transfer notes to be raised and endorsed by the officer vested with the authority to effect movement of inventory items.

Heritage Assets

MHCL 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. Each Heritage

Asset is then to be separately catalogued in line with instructions laid out in MF Circular No. 14/99.

Assets not tagged with Identification Number

Assets are to be physically tagged as per standing Inventory Control Regulations.

No Room Inventory Lists

Full compliance with standing Inventory Control Regulations in line with MF Circulars Nos. 14/99 and 61/00, where room lists are concerned, is recommended. Furthermore, rooms and all sub-locations in inventory records should be regularly updated. Verification should be evidenced by a report, signed by the foregoing officer to this effect, which should also indicate discrepancies found, unserviceable items identified and a declaration that records have been adjusted to reflect findings.

Other Matters

Utilities – Telephone

Action should be taken to identify and implement a plan to restrict access to both overseas and mobile calls from the Mission's landlines. Moreover, MBOs are only to be reimbursed their entitlement as per CSOSO.

Misallocation of Expenditure

More diligence is to be exercised when allocating expenses to ensure that such amounts are correctly reported under the pertinent line items, as this could affect future budgets.

Compliance Issues

Non-Compliance with Financial Management and Monitoring Unit Instructions

Divergence from FMMU approvals is only recommended in exceptional circumstances and only following approval from the same Unit.

Return not submitted to Head Office

MFA is to ensure that all Missions comply with internal policies and take the necessary action in cases of non-compliance.

Management Comments

Following the appointment of the new Head of Mission in April 2009, the concern of lack of segregation of duties was addressed since the Head himself is now authorising payments and signing all cheques after full verification of invoices. The introduction of a debit card on the Commission's account for expenses under £1,000 curtailed the procedure of cash payments as well as abolished the reimbursement process. The High Commissioner is also reviewing the accounts submitted to HO and countersigns them as Head of Mission. He will also ensure that no officer receives any public funds to which he is not entitled to.

The High Commissioner shall enquire with higher authorities whether or not the MBO in question is entitled to the use of the Commission's second vehicle. The current practice of TOIL is intended to be rectified while recommendations related to inventory will be taken on board.

Weaknesses on the revenue statement of fairs and other activities, including the receipt of sponsorships for such events, will be addressed. Furthermore, officers were instructed to deposit all cash receipts of income for services, arising from oaths, citizenships etc., intact twice weekly.

Confirmation of floor area of space occupied by MHCL will be obtained and the Head of Mission also agrees that the Government owned company managing the Mission's property is duty bound to inform all tenants on movements of the Sinking/Reserve Fund. Efforts will be made to address shortcomings with respect to the company's Property Manager.

Reservation was made to the misallocation of unrelated expenses debited to the Rent Account. Though it was agreed that it would be more correct to show service and other changes separately, it is not likely to get any Virements from the rent allocation and Management is of the opinion to leave matters unchanged. Though the issue regarding VAT charged on the rent payable was upheld, MHCL has to abide with the Government owned company's decision.

With regard to the observation raised in connection with the MLO, Management stated that it would be extremely difficult to rectify the situation without the possibility of Government having to foot the added tax element to regularise the situation.

It is the Head of Mission's intention to go through the other points of weaknesses identified during the audit to ensure a more efficient running of MHCL.

RECENT AUDIT REPORTS ISSUED BY THE NAO

DATE	REPORT
September 2008	Annual Audit Report on the Public Accounts 2006
September 2008	Enquiry and Report on the Purchase of Air Tickets icw Official Travel Abroad
September 2008	Report on Travel Abroad on Official Government Business
October 2008	Performance Audit: Structural Funds - Environmental Programme
December 2008	Annual Audit Report on the Public Accounts 2007
January 2009	Inquiry and Report on the Purchase of PCs by Enemalta Corporation
March 2009	Investigation relating to the Tender issued for the Provision of Warden Services and Installation of CCTV Cameras by four Local Council Joint Committees
March 2009	Performance Audit: Water Loss Control Management by WSC
May 2009	Enquiry on Direct Orders and Outsourcing at Mater Dei Hospital: Clerical/Reception, Security, Car Park and Traffic Management Services
June 2009	Enquiry on Control Mechanisms Deployed by the Malta Transport Authority (ADT) in Road Construction Projects partly Financed through the 5th Italo-Maltese Financial Protocol
July 2009	Performance Audit: Vehicle Emissions Control Scheme
September 2009	Performance Audit: Renewable Energy Sources and Energy Efficiency in Malta
September 2009	Investigation on Alleged Irregularities regarding the Sant’Antnin Waste Plant in Marsascala
October 2009	Procurement Capability across the Public Administration

WORKS AND ACTIVITIES REPORT

January 2009	Work and Activities of the National Audit Office

INTERNAL NAO PUBLICATIONS

July 2009	Data Protection Guidelines
July 2009	Information Technology and Security Handbook