



Annual Audit Report

Public Accounts 2009

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List of Abbreviations

A/C	Account
AA	Administrative Assistant
AAFRS	Accrual Accounting Financial Reporting System
AAR	Annual Audit Report(s)
ACRT	Automated Credit Transfer
ADT	Malta Transport Authority
AFVA	Automatic File Validation Agent
ARR	Arrears of Revenue Return
ASCO	Assistant Senior Correctional Officer
ATC	Adult Training Center
BCS	Beach Cleaning Section
BOQ	Bill of Quantity/Certification for Payment
BRS	Bank Reconciliation System
BWA	Broadband Wireless Access
CASPA	Children's and Supplementary Allowances
CBM	Central Bank of Malta
CBs	Commercial Banks
CC	Cost Centre
CCD	Consumer and Competition Division
CCF	Central Co-operatives Fund
CCF	Corradino Correctional Facility
CD	Commerce Division
CdB	Central Database
CDAU	Child Development Assessment Unit
CDRT	Centre for Development, Research and Training
CET	Customs and Excise Tax
CIO	Chief Information Officer
CJD	Courts of Justice Division
COs	Correctional Officers
CSD	Corporate Services Directorate
CSOSO	Conditions of Service for Officers Serving Overseas
CTD	Capital Transfer Duty
CV	Commitment Vouchers
CVB	Conservatorio Vincenzo Bugeja
CVU	Central Visa Unit
C&F	Cost and Freight
DAMP	Data Audit Management Processing
DAS	Departmental Accounting System
DBA	Database Administrator
DCS	Department of Corporate Services
DF	Declaration Form(s)
DFM	Director Financial Management
DI	Dividend/Interest
DIER	Director of Industrial and Employment Relations
DPI	Directorate Programme Implementation

DLG	Department for Local Government
DOI	Department of Information
DSB	Diplomatic Services Bureau
DSS	Department of Social Security
EBU	Extra-Budgetary Units
EC	European Commission
ECCD	Elderly and Community Care Department
ECMS	Embassies' and Missions' Cash Management System
EDP	Excessive Deficit Procedure
EESSI	Electronic Exchange of Social Security Information
EIP	European Investment Bank
ENC	Engine Capacity
EOS	Exemption Order Scheme
ERFS	Electronic Request for Service Form
ETC	Employment and Training Corporation
EU	European Union
FAR	Fixed Asset Register
FB	Fringe Benefit(s)
FEC	Fully-Expensed Cars
FLSS	Flour Subsidy Scheme
FMMU	Financial Management Monitoring Unit
FMS	Fleet Management System
FOB	Freight on Board
FPDA	Financial Policy Development and Analysis
FR	Financial Report
FSI	Financial Situation Indicator
FSS	Final Settlement System
GFRs	General Financial Regulations
GGH	Gozo General Hospital
GPD	Government Property Division
GPP	Government Printing Press
GSPO	Goods/Services Purchase Order
HCMD	Housing Construction and Maintenance Department
HO	Head Office
HOM	Head of Mission
IAID	Internal Audit and Investigations Directorate
IAS	International Accounting Standard
IFRSs	International Financial Reporting Standards
IMU	Information Management Unit
IPSE	Institute for the Promotion of Small Enterprise
IPSL	Industrial Projects and Services Ltd
IRD	Inland Revenue Division
ISC	Invoice Status Certificate
ISO	International Organisation for Standards
IT	Information Technology
ITS	Institute of Tourism Studies
L/A	Letter of Acceptance
LCA	Local Councils' Association
LDs	Libyan Dinars

LES	Local Enforcement System
LEP	Locally Engaged Personnel
LGA	Local Government Auditor
LHO	Light Heating Oil
Limsuk	Libyan Arab-Maltese Company for Supermarkets
LM	Line Ministry
LN	Legal Notice
LOI	Letter(s) of Intent
LPO	Local Purchase Orders
LSSAC	Letter from Sugar State Aid Committee
LTD	Licensing and Testing Directorate
MARVAL	Change Authorisation Tracking and Management System
MATS	Malta Air Traffic Services Ltd.
MBO	Malta Based Officers
MCAST	Malta College of Arts, Science and Technology
M/D	Ministries/Departments
MDC	Malta Development Corporation
MDH	Mater Dei Hospital
ME	Malta Enterprise
MEB	Malta Embassy Beijing
MEEF	Ministry of Education, Employment and the Family
MEPA	Malta Environment and Planning Authority
MET	Malta Embassy Tripoli
METCO	Malta External Trade Organisation
MFA	Ministry of Foreign Affairs
MFEI	Ministry of Finance, the Economy and Investment
MGASs	Malta Government Accounting Standards
MGI	Malta Government Investments
MGOZ	Ministry for Gozo
MHA	Motor Hearses Association
MHEC	Ministry of Health, the Elderly and Community Care
MIA	Malta International Airport
MITA	Malta Information Technology Agency
MITC	Ministry of Infrastructure, Transport & Communications
MOBC	Mediterranean Offshore Bunkering Co. Ltd.
MP	Multi-Payment
MRAE	Ministry for Rural Affairs and the Environment
MRRA	Ministry for Resources and Rural Affairs
MSE	Malta Stock Exchange
MSM	Marval Service Management
MSSTI	Malta South Sewage Treatment Infrastructure
MTA	Malta Tourism Authority
NAO	National Audit Office
NBV	Net Book Value
NGOs	Non-Government Organisations
NL	Notification Letters
N/L	Nominal Ledger
NSO	National Statistics Office
OPM	Office of the Prime Minister

PAC	Public Accounts Committee
PAHRO	Public Administration Human Resources Office
PBS	Public Broadcasting Services Ltd.
PC	Pension Cheques
PIs	Performance Indicators
PMO	Project Management Office
PP	Purchase Price
PPCD	Planning and Priorities Co-ordination Directorate
PR	Public Registry
Pre '99	'Old IRD System' (Up to Year of Assessment 1998)
PS	Permanent Secretary
PSO	Principal Security Officer
PSMC	Public Service Management Code
PVs	Payment Vouchers
RF	Refund Form(s)
RMB	Renminbi
RP	Retail Price
SA	System Administrator
SABS	Social Assistance & Benefits System
SAD	Single Administrative Document
SAG	Special Assignment Group
SAS	'Self-Assessment System' (Post Year of Assessment 1998)
SCC	Service Call Centre
SDO	Staff Development Organisation
SFD	Structural Funds Database
SG	Security Guards
SL	Sick Leave
SLH	St Luke's Hospital
SMS	Short Message Service
SPIC	Social Policy Information Centre
SSC	Social Security Contributions
SSP	Sugar Subsidy Payment
SSS	Sugar Subsidy Scheme
SVPR	Saint Vincent de Paule Residence
TCU	Tax Compliance Unit
TM	Transport Malta
TOIL	Time-Off in Lieu
TSW	Treasury Salaries & Wages
UIF	Urban Improvement Fund
UOM	University of Malta
USD	US Dollars
VAT	Value Added Tax
VL	Vacation Leave
VMS	Vacation Management System
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 2009, 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, addressing areas where there is lack of compliance with pertinent rules and regulations, 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 the main findings in respect of each audit contained therein. 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 the year 2009, 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, the National Audit Office (NAO) noted that:

- a detailed analysis of variations for 2009 is required by the Ministry of Finance, the Economy and Investment (MFEI) in respect of certain items of Revenue;
- variance analysis systems at Ministerial and Departmental levels that enable effective, adequate and timely top Management follow-up of resulting variances, together with their cause, need to be improved as evidenced by the substantial excesses of actual over budgeted figures of certain items of Expenditure;
- the Statement of Investments has to be improved such that transactions relating to a particular financial year are reported in the respective financial year's Financial Report;
- although numerous Court and Other Deposit Accounts were closed during the year, many others, amounting to €1,970,808, experienced no movement for three consecutive years;
- once again, an Advance of approximately €25.3 million was issued for the purpose of accounting for the 14th Social Security Benefits falling due in 2009;
- Cash Book and Central Bank of Malta balances reported in the Financial Report 2009 still do not tally with corresponding figures in the December 2009 Bank Reconciliation Statement;
- the completeness of reporting relating to the Abandoned Claims, Cash Losses and Stores Written Off Statements could not be ensured; and
- Letters of Comfort and Bank Guarantees reached €893 million (against €774 million in 2008). These constitute Contingent Liabilities for Government. (page 16)

Once again a number of Ministries, Departments and Entities failed to send their annual **Arrears of Revenue Returns for 2009** to the Treasury Department, as stipulated in Treasury Circular No. 3/2010, 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 50)

An **expenditure audit** at the **Department of Information** revealed shortcomings relating to (i) lack of compliance with particular Government circulars; (ii) improper use of an electric car; (iii) the relatively high cost of an internet key; and (iv) long outstanding claims due to the Public Broadcasting Services Ltd. (page 76)

By the time this Report was prepared, i.e. end of September 2010, the **audited Financial Statements** of four out of sixty-eight **Local Councils** were not yet submitted to NAO when these should have been received by 30 March 2010. Only ten out of sixty-eight Audit Reports were delivered by this deadline. Another twenty-three Local Councils submitted the audited Financial Statements by the end of April 2010, while the other thirty-one kept delaying the submission, apart from those not submitting them at all.

Following a review of the Audit Reports and the relative Management Letters prepared by Local Government Auditors (LGA) for Local Councils, a number of concerns and weaknesses prevailed from previous years and have been reported in this Report. (page 79) Furthermore, the following concerns were also noted:

- LGA could not express an opinion on the Financial Statements as presented by one of the Local Councils due to the various material shortcomings encountered.
- Another forty-three Audit Reports were qualified with an 'except for' audit opinion.

- Eleven 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-one Local Councils registered a deficit in the Income and Expenditure Account.

A substantial portion of the budget of the **Tourism Department** for 2009 was used to pay long outstanding invoices spilling over from one year to the next. A considerable expense is also being incurred annually by the Department to store outdated oil dispersant. Control and Compliance weaknesses noted during an **expenditure audit** carried out at this Department related to the procurement process for services rendered, as well as lack of control over inventory and properties falling under the Department's responsibility. (page 123)

An **audit focusing on inventory management**, performed at the **Office of the Prime Minister** within various Cost Centres, identified various weaknesses, including (i) lack of physical marking in a number of Sections which caused a limitation of scope on the physical stocktaking exercise; (ii) lack of accuracy and completeness in the Inventory Databases; and (iii) lack of awareness by the Officers in charge of the provisions of the Circular regulating inventory. (page 133)

Standing regulations and instructions were not always adhered to by the **Ministry of Foreign Affairs** when procuring goods and services. Travel advances were granted unnecessarily, especially in instances when accommodation was paid through the Ministry's credit card, while subsistence allowances were at times incorrectly calculated. Other shortcomings were noted in the approval of hospitality **expenditure** and the use of chauffeur-driven services. (page 138)

Internal controls at the Head Office of the **Ministry of Foreign Affairs**, over expenditure incurred by **Maltese Embassies** abroad, need to be considerably enhanced. Desk Officers processing the accounts at the Head Office were very often relying on what the respective Missions reported, with insufficient scrutiny or checking of supporting documents or backing information. This was mainly evident in the case of revenue collected by the Missions, as well as salaries paid to Locally Engaged Personnel and various other payments for expenditure. (page 147)

Due to lack of evidence substantiating the residency claimed by **Gozitan students** in receipt of the **accommodation and travel allowances**, coupled with the insufficient internal controls in the administration of the system, it could not be ensured that only eligible students were receiving this subsidy. Furthermore, the granting of this financial assistance was not adequately backed up by proper authorisation. (page 160)

Claims for **travel allowance** conceded to **Gozitan Government employees** working in Malta were not always supported by adequate evidence. Most of the declarations were overstated, some of which substantially. Eligibility criteria to qualify for such allowance were also not properly defined. (page 163)

The vast majority of the total payments charged to the **Housing Schemes Subsidy** account under the **Ministry for Gozo** covered unrelated **expenses** in connection with the finishing works of a new Adult Training Centre in Victoria, which property is not even owned by Central Government but is under the possession of the Housing Authority. (page 167)

The Programme Implementation Directorate within the **Ministry of Infrastructure, Transport and Communications** was responsible for the management and processing of all payments related to a major infrastructural project, the **Malta South Sewage Treatment Infrastructure Project**, which is expected to be co-funded by the EU Commission under the Cohesion Fund Policy 2007-2013. During the verification process, NAO identified opportunities for improvement in the authorisation procedure of **Commitment Vouchers** since a number of these lacked the necessary covering approval. A checklist forming part of the Invoice Status Certificate of one Commitment Voucher was also not completed before being submitted for payment. (page 170)

The Motor Hearses Association signed an agreement with the Government and Malta Transport Authority wherein Government obliged itself to pay the sum of €230,000 as support to the Association to face up the challenges brought by the liberalisation of the hearses sector. When the grants were issued, the Association was required to submit quarterly accounts to the Authority detailing how these funds were utilised. NAO, through Transport Malta, requested a copy of the accounts to perform a **financial and compliance audit**. However, the Association did not abide by these instructions and so an audit could not be performed. (page 173)

There was lack of documentation on last-minute changes made to booking of advertising. This limited audit testing that could be carried out at the **Public Broadcasting Services Limited** to ensure that the **revenue** generated from the Malta Eurosong and Eurovision Song Contest was appropriately recorded and processed in accordance with the company's approved rates and guidelines. (page 178)

A **financial audit** was performed on the **Co-Operatives Board 2006 – 2008 Financial Statements** presented to NAO. Various accounting inaccuracies were observed, including non-disclosure of a bank account in the Financial Statements, the lack of a proper Fixed Asset Register, and the non-adherence to relevant Circulars. (page 182)

The **inventory audit** at the **Elderly and Community Care** revealed weaknesses in inventory control, including inconsistencies in the Inventory Database as this was not always complete, reliable and in compliance with the requirements of the Circular. (page 188)

An **IT audit** was held at the **Department of Social Security** within the then Ministry for Social Policy. The audit reviewed the Information Technology systems used by the Department and identified shortcomings relating to IT Security, including the lack of a risk assessment and Disaster Recovery Policy. (page 193)

During 2008, a Task Force chaired by the **Minister of Finance, the Economy and Investment** was set up to develop tailor-made solutions for local companies encountering financial problems due to the international economic crisis. This led to the inception of a financial aid scheme, of which eleven companies benefited during 2009. Following an overview of **Government Financial Aid**, which was administered by the **Malta Enterprise**, NAO identified a number of control issues that needed to be addressed. In certain cases, no supporting documentation was found to ensure that stipulated conditions outlined in the Letters of Intent issued to companies were being adhered to. As a result, it could not be ensured that such verification procedures were actually carried out. (page 202)

During previous years' analysis of Financial Reports, NAO has annually observed inconsistencies between balances of Cash and Bank figures contained within the December Bank Reconciliation Statements and respective figures published in the Government of Malta Financial Reports. In response, NAO carried out a **review of the electronic Bank Reconciliation System (BRS)** focusing on the IT perspective to ascertain whether reasons provided for these discrepancies by the Treasury Division, as reported in the 2007 Annual Audit Report, were technically valid. The objective of the audit was further extended to assess whether General and Application controls were in place. The audit found that (i) the reasons behind the differences between the balances as reported in the BRS and the corresponding figures as reported in the Government Financial Report are still not clear; (ii) there is room for improvement in the manner errors in validation of data are handled and documented; (iii) segregation of duties, such as "write" access to database field contents, is not being fully enforced; and (iv) software that was developed six years ago that would permit automated tri-party verification of transactions has never been implemented by Treasury. The audit, however, notes developments and progress reported by Treasury. (page 205)

There was limitation of scope in the **compliance audit** of the **Inland Revenue Division's Arrears of Revenue Return** as fifteen out of a total of 115 taxpayer files relating to the Pre '99 system were not made available for testing. Furthermore, a number of write-off approvals for the Pre '99 system, as reported in the Statement of Arrears, were not provided for review. An analysis of the implementation process and taxpayer participation of the *Exemption Order Scheme*, launched by the Minister of Finance, the Economy and Investment on 4 September 2009, revealed that statute-barred amounts were not excluded before sending Notification Letters/Agreements in the initial stages of the Scheme. It was further noted that only around half of the requested down payments, relating to agreements between taxpayers and the Division, were submitted by taxpayers as at a certain cut-off date. (page 221)

Following a review of amounts reported under 'Past Arrears Written-Off' and 'Amounts Not Due', as reported in the **Arrears of Revenue Return for 2009** of the **VAT Division**, it resulted that a number of inter-departmental adjustments were erroneously classified as written off in the Return. (page 228)

The **Commerce Division** is responsible for the administration of state aid relating to **Food Subsidies**, consisting of subsidies on levies on the importation of sugar and on the cost of flour transportation between Malta and Gozo. A **financial and compliance audit**, carried out to ascertain whether sound internal controls are in place, and ensuring that subsidies were correctly paid, revealed (i) that no acknowledgment of receipts were being given for state aid applications for sugar subsidy; (ii) inconsistency in the Flour Grain types eligible for Government subsidy; (iii) that source of flour subsidy rate and calculation of bank guarantee on flour subsidy were not available; (iv) that forms and supporting documents were not

appropriately submitted by applicants for state aid on sugar; and (v) incompleteness of refund forms for state aid on flour transportation. (page 231)

An **expenditure audit** carried out at the **Consumer and Competition Division** revealed shortcomings relating to an unauthorised extension of a service contract for the lease of cars; mobile calls being made from barred fixed telephone lines; and payments issued to a VAT registered Arbitrator attending Consumer Claims Tribunal sittings that were neither generated through the payment voucher system nor covered with a fiscal receipt. (page 237)

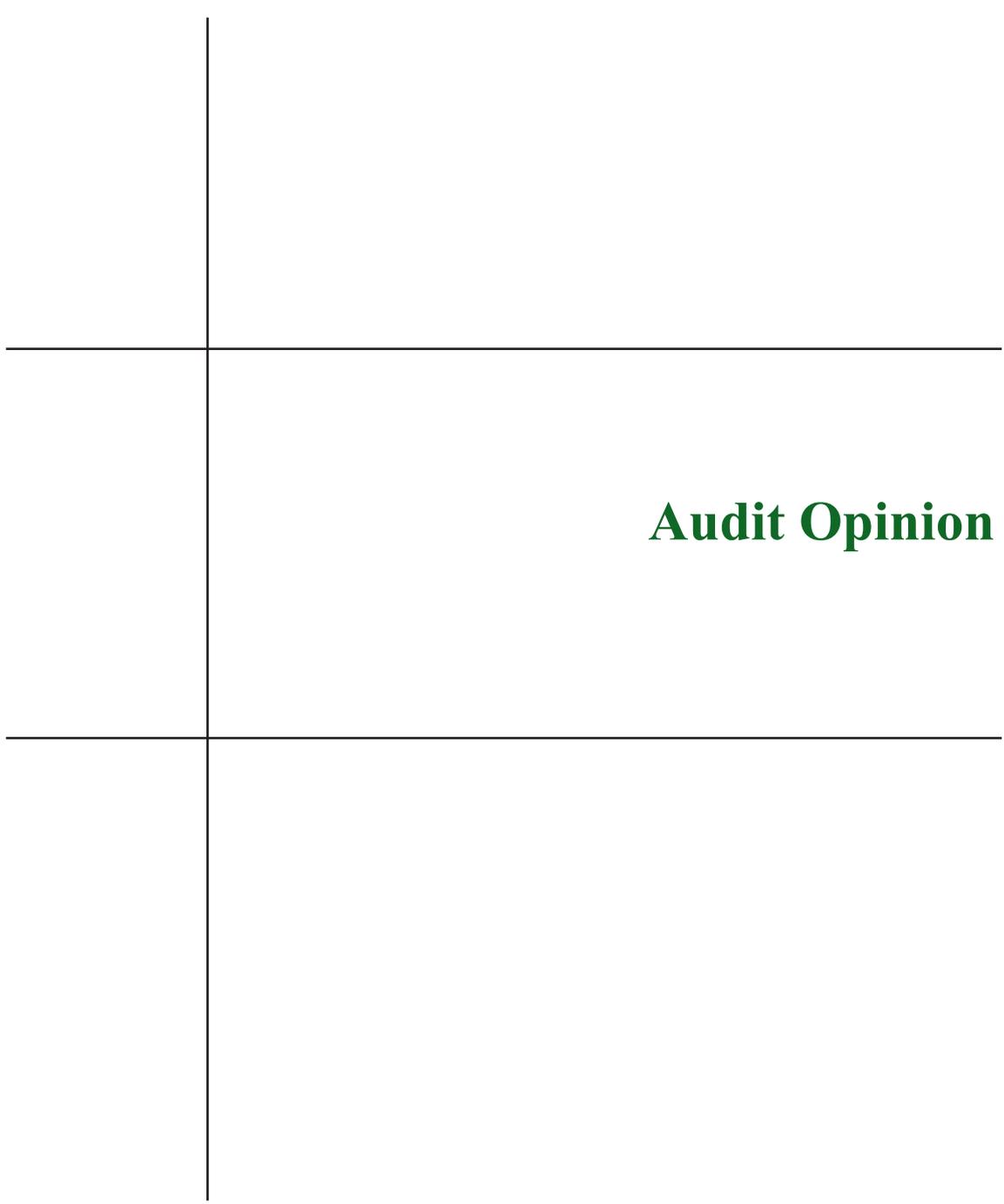
The acquisition and use of **Fully-Expensed Cars within the Public Service** was examined during an audit across Government, with the main objective of obtaining a general overview of the **extent of compliance with existing rules and regulations**. This scope was attained by means of a Questionnaire which was submitted to Directors Corporate Services of all Ministries for onward transmission to their respective Departments. Analysis of replies revealed a number of shortcomings, namely (i) failure by respondents to provide information concerning the retail price, purchase price and engine capacity of fully-expensed cars; (ii) fuel consumption limit being exceeded; (iii) lack of use of the computerised Fleet Management System; (iv) respondents failing to submit sufficient information on the majority of fully-expensed cars that were sold to retiring officers, thereby hindering NAO from verifying the selling price calculation; (v) the necessary approvals for thirteen leased cars not being provided by respondents; and (vi) deficiencies being noted in the manner Ministries and Departments calculate the taxable fringe benefit. (page 242)

The **audit on Personal Emoluments** at the **Correctional Services** revealed (i) limitations regarding use of punch clock; (ii) inconsistencies in overtime hours recorded and paid to Correctional Officers; (iii) lack of control over Civilian Officers' working hours and overtime; and (iv) lack of adequate segregation of duties due to staff shortage. (page 254)

A **follow-up performance audit**, carried out on the **deployment of security personnel at the site of St. Luke's Hospital**, sought to follow up four of the concerns which were identified in the May 2009 Report on the Enquiry on Direct Orders and Outsourcing at Mater Dei Hospital: Clerical/Reception, Security, Car Park and Traffic Management Services, namely: the excess levels of deployed personnel; a long outstanding Union Directive; a considerable amount of accumulated Time-Off in Lieu; and the better utilisation of technological equipment. The study showed that most of these concerns still prevail today. (page 264)

A **performance audit** on the deployment of personnel by **Industrial Projects and Services Limited (IPSL)** contends that IPSL served as a tool to cushion the social and economic impact arising from restructuring exercises within Government entities. However, it is acknowledged that within the Public Sector there may not be demand for the skills and trade of a significant portion of IPSL employees. The opportunity exists for IPSL to develop a human resource development programme to enable the Company and its workforce to fully exploit opportunities within the entire labour market. (page 267)

An **examination into the procedures and operations** related to the **Rehabilitation Work Scheme at Mount Carmel Hospital (MCH)** was carried out with a view of assessing its effectiveness in achieving its objectives. It was noted that (i) earnings of some current beneficiaries exceeded the National Minimum Wage, which benchmark was established by the same MCH; (ii) definitions and distinctions to serve as reference points were absent; and (iii) patients in-take for such Scheme was being carried out through a Referral Form submitted and endorsed by one consulting psychiatrist. (page 275)



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 on 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
16 November 2010



Financial Report

Analysis of the Financial Report 2009

Introduction

Statements of the Consolidated Fund Account, showing the comparative positions in 2008 and 2009, and the receipts and payments of funds created by law were laid on the Table of the House of Representatives during Sitting No. 200 on 16 March 2010 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 (FR) statements and accounts for year 2009 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. 253 on 12 July 2010.

A comprehensive review of Government's financial operations can be made by reference to both the Annual Financial Statements and the FR for 2009.

Consolidated Fund Statement – 2009

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 the Consolidated Fund are authorised by means of Appropriation Acts of Parliament, which include the Supplementary Estimates.

After the House of Representatives approved the year 2009 Budget (Original Estimates) for an expenditure of €2,875,588,000 as authorised by Warrant No. 1 issued on 3 December 2008, and a further €242,272,000 as approved by Supplementary Estimates Warrant No. 2 dated 7 December 2009, it was estimated that expenditure was to exceed revenue by €66,542,000. Following the closure of the 2009 Accounts, it resulted that expenditure had exceeded revenue by €108,406,000, resulting in an end of year closing consolidated deficit of €196,297,000 (Table 1 refers).

Table 1 – Consolidated Fund 2009

		Estimated (Original & Supplementary)		Actual	
Opening Consolidated Deficit Balance as on 01/01/09	€ 000's				(87,891)
<i>Revenue</i>					
Ordinary (incl. Grants)	€ 000's	2,551,318		2,370,770	
Extraordinary	€ 000's	500,000	3,051,318	458,588	2,829,358
<i>Expenditure</i>					
Recurrent	€ 000's	2,268,043		2,204,421	
Public Debt Servicing ^a	€ 000's	465,928		461,455	
Capital	€ 000's	383,889	3,117,860	271,888	2,937,764
Consolidated Deficit for the year 2009	€ 000's		(66,542)		(108,406)
Closing Consolidated Deficit Balance as on 31/12/09	€ 000's				(196,297)

(Source: FR 2009 pg xxiii)

^a These exclude €907,000 (Estimates)/€3,925 (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 38 – Government Property Division.

Revenue

Details of Revenue collected during 2009, classified by heads and subheads, as compared with the Estimates, are shown in the FR. 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 FR 2009.

The National Audit Office (NAO) satisfactorily noted an improvement in explanations given in respect of certain variations in Revenue for the Financial Year 2009. However, in the areas indicated in Table 2, explanations were lacking altogether. Therefore, NAO still contends that an improved approach in variance analysis is required in view of the fact that variations have increased when compared to previous years.

Table 2 – Variances in Revenue for Financial Year 2009

Revenue		Budget Estimates	Actual	Variation
<i>Tax Revenue</i>				
Direct –Social Security	€ 000's	528,500	526,100	(2,400)
<i>Non Tax Revenue</i>				
Fees of Office of which: Public Registry fees	€ 000's	5,400	4,272	(1,128)
Fees from visas	€ 000's	2,000	1,445	(555)
Reimbursements of which: Road formation (on Govt. land) Contributions	€ 000's	2,500	819	(1,681)
Main Sewer Contributions	€ 000's	3,500	1,276	(2,224)
Rents	€ 000's	22,900	26,550	3,650
Dividends on Investment	€ 000's	15,500	14,597	(903)
Repayments of, and interest on, Loans made by Government	€ 000's	82	53	(29)
Miscellaneous Receipts	€ 000's	5,402	3,971	(1,431)
Extraordinary Receipts Sale of Shares/Assets	€ 000's	-	2,795	2,795

(Source: FR 2009 pgs xvi-xviii)

Expenditure

The appropriations for expenditure during 2009, authorised by the issue of Warrant Nos. 1 and 2 by MFEI, were appropriated under the following Statutes:

	€
i) Appropriation Act (Voted Services)	1,889,618,008
ii) In terms of Special Laws	1,226,372,000
iii) In terms of the Constitution	1,869,992

Analysis of Appropriations

i) Appropriation Act (Voted Services)

	€
Appropriated by Act XI of 2008	1,698,946,008
Appropriated by Act XX of 2009 (Second Appropriation Act)	190,672,000

ii) In terms of Special Laws

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

	€
Expenses of the Electoral Commission – General Elections Act (Cap. 354)	550,000
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)	150,000
Social Security Act, 1987 (Act X of 1987 – Cap. 318)	670,300,000
Pensions Ordinance (Cap. 93)	82,500,000
Expenses of the Office of the Ombudsman (Cap. 385)	473,000
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)	436,489,796
Interest plus contribution to the Sinking Funds i.r.o. Foreign Loans (Cap. 213)	15,345,204
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 VAT/CET Acts	1,016,000
Widows' and Orphans' Pensions Act (Cap. 58)	495,000
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)	1,360,000
Short Term Borrowing – Treasury Bills Act (Cap. 133)	15,000,000
TOTAL	1,226,372,000

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	66,179
The Attorney General	45,311
Judges and Magistrates	1,692,473
The Public Service Commission	66,029
	<u>1,869,992</u>

Excess of Expenditure over Estimates

Excess expenditure over original budgeted figures exceeding €500,000 occurred in the instances shown in Table 3.

Table 3 – Excess of Expenditure over Original Budget/Revised Estimates

Vote, Item		Original Budget 2009	Revised Estimates 2009	Actual 2009	Variation Actual 2009/ Revised Estimates 2009	Variation Actual 2009/ Original Budget 2009	Variation Actual 2008/ Original Budget 2008
Vote 5: Office of the Prime Minister							
Item 5469: Environmental Initiatives	€	105,000	805,000	732,024	(72,976)	627,024	-
Item 6554: Malta Environmental and Planning Authority	€	-	4,800,000	4,800,000	-	4,800,000	-
Item 6778: Industrial Projects and Services Ltd.	€	5,557,000	6,317,000	6,494,738	177,738	937,738	925,438
Vote 7: Armed Forces of Malta							
Item 12: Salaries and Wages	€	21,320,000	23,830,000	23,570,947	(259,053)	2,250,947	479,580
Item 16: Allowances	€	3,300,000	4,065,000	3,978,785	(86,215)	678,785	1,074,498
Item 5380: Third Country Nationals	€	2,600,000	5,600,000	5,321,792	(278,208)	2,721,792	2,519,848
Vote 12: Electoral Office							
Item 5219: Electoral Commission Activities	€	2,400,000	4,050,000	3,793,847	(256,153)	1,393,847	1,911,747
Vote 14: Ministry for Gozo							
Item 12: Salaries and Wages	€	37,285,001	38,650,001	38,251,139	(398,862)	966,138	2,638,174
Item 16: Allowances	€	4,600,000	4,900,000	5,226,072	326,072	626,072	994,872
Vote 15: Ministry for Infrastructure, Transport and Communications							
Item 5236: Guaranteed Earnings Agreement with the Public Transport Association	€	4,000,000	7,000,000	6,417,953	(582,047)	2,417,953	3,504,836

Vote, Item		Original Budget 2009	Revised Estimates 2009	Actual 2009	Variation Actual 2009/ Revised Estimates 2009	Variation Actual 2009/ Original Budget 2009	Variation Actual 2008/ Original Budget 2008
Item 5401: Street Lighting and Other Services	€	7,800,000	8,800,000	8,682,074	(117,926)	882,074	1,886,123
Item 5406: Pensions under Malta Drydocks/Malta Shipyard Co. Ltd./ Malta Shipyards Voluntary Retirement Schemes/Early Retirement Schemes	€	4,863,000	22,363,000	22,300,935	(62,065)	17,437,935	41,364,552
Vote 18: Ministry for Resources and Rural Affairs							
Item 12: Salaries and Wages	€	39,300,001	40,850,000	40,092,184	(757,816)	792,183	205,178
Item 5014: Agricultural Support Scheme	€	11,400,000	11,400,000	12,155,530	755,530	755,530	580,678
Item 5250: Landscaping Malta	€	7,000,000	7,000,000	8,171,491	1,171,491	1,171,491	54,973
Item 5426: Solid Waste Management Strategy	€	5,500,000	8,165,000	9,469,000	1,304,000	3,969,000	(7,733)
Vote 19: Ministry of Education, Culture, Youth and Sport							
Item 5024: Church Schools	€	33,000,000	35,500,000	34,500,000	(1,000,000)	1,500,000	2,300,000
Item 6031: Heritage Malta	€	3,300,000	3,900,000	3,853,343	(46,657)	553,343	-
Item 6457: Malta College for Arts, Science and Technology	€	12,000,000	13,000,000	12,961,998	(38,002)	961,998	(1,350,985)
Item 6701: University of Malta	€	33,000,000	39,550,000	39,574,998	24,998	6,574,998	31,000
Vote 20: Education							
Item 12: Salaries and Wages	€	99,400,000	102,000,000	102,052,699	52,699	2,652,699	3,468,381

Vote, Item		Original Budget 2009	Revised Estimates 2009	Actual 2009	Variation Actual 2009/ Revised Estimates 2009	Variation Actual 2009/ Original Budget 2009	Variation Actual 2008/ Original Budget 2008
Vote 22: Ministry for Social Policy							
Item 5395: Training/ Employment ETC Programmes	€	2,000,000	2,000,000	2,602,000	602,000	602,000	-
Item 5404: Expenditure Reporting Schemes	€	58,000	58,000	1,143,009	1,085,009	1,085,009	-
Vote 24: Social Security Benefits							
Item 5143: Bonus	€	32,500,000	32,500,000	38,826,070	6,326,070	6,326,070	2,338,774
Item 5142: Children's Allowance	€	33,000,000	40,000,000	39,061,093	(938,907)	6,061,093	(1,372,296)
Vote 26: Health							
Item 16: Allowances	€	29,500,000	33,800,000	33,883,132	83,132	4,383,132	7,957,460
Item 30: Contractual Services	€	9,503,000	9,903,000	15,442,369	5,539,369	5,939,369	1,917,851
Item 5400: Medicines and Surgical Materials	€	65,000,000	76,300,000	76,377,999	77,999	11,377,999	653,367
Item 5447: Influenza Combatting Measures	€	-	8,600,000	5,649,981	(2,950,019)	5,649,981	-
Item 6029: Mount Carmel Hospital	€	18,000,000	19,500,000	19,427,970	(72,031)	1,427,970	1,099,910
Vote 27: Elderly and Community Care							
Item 12: Salaries and Wages	€	14,599,000	16,249,000	15,900,789	(348,211)	1,301,789	1,864,995
Item 16: Allowances	€	5,100,000	5,600,000	5,929,582	329,582	829,582	1,164,738
Item 5486: Mellicha Home for the Elderly	€	1,747,000	2,747,000	2,999,180	252,180	1,252,180	(169,269)

Vote, Item		Original Budget 2009	Revised Estimates 2009	Actual 2009	Variation Actual 2009/ Revised Estimates 2009	Variation Actual 2009/ Original Budget 2009	Variation Actual 2008/ Original Budget 2008
Vote 29: Ministry of Finance, the Economy and Investment							
Item 5410: EU Own Resources	€	56,600,000	63,599,999	62,894,239	(705,760)	6,294,239	12,692,324
Item 5515: Winding up, Malta Shipyards Ltd.	€	-	40,000,000	39,999,995	(5)	39,999,995	-
Vote 32: Public Debt Servicing							
Item 3902: Local	€	208,162,000	252,462,000	252,463,658	1,658	44,301,658	93,175,796
Vote 41: Ministry for Justice and Home Affairs							
Item 5380: Third Country Nationals	€	5,000,000	5,800,000	5,739,792	(60,208)	739,792	(415,095)
Vote 43: Police							
Item 12: Salaries and Wages	€	28,800,000	29,700,000	29,602,174	(97,826)	802,174	2,010,242
Capital Vote I: Office of the Prime Minister							
Item 7070: Contribution to Malta Tourism Authority (Subvention)	€	26,000,000	28,499,998	30,650,000	2,150,002	4,650,000	700,000
Item 7238: Marketing Initiatives	€	2,000,000	3,500,000	3,500,000	-	1,500,000	-
Capital Vote IV: Ministry for Infrastructure, Transport and Communications							
Item 7173: EU Structural Funds 2004-2006	€	-	2,800,000	2,904,601	104,601	2,904,601	-
Item 7205: Road construction/ improvement	€	10,300,000	16,300,000	16,256,279	(43,721)	5,956,279	-

Vote, Item		Original Budget 2009	Revised Estimates 2009	Actual 2009	Variation Actual 2009/ Revised Estimates 2009	Variation Actual 2009/ Original Budget 2009	Variation Actual 2008/ Original Budget 2008
Capital Vote V: Ministry for Resources and Rural Affairs							
Item 7173: EU Structural Funds 2004-2006	€	-	1	608,798	608,797	608,798	7,862,852
Item 7218: EU Agricultural Fund for Rural Development	€	6,200,000	6,200,000	8,645,394	2,445,394	2,445,394	(3,960,000)
Capital Vote VII: Ministry for Social Policy							
Item 7248: House Building Programmes	€	1,165,000	1,165,000	2,300,000	1,135,000	1,135,000	-
Item 7216: Mount Carmel Hospital - St. Jeanne Antide Ward	€	400,000	400,000	1,121,567	721,567	721,567	(450,459)
Capital Vote VIII: Ministry of Finance, the Economy and Investment							
Item 7004: Construction works and equipment	€	300,000	300,000	859,356	559,356	599,356	229,177
Item 7096: Investment Incentives (Malta Enterprise)	€	6,660,000	7,362,991	11,515,335	4,152,344	4,855,335	6,354,234
Item 7104: Acquisition of property for public purposes (Government Property Division)	€	1,165,000	3,308,000	5,760,882	2,452,882	4,595,882	2,579,227
Item 7134: Construction Works and Equipment (Mater Dei)	€	-	7,154,000	7,119,396	(34,604)	7,119,396	(15,750,000)
Item 7210: Contribution to Malta Industrial Parks Ltd.	€	20,000	20,000	1,047,352	1,027,352	1,027,352	(22,000)
Item 7255: EU Globalisation Fund	€	132,000	132,000	641,201	509,201	509,201	-

Vote, Item		Original Budget 2009	Revised Estimates 2009	Actual 2009	Variation Actual 2009/ Revised Estimates 2009	Variation Actual 2009/ Original Budget 2009	Variation Actual 2008/ Original Budget 2008
Item 7256: Film Industry Incentives (Subvention)	€	4,869,000	4,869,000	6,543,419	1,674,419	1,674,419	-
Capital Vote IX: Ministry for Justice and Home Affairs Item 7257: External Borders Fund	€	9,320,000	19,270,000	15,491,871	(3,778,129)	6,171,871	-

NAO satisfactorily noted provisions with MF Circular No. 2/2010, regulating 'Financial Data Reporting System' intended to achieve a number of objectives "...including the surveillance of budget implementation and the formulation of budget policy governing the administration of public funds as part of government's ongoing fiscal consolidation process."

However, the above figures outline the importance of having in place a formal, structured and effective variance analysis system. Such a system should aim to reduce as far as possible variances within the same item of expenditure recurring from one year to the next as outlined in Table 3. NAO acknowledges the fact that cases of unforeseen and unavoidable expenditure cannot be totally eliminated and hence the need of supplementary estimates.

NAO recommends that such a variance analysis exercise is carried out on a Government-wide approach by Department Heads, as deemed appropriate by the respective Permanent Secretary. Such analysis would enable effective, adequate and timely top management follow-up of resulting variances together with their cause.

Such a 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. (FR 2009 – Appendix I - refers).

Table 4 – Statement of Assets

	2009	2008
	€ 000's	€ 000's
Public Credit		
Share Holding	316,935	280,220
Other Investments	288,891	253,471
Loans	5,092	5,092
	<u>610,918</u>	<u>538,783</u>
Investments held on behalf of		
Sinking Funds (Local)	111,270	103,219
Sinking Funds (Foreign)	49,273	52,497
Trust Funds	1,246	1,226
Court & Other Deposits	281	295
	<u>162,071</u>	<u>157,237</u>
Advances		
Advances	<u>223,316</u>	<u>226,655</u>
Bank and Cash		
Banks	1,806	2,214
Cash at Treasury	-	-
Central Bank of Malta – Public Account	136,629	96,216
	<u>138,436</u>	<u>98,430</u>
TOTAL ASSETS	<u>1,134,741</u>	<u>1,021,104</u>

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

Investments

The market value of direct investments as shown in the FR as at 31 December 2009 stood at €316,934,842. The nominal value of shares denominated in US Dollars remained unchanged (US\$ 11,147,455) from 2008.

The following were the major changes in Treasury Clearance Fund/Consolidated Fund investments during the year as noted through comparison between data as per FR 2009 and the preceding year:

Investments Redeemed

- Government's direct shareholding in Viset (Malta) plc of 1,200,000 cumulative, redeemable and participating preference shares representing a market value of €2,795,248.08, was sold during the year 2009. The nominal value was of €2.33 per share.

Increase in Investments

- Following a Board resolution dated 31 October 2008, Bank of Valletta Ltd. capitalised its earnings for the purpose of increasing the current nominal and paid up value of each share from €0.75 to €1. The Government was also allotted a further 6,728,019 fully paid up bonus shares at the new nominal value of €1 each, with an effective date of 15 January 2009.

With the increase in allotment of these shares to Government, the market value increased considerably from €116,731,383 as at year end 2008 to €156,224,884 as at 31 December 2009. This was due to an appreciation in share value of €0.40.

- Malta's subscribed capital in the European Investment Bank (EIB) stands at €69,804,000, this being 5% paid up (€3,490,200) as at 31 December 2009. As reported in the previous year's FR, Malta's subscribed capital in the EIB was standing at €69,804,000, this being 4.375% paid up (€3,053,925) as at 31 December 2008. Government increased the cost of investment in subscribed capital in the EIB by €436,275.

The misclassification of this investment reported in the 2008 Annual Audit Report (AAR), was duly and correctly reported in the FR 2009.

Malta's investment in the reserves of the EIB increased by €1,102,550, bringing the total balance of €8,820,398 as at 31 December 2009. Total increase in the cost of investment by Malta in the EIB over the previous year thus amounted to €1,538,825.

- Upon conversion of 499,999 ordinary shares in Malta Government Investments (MGI) Ltd. of Lm1 each into Euro, subsequently re-valued to €1 per share, Government's investment amounted to €1,164,684. On 19 January 2008, Government was allotted an additional 85,311 ordinary shares of €1 each in MGI Ltd. This new allotment of shares was not reflected in the 2008 Statement of Investment, which market value read €1,164,684 instead of €1,249,995. It was noted that Government's increase in shareholding, amounting to €85,311, was accounted for by Treasury on 13 May 2009 after obtaining the information from MFEI, bringing the total cost of investment in MGI Ltd. as at 31 December 2009 as €1,249,995 (1,249,995 ordinary shares of €1 each).

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

Movements in Values of Existing Investments

- During 2009, the cost of investments in:
 - Council of Europe Resettlement Fund;
 - International Bank for Reconstruction and Development;
 - Malta Freeport Corporation;
 - Mediterranean Offshore Bunkering Co. Ltd. (MOBC); and
 - Multilateral Investment Guarantee Agency

decreased due to changes in USD exchange rate.

- The market value of ordinary shares in Malta International Airport Co. Ltd. experienced a decrease to €32,471,988 as at 31 December 2009 when compared to the market value of €33,824,988 as at the end of 2008. This decrease was due to the depreciation of the market price of €0.10 per share.

Investments held on behalf of Sinking Funds

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

Table 5 – Sinking Funds Investments

Investment	Sinking Funds – Local	Sinking Funds – Foreign
	€	€
Central Bank of Malta Deposit Accounts	106,929,020	49,273,427
Malta Government Stocks	4,341,022	-
TOTAL	111,270,042	49,273,427

(Source: FR 2009 pgs 198-199)

Other Investments

Investment in Industry

A return submitted by MGI to the Accountant General showed that the total cost of investment in thirty-two companies amounted to €20,907,714 as at 31 December 2009.

MGI estimated that the net book value of these investments amounted to €17,565,517 after an accumulated provisional loss of €3,342,197. Further details are provided in Table 6.

Table 6 – Investments through Malta Government Investments Ltd.

Investment Type	No. of Companies	Cost	Provisional Loss	Net Book Value
		€	€	€
Subsidiary Companies	18	19,357,943	1,793,139	17,564,804
Associated Companies	2	1,549,058	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 2009, the total of investment in industry, as reported by Treasury, amounted to €21,482,318 as against €23,216,219 on 31 December 2008, a decrease of €1,733,901 over the previous year.

This decrease works out as follows:

- Malta Enterprise Ltd. with an investment valued at €4,659 was struck off.
- The Glorious Few Production Co. Ltd. never started operations and its share capital was returned to the shareholders. The issued share capital of this company is now of two shares of €2.329373 each, one held by MGI Ltd. and the other by MIMCOL, leading to a reduction of €23,289 compared to 2008.
- MGI's remaining 695,000 shares in Maltapost plc with a value of €1,705,954, were sold during the year 2008. Treasury informed NAO that this indirect investment was not cancelled from Treasury Books in 2008, and further confirmed that this would be adjusted and correctly reported upon in the 'Statement of Other Investments' for Financial Year 2009. NAO confirmed that this adjustment was carried out accordingly.

It is to be noted that the balance of indirect investments at year end, as reported by Treasury amounting to €21,482,318 does not tally with MGI Ltd. aggregate balance reported standing at €20,907,714.

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 Departmental Accounting System (DAS), where applicable.

The difference of €574,604 between Treasury's and MGI Ltd. records is explained in Table 7.

Table 7 – Malta Government Investments Ltd. adjustments re Indirect Investments

Company	Notes	Balance as per MGI Ltd. records	Balance as per Treasury Books	Difference
		€	€	€
Libma International Construction Ltd.	<i>a</i>	442,606	645,425	202,819
Dairy Products (Malta) Ltd.	<i>b</i>	-	349,406	349,406
Topwear Ltd.	<i>b</i>	-	22,362	22,362
Malta Freeport Corporation Ltd.	<i>b</i>	-	2.33	2.33
Malta Government Investments Ltd.	<i>c</i>	-	2.33	2.33
TOTAL	<i>d</i>	442,606	1,017,198	574,592

Notes:

- The difference between Treasury Books and MGI Ltd. records of €202,819 is made up of an amount which was invested as share capital by Government, as shown in letter from Ministry of Finance and Customs dated 28 October 1986, and which was never recognised by MGI Ltd.
- These three companies are not reported on MGI Ltd. records since these were investments made from Government funds by the former Malta Development Corporation.
- The Malta Government has one share of €2.33 in MGI Ltd. which has never been reported by the latter.
- Total difference does not tally due to rounding up of figures.

(Source: Reasons forwarded by Treasury)

New 'Other Investments'

Euro Coins

In June and December 2009, the Central Bank of Malta (CBM) made two Euro Coin issues on behalf of Treasury amounting to €34,908,000 and €2,246,000 respectively. The accounting entry of the latter amount dated 18 January 2010.

Dividends/Interests Received

Treasury accounts for and reports interest payable from Government's indirect investment as revenue. The amounts of €742,052 and €73,375 were received from Enemalta Corporation in respect of Permanent Debenture and Permanent Capital Contribution respectively.

Loans made by Government and Repayments thereof

Balances and other details of all loans issued by Government as on 31 December 2009 as reported in Appendix E of the FR 2009, are summarised as follows:

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

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 2009 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 2009.

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 2009, Court Deposits amounted to €16,277,179, while Other Deposits, spread across the thirty-nine Ministry/Departmental Votes, totaled €70,263,605.

Nil Variances

Following an examination of the Statements of Court and Other Deposits for the year 2009, it was satisfactorily observed that a total of twenty-three accounts were wound up during the year, with balances collectively amounting to €729,768.

However, ten Ministry/Departmental Votes reported no movement at all in numerous Court and Other Deposit accounts for three consecutive years. These amounted to €1,970,808, a breakdown of which is found on the following page:

Table 8 – Court and Other Deposits

Court Deposits:			
Vote number	Ministry/Department	Description of Account	2006/2007/2008/2009 €
42	Judicial	8208 Regular Court Deposits	37,333
Other Deposits:			
09	Local Government	8469 Local Councils Tribunal	2,092
14	Ministry for Gozo	8838 Improvement to Agriculture and Fisheries Facilities (L.N. 254/98)	875,844
19	Ministry of Education, Culture, Youth and Sport	8256 Sport Facilities 8361 Heritage Park Development 8537 Funding of Getti Grant 8825 Rehabilitation of Villa Bighi (L.N. 254/98)	122,433 604 9,418 16,341
22	Ministry for Social Policy	8453 Ground Rent of Requisitioned Premises 8456 Requisitioned Buildings (Disposal of Movables)	1,749 14,592
26	Health	8250 Maria Bugeja Cancer Foundation 8347 ESEN Quality of Life 8366 Leonardo Da Vinci Programme 8415 Money Belonging to Patients – St. Luke’s Hospital 8434 HIV Action Plan for Benghazi 8520 Gross VAT Output Tax (Health)	229,514 807 727 3,224 11,381 7,546
29	Ministry of Finance, the Economy and Investment	8546 MSA – UN Projects 8598 Retention of Monies 8803 Information Technology 2005 (L.N. 254/98) 8834 Information Technology (L.N. 254/98)	17,317 299,594 267,878 12,915
32	Public Debt	8554 Unpresented Bearer Debenture Loans	9,317
33	Inland Revenue	8306 <i>Il-Monti</i>	16,173
43	Police	8574 Takings from confiscated amusement machines	14,009
			1,970,808

Recommendation

The recommendation put forward in last year's AAR requiring Ministries/Departments to review the utility of their Deposit Accounts, still stands. If these Accounts 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 FR incorporates a detailed statement of balances remaining outstanding as on 31 December 2009, in respect of advances made to various Government Departments, Agencies and Organisations.

Pending advances were reported as amounting to €223,315,893 as on 31 December 2009, as against €226,654,582 outstanding on 31 December 2008.

New Advances

According to the FR 2009, Appendix L, the following five new Advance Warrants were issued during 2009:

- Two advances amounting in total to €83,000,000 for the purpose of accounting for the banking facilities of Malta Shipyards Ltd.

The relative Advance Warrants further stated that *"the amount so advanced shall be accounted for and repaid by not later than the end of 2009 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 €25,229,277 for the purpose of accounting for the 14th Social Security Benefits falling due in 2009.

The Advance Warrant further stated that *"the amount so advanced shall be accounted for and repaid by not later than the end of 2010 through funds made available in the appropriate Items of Expenditure within the Social Security Benefits Recurrent Vote."*

- An advance of €4,000,000 for the purpose of Malta Industrial Parks Ltd. repaid by the end of the year, as stipulated in the same Warrant.
- An advance of €11,426,002 for the purpose of purchase back of remaining term of emphyteusis by the Land Department, within the Government Property Division. This Advance Warrant also stipulates that such advance be accounted for and repaid by not later than 31 December 2010.

Outstanding Advances

Outstanding advances apart from advances forwarded to Malta Drydocks Corporation and Malta Shipbuilding Co. Ltd., as at 31 December 2009 were the following:

Table 9 – Outstanding Advances

Description	€
Malta Development Corporation 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	3,267,467
Two advances made to Permanent Secretary, Ministry of Finance and Commerce, to enable him to support the operational cost of Enemalta Corporation during 1997	10,692,197
Commissioner of Inland Revenue, to meet loans in terms of Article 4 of the Monte Di Pieta' Act (No. XXXIX) of 1976	694,799
Accountant General, for the purchase of shares held by Sea Malta Co. Ltd. in Mediterranean Offshore Bunkering Co. Ltd. The amount so advanced should be accounted for and repaid, in the first instance, out of proceeds forthcoming from the eventual privatisation of Mediterranean Offshore Bunkering Co. 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 Mediterranean Offshore Bunkering Co. Ltd.	1,109,173
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	5,236,130
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 Mediterranean Offshore Bunkering Co. 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	582,343
Permanent Secretary, Ministry for Social Policy, for the purpose of accounting for the 14th Social Security Benefits falling due in 2009	25,229,277
Commissioner of Land, Land Department within the Government Property Division, for the purpose of purchase back of remaining term of emphyteusis	11,426,002

Observations**Enemalta Corporation 1997 – €10,692,197**

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 Malta Developments Corporation (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.

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 2009, €5,925,002 and €5,254,998 repayments were effected in respect of Malta Drydocks Corporation – 1997 and 1998 advances, respectively.

Pending advances 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 Co. Ltd.	21,643,890
Malta Drydocks Corporation – 1998	21,366,022
Malta Drydocks Corporation – 1999	18,634,163
Malta Drydocks Corporation – 2000	25,623,107
Malta Drydocks Corporation – 2001	29,987,336
TOTAL	117,254,518

It is to be noted that out of the budgeted amount of €14,052,000 for the year under review, under the Ministry responsible for Finance's Capital Vote VIII (Item 7189), to be utilised towards paying Treasury Clearance Fund Advances, €13,974,875 of this allocation was actually utilised.

Gozo Channel Co. Ltd. – €582,343

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 2009, interest amounting to €29,117 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 completely repaid during the year totalling €31,648,807:

Malta Drydocks Corporation – 1997
Accounting for 14th Payment of Social Security Benefits 2008
Construction of new factory – Brandt International

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 2009 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 MFEI Permanent Secretary as Chairperson, a MIMCOL representative and the Accountant General. All members were present for the meeting held on 22 June 2010 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, Malta Stock Exchange Statements and other related documents maintained by Treasury.

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 2009.

Contrary to what was reported in last year's audit report, NAO noted an increased time lag between the closure of the books and the submission of the reports by the Board of Survey. 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 18 February 2010 and 9 August 2010 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 regards 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 again this year unable to reconcile the balance shown in the Cash Book with the Central Bank of Malta Statement. The Board was informed that new Bank Reconciliation Statements had been developed and the Treasury was awaiting the submission of such statements from Malta Information Technology Agency (MITA), following which it would undertake appropriate testing and implementation. The Board noted that both manual and automated reconciliations for the period under review have been completed.

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, on a lapse of two months from the month being reconciled.

Manual reconciliation for the years 2002 till 2009 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.

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

As regards to the Reconciliation for the period June 1992 to December 2001, Treasury's position remained the same as reported in last year's AAR. Moreover, Treasury has maintained the practice to forward to NAO copies of the Monthly Bank Reconciliation Statements.

Treasury commented that MITA is still working on the enhancement of the Bank Reconciliation System (BRS), namely the multiple matching facility and the new BRS report. The multiple matching facility will further reduce the possibility of human error in the matching process, whilst the new BRS report will ensure that reports printed on different dates will portray the same data for any specific date. This report will also show both reconciled and unreconciled transactions and is being developed in line with Bank Reconciliation accounting procedures. It was further stated, that whilst no

deliverable date was set when the Project Change Request Forms were commissioned, Treasury is closely following the reported rate of completion of the developments requested and has reiterated with MITA the importance of having the deliverables available without any further delays.

Notwithstanding the above, NAO is still concerned that the situation reported upon in previous Financial Years still prevails. Balances, as reported in Part 1 of the FR 2009, do not tally with the respective balances featuring in the Bank Reconciliation Statement for the month of December 2009 prepared by Treasury. NAO examined further the management comments submitted in respect of the 2007 Audit Report, from an IT perspective. NAO findings and related Management comments from both Treasury and MITA are reported separately on page 205 of this AAR.

The FR 2009 states that “.....resulting in an end-of-year Debit Book Balance of €136,629,436 against a Bank Balance of €101,974,824.” On the other hand, the December 2009 Bank Reconciliation Statement features €123,203,571 and €93,124,389 as Cash Book and CBM balances respectively.

Liabilities

Table 11 features the Statement of Liabilities (FR 2009 – Appendix I – refers).

Table 11 – Statement of Liabilities

	2009	2008
	€ 000*s	€ 000*s
Public Debt	3,380,372*	3,132,927
Euro Coins issued o.b.o Treasury	37,154	-
Treasury Bills	470,520	358,886
Deposits		
Court and Other Deposits	86,541	53,143
Other	<u>23</u>	<u>23</u>
	86,564	53,167
Funds		
Sinking Funds	160,543	155,716
Contingencies Fund	1,165	1,165
Trust Funds	<u>1,327</u>	<u>1,280</u>
	163,035	158,160
Accumulated Fund		
Consolidated Fund at year end	(196,297)	(87,891)
Net Public Debt	<u>(2,806,608)</u>	<u>(2,594,145)</u>
	(3,002,905)	(2,682,036)
TOTAL LIABILITIES	<u>1,134,741</u>	<u>1,021,104</u>

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

*Public Debt should read €3,379,962 due to misstatements in the Statement of Foreign Loans referred to on page 37 of this Report.

Public Debt

Local Loans

On 31 December 2009, the local Public Debt as reported in Appendix F of the FR amounted to €3,749,854,300. This amount represents an increase of €372,111,854 over the corresponding reported figure for 2008. 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 €470,520,075 and €55,150,200 respectively.

This increase works out as follows:

	€
Total of New Local Loans	2,084,256,354
Total Repayment of Loan	(1,712,144,500)
Net increase in Public Debt	<u>372,111,854</u>

Foreign Loans

Audit Findings

- Payment by Draft
 - Once again, Management 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, by using the Reprint function within the DAS. This constitutes an audit risk, since DAS allows changes to figures quoted on the original Payment by Draft, instead of allowing for an Amendment to be carried out on the original Draft. In all cases, figures quoted on the second ('reprints') Payment by Draft tallied with CBM Debit Advices.
 - Except for one case, all second ('reprints') Payment by Draft were endorsed by the officer carrying out the amended version, as recommended in last year's AAR.
- Details on CBM Debit Advice
 - Following NAO's recommendations featuring in the 2008 AAR, Treasury discussed reported audit concerns with CBM. The following comments were forwarded to Treasury:
 - a) CBM adopts the Government Selling Rates of exchange issued daily by the Investments Section on Debit Advices. If on the other hand, the amount exceeds €150,000, an even favourable rate is obtained from Investments.
 - b) CBM mentioned that the rates of exchange quoted on CBM Debit Advices cannot be tallied with the official average daily rates issued by same.

The selling rates of exchange mentioned above could not be verified by NAO, since no official lists as forwarded by Investments are kept by CBM. Besides, CBM adopted the approach of printing the relevant rates of exchange applied on Debit Advices as from end October 2009.

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
 - DAS should allow users to opt for Reprint/Amendment functions, as applicable to the particular case.
- Details on CBM Debit Advice
 - Treasury should ensure that all possible information relative to exchange rates applied by CBM on Debit Advices is filed accordingly.

Testing of Foreign Loan balances revealed that, due to an error in calculating the closing balance of the European Union Loan F, this resulted in an erroneous calculation of the revaluation adjustment reported as €392,954, instead of a correct negative balance of €16,467. As a result, the closing balance of €2,512,592 as reported in the FR, should read €2,103,172. In addition, when calculating the repayment to close the Republic of Italy 1986 loan, an error in the rate of exchange used caused an erroneous repayment of €163,140 instead of €174,408. Thus, figures in the Statement of Foreign Loans should be reclassified to read a revaluation adjustment of €11,268 and a total repayment of €367,425. In this case, the closing balance of this loan was not affected.

Treasury has been informed of the noted discrepancies and has taken the necessary corrective action in DAS. It is to be noted that the error in the closing balance of the European Union Loan F is reflected in the total amounts of Foreign Loans and Public Debt as reported in the Statement of Public Debt itself on page 179, as well as the summary of Public Debt and the Statement of Assets and Liabilities on pages xxiv and 194 of the 2009 FR respectively. The total value of Public Debt was overstated with an amount of €409,421 throughout.

Accrual Accounting and the Excessive Deficit Procedure

Ministries/Departments are required by Treasury to submit data on a quarterly basis in specified templates, to be uploaded in the Accrual Accounting Financial Reporting System (AAFRS). The main aim of AAFRS is to amalgamate information from DAS with the accrual based data which derives from the submitted Returns. The system then issues departmental and consolidated Financial Statements. The latest Trial Financial Statements issued to date relate to Financial Year 2008. This procedure was explained by the MFEI Permanent Secretary in a document entitled 'Statement on the Current Status of the Accrual Accounting System in Government Departments' that was presented to the Public Accounts Committee (PAC) on 14 October 2009.

Excessive Deficit Procedure Notification

The Excessive Deficit Procedure (EDP) Notification is undertaken twice a year, at the end of March and end of September of each year. In addition, the National Statistics Office (NSO) issues Quarterly Reports that are sent to the European Commission (EC). In order to compile the above reports, NSO has a 'read only' access to the AAFRS templates as posted by the various Ministries/Departments throughout the year.

All data is used for accruals-based Financial Statements preparation. However, NSO does not use data as per departmental templates in respect of:

- Value Added Tax (VAT);
- Income Tax; and
- Social Security Contributions (SSC).

Instead cash data is used for the three aforementioned revenue items. Eurostat highlighted two options for treatment of these items in EC Regulation No. 2516/2000, being:

- Time-adjusted cash; and
- Coefficient.

Following a request by Eurostat, the time-adjusted cash method was selected and fully implemented by NSO in the October 2008 Notification of the EDP. The data was revised backwards to 2004.

NSO accesses information in the AAFRS and adjusts the figures with the accrual element to be reported in the Quarterly Reports accordingly.

Time adjustment is made for:

- VAT – Balances derived from DAS for year 2009 that includes revenue data from February 2009 to January 2010, i.e. a one month adjustment; and
- Income Tax and SSC – Balances derived from DAS for year 2009 that includes revenue data from March 2009 to February 2010, i.e. a two months adjustment.

Upon enquiry by NAO, NSO confirmed that data derived from DAS and *ad hoc* systems at the VAT Division, Inland Revenue Division (IRD) and the Department of Social Security (DSS), are not checked to ensure that all revenue recorded in such systems is reflected in DAS at the time when data is extracted for EDP Notification purposes.

The EDP Notification portrays balances of the last four years plus a forecast year. In March 2010 Notification, data up to 31 December 2009 is included. In September 2010 Notification, data up to 31 December 2009 is again included, this time being more accurate than the March 2010, since more accrual based Financial Statements have been audited at this stage (i.e. Notification submitted in March 2010 will be updated by audited Financial Statements of Extra-Budgetary Units (EBU)).

Budget Office's Role

The Budget Office uses Consolidated Fund figures and includes EBU (through the Financial Management and Monitoring Unit) for the scope of issuing Notifications of Central Government Eurostat figures referring to past data. As of this year, Ministries/Departments are being requested a forecast of their year-end accrual balances. For this purpose, a template was designed and sent to Departments. Ministries/Departments are to complete this template every quarter and submit it to Treasury. Due to this new procedure, including the monitoring of irregular trends, MFEI Budget Office is increasingly assuming a larger role in the workings relating to the Accruals element of the EDP Notification.

Below-the-line accounts forecasts are also being requested on a quarterly basis to assess the impact of non-financial transactions on the Deficit. The change from the Opening to the Closing balance of the Total Consolidated Fund will be accordingly reflected in the General Government Net Borrowing (Deficit).

Creditors' Analysis

Forty-nine Ministries/Departments submitted to Treasury an 'Analysis of Creditors' as at 31 December 2009. Total creditors reported as at 31 December 2009 in these analysis amounted to €4,202,100,952. According to data submitted by these Ministries/Departments, €4,038,575,574 or 96.11% of total creditors at year end under review were still within the credit period as at 31 December 2009.

€211,406 of total creditors related to amounts contested. The following is an ageing analysis of the remaining creditors balance as at 31 December 2009:

Table 12 – Ageing of Remaining Creditors

Amount Due (€)	% of Total Creditors	Days Overdue
114,151,407	2.72	01-30
6,723,341	0.16	31-60
5,505,484	0.13	61-90
3,441,031	0.08	91-180
6,860,020	0.16	181-360
26,632,689	0.63	Over 360
163,313,972	3.88	TOTAL

Eighteen Ministries/Departments reported a 'Nil' creditors balance in their Returns, as at 31 December 2009.

Information on creditors, which is derived by NSO through the AAFRS, features in Table 2A of the EDP Notification under 'Other Accounts Payable'. However, in addition to the data submitted from the Ministries/Departments accruals'

templates, NSO includes other accruals adjustments. These consist of the treatment of EU Funds and EU Own Resources, including other transactions not captured by the AAFRS. Further breakdowns of both 'Other Accounts Payable' and 'Other Accounts Receivable' may be found in Annex 9 attached to the EDP Notification.

Statement of Abandoned Claims, Cash Losses and Stores Written Off

In terms of the General Financial Regulations, 1966 and Treasury Circular No. 2/2010, Departments were to submit to the Accountant General an annual Return of stores written off, abandoned claims and cash losses by not later than 26 March 2010. Nil Returns were also required. The Circular stressed the importance that statements reflect comprehensive and accurate data and that proper identification of endorsing officers is to be provided.

Following an audit on the Statement of Arrears of Revenue submitted by the VAT Division for the year 2009, reported on page 228 of the AAR, it was found that an amount of write-offs reported by the Division should have been classified as 'Not Due'. As a result, the figure of 'Abandoned Claims' relating to the VAT Division, amounting to €16,929,141, as reported in Appendix M of the FR, cannot be ascertained.

Once again, NAO cannot ascertain the completeness of Appendix M of the FR. However, contrary to previous years, figures quoted under 'Abandoned Claims' aggregately amounting to €17,288,108 do not substantially differ from figures reported by various Ministries/Departments, in their respective 2009 Return of Arrears of Revenue, as amounts written off, following an examination of such Returns by this Office.

Whilst examining Appendix M, NAO noted the following shortcomings:

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

- a) It could not be ascertained whether unserviceable items amounting to €469,589 reported by several Ministries/Departments, were supported by write-off approvals. Cases were found where the name and grade of the endorsing officer could not be clearly identified, whereas in other cases, authorisations did not specify amounts written off. Moreover, the write-off approval of a list of unserviceable items with no market value submitted by one Department could not be clearly identified.
- b) An item reported as missing by the Consumer and Competition Division amounting to €70 was not covered by the relative write-off approval.
- c) A cash loss of €1,535 reported by Health Division was not included in the Appendix M Statement since no approval was available.

Identification of Endorsing Officers

It was observed that proper identification of endorsing officers was lacking on numerous statements submitted by Ministries/Departments, whereby the grade and full name of such officers was often missing.

Reporting of Abandoned Claims

The write-off approvals of amounts totaling €22,357 and reported as 'Abandoned' by the Government Property Division, within MFEI, could not be traced. This balance was included in Statement M of the FR. Additionally, 'Abandoned Claims' reported by the Health Division (Hospital Fees) amounting to €18,705 were not supported with the relative approvals, although the requests for write-off to the respective Permanent Secretary could be identified for €15,594 of the total reported under 'Abandoned Claims'.

Returns not Submitted

Treasury reported a List of Defaulting Departments outlining those Ministries/Departments that failed to comply with Treasury Circular No. 2/2010.

Lack of Verifiable Documents submitted by the Ministries/Departments

NAO satisfactorily observed that numerous Ministries/Departments complied with Treasury's request to submit copies of write-off approvals. Notwithstanding this, on many occasions, submitted documentation was not and could not be verified by Treasury officials.

Recommendations

On the basis of the above findings, it is recommended that Treasury:

- carries out an exercise comparing figures of 'Abandoned Claims' reported in this Statement as against the amounts written off as declared in the Statement of Return of Arrears; and
- implements stricter measures to ensure compliance with requirements specified in the Treasury Circular.

Letters of Comfort/Bank Guarantees

The position of Contingent Liabilities as at 31 December 2009, as reported upon in Part I of the FR 2009 is reproduced in Table 13, a breakdown of which can be found in Table 14.

Table 13 – Contingent Liabilities – 2009

	€
Government Guarantees:	
Local	455,441,879
Foreign	390,804,822
	846,246,701
Letters of Comfort	46,743,130
TOTAL	892,989,831

Table 14 – Letters of Comfort/Bank Guarantees

Beneficiary		31 Dec 08	31 Dec 09	Remarks
Air Malta Co. Ltd. (Local)	€	18,867,925	-	This represented the amount due to Air Malta plc by the Libyan Arab Airlines. Letter of Comfort was cancelled as funds were fully recovered.
Enemalta Corporation	€	10,598,638	1,941,144	This Letter of Guarantee, originally amounting to €11,646,867, was issued to secure loan facilities available to Enemalta Corporation.
	€	110,000,000	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	100,000,000	A Letter of Guarantee was issued for this amount to secure loan facility.
	€	30,000,000	17,678,576	A Letter of Guarantee was issued for this amount to secure short-term overdraft facility.

Table 14 – Letters of Comfort/Bank Guarantees

Beneficiary		31 Dec 08	31 Dec 09	Remarks
	€	45,000,000	42,500,000	This Guarantee secures loan taken on 13 December 2007 to finance part of its capital expenditure programme for the period 2007 to 2013.
	€	-	10,000,000	A Letter of Guarantee was issued for this amount to secure overdraft facility with a local commercial bank.
	€	-	5,893,003	This Letter of Guarantee, originally amounting to €10,000,000, was issued to secure overdraft facility with a local commercial bank.
	€	-	10,000,000	A Letter of Guarantee was issued for this amount to secure overdraft facility.
	€	-	20,000,000	A Letter of Guarantee was issued for this amount to secure temporary short-term overdraft facility.
	€	-	16,000,000	A Letter of Guarantee was issued for this amount to cover General Banking Facility, which will cover the issuance of a stand-by Letter of Credit.
	€	-	24,742,530	This Letter of Guarantee, originally amounting to €27,000,000, was issued to cover loan facility.
	€	-	75,000,000	A Letter of Guarantee was issued for this amount to secure loan facility.
	€	-	15,000,000	This Guarantee secures loan taken to part finance the Corporation's investments in the national electricity supply system and distribution network.
	€	<u>295,598,638</u>	<u>448,755,253</u>	
Gozo Ferries Co. Ltd.	€	4,241,078	893,755	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 cash-flows 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, CBM obtained a guarantee from Government to protect itself from any exchange losses.

Table 14 – Letters of Comfort/Bank Guarantees

Beneficiary		31 Dec 08	31 Dec 09	Remarks
Housing Authority	€	1,526,836	116,244	A Letter of Guarantee, originally amounting to €4,658,747, was issued to secure overdraft facilities in replacement of a Letter of Guarantee issued by a different local commercial bank for the same purpose.
Malta Enterprise Corporation (ex Malta Development Corporation)	€	6,124,422	1,009,323	A Letter of Guarantee, originally amounting to €2,911,717, was issued to replace Letters of Comfort issued to cover the Loan Guarantee Scheme, taken over from IPSE Ltd. and the New Enterprise Loan Guarantee Scheme.
	€	-	1,930,435	€1,077,796 represents a Letter of Guarantee to secure loan/credit facilities made available to the Corporation.
	€	<u>6,124,422</u>	<u>2,939,758</u>	
Water Services Corporation	€	59,286,176	65,632,012	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	19,500,000	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.
	€	<u>64,286,176</u>	<u>85,132,012</u>	
Malta Freeport Corporation Ltd.	€	20,563,233	15,253,253	<p>a) €3,518,252 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.</p> <p>b) €3,372,990 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.</p> <p>c) €51,125 Letter of Guarantee was issued in substitution of the Letter of Guarantee covering the balance on the loans of Lm7.75m (€18,052,644).</p> <p>d) The remaining consisted of Letters of Guarantee to secure loan facilities.</p> <p>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.</p>

Table 14 – Letters of Comfort/Bank Guarantees

Beneficiary		31 Dec 08	31 Dec 09	Remarks
	€	204,163,763	202,911,067	As a result, the currency denomination has been changed to Euro.
	€	<u>224,726,996</u>	<u>218,164,320</u>	
Malta Industrial Parks Ltd.	€	13,254,167	20,359,785	On 3 December 2008, Letter of Guarantee was issued to secure loan facility in replacement of Letter of Comfort for Lm11m (€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.
	€	31,803,088	29,475,187	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	6,761,571	Letter of Comfort issued on 4 February 2008 to secure loan facility in connection with capital projects.
	€	-	5,000,000	A Letter of Guarantee, originally amounting to €13,000,000, was issued to secure loan facility.
	€	<u>59,579,722</u>	<u>68,584,663</u>	
Malta Shipyards Ltd.	€	43,839,053	-	All Letters of Guarantee were cancelled during 2009.
Malta Government Technology and Investment	€	-	923,378	A Letter of Comfort was issued for €1,000,000 on 12 February 2009 to secure loan facility. This was replaced by a Letter of Guarantee dated 12 March 2009 for the same amount.
Malpro Ltd.	€	465,875	465,875	A Letter of Guarantee, originally amounting to €932,000, was issued to replace Guarantee dated 25 January 2001.
Malta Government Investments Ltd.	€	5,697,155	5,872,699	Two Letters of Guarantee issued on 23 December 2005 to cover working capital and other financing requirements.
Malta Tourism Authority	€	1,697,533	591,797	Letter of Guarantee issued on 9 April 2003 to secure loan facility with a local commercial bank.
Foundation for Tomorrow's Schools	€	40,160,094	46,037,302	Two Letters of Guarantee issued on 1 December 2008 to secure general banking facility.
Malta Maritime Authority	€	6,852,473	5,512,775	Letter of Guarantee issued on 10 December 2002 to secure loan facility. This was reduced by Lm2m (€4,658,747) to cover potential exposure of Lm6m (€13,976,240).
Property Management Services Ltd.	€	-	9,000,000	Letter of Guarantee issued for same amount to secure loan facility with a foreign bank established in Malta.
TOTAL	€	773,663,976	892,989,831	

The above €892,989,831 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 Remarks

During the review process of 2009 FR figures of the Statements of Expenditure and Sinking Funds for the Redemption of Loans for 2009, it was noted that the following amounts were missing:

- Appendix D: Vote 27 (Elderly and Community Care) – Information Services amounting to (€544) and Training amounting to (€1,475) under the *Actual Expenditure* heading
- Appendix K2: Republic of Italy 1986 Loan – (€1,954,932) under the *Interest/Dividends/Other* heading.
USA Government Loan – (€132,152) under the *Revaluation/Currency adjustments* heading.

When querying this matter, Treasury stated that the omissions were due to a technical problem in the printing process. Whilst confirming that such problem has been resolved to avoid such instances from recurring in future publications, Treasury decided not to recall the publications or issue any '*errata corrige*' on the grounds that balances at end of respective pages are correct. According to Treasury, the last proof read copies did not contain any anomalies.

In general, NAO is satisfied that documentation relative to the Statements was 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 some areas necessitating improvement, NAO satisfactorily noted that most of the recommendations were acted upon, with corrective action being taken immediately, where possible.

Management Comments

The Treasury Division submitted the following comments:

Assets and Liabilities

Treasury once again commented that since the DAS system is cash-based, the Statement of Assets and Liabilities represents a 'balancing of accounts'. Such statement can only be improved upon with the introduction of 'Accrual Accounting' in Government Accounts.

Investments

Management stated that sometimes it proves very difficult to obtain accurate information in time to be included in Treasury Books in the proper Financial Year, even though every effort is made to obtain such information.

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

Treasury stated that the fact that MGI records do not tally with Treasury Books is due to the fact that Treasury accounts include also 'Malta Enterprise Investments' (ex MDC), which are not included in MGI books. Management confirmed the explanation of differences as reported by NAO as correct.

Court and Other Deposits

Management confirmed that the exercise carried out two years ago, resulting in a number of accounts being wound up, was again repeated by Treasury last year where twenty-seven Ministries/Departments were queried on fifty-two accounts not used for the previous three years. A further two Court and Other Deposit accounts were wound up during 2010, resulting in a transfer of €312,509 to Revenue. According to Treasury, this exercise will be continued during the current financial year, so that the remaining unused balances will be either utilised for their proper purpose or else transferred to Revenue, if possible by the end of this Financial Year.

Accrual Accounting and the Excessive Deficit Procedure

Treasury reiterated that NSO have a 'read only' access to the accrual templates sent by the Ministries/Departments on a quarterly basis, which are subsequently saved on Treasury's network server in a folder entitled 'NSO' that serves as a repository for the storage of the templates. Management emphasised that the AAFRS is only accessed by officials from Treasury and MITA responsible for the preparation of the financial statements.

Management further emphasised that whilst it does its utmost to ensure that the accrual templates submitted are relevant, reliable, comparable and understandable, to-date, Ministerial and Departmental accrual based financial statements are still prepared on a 'trial' basis.

Treasury's role in the EDP Notification (and in so far as Accrual Accounting is concerned) is to ensure that Ministries / Departments submit the year end accrual balances and Below-the-Line forecasts on a quarterly basis. Following this procedure Treasury conducts the first level of verifications, with figures being entered in a template designed for the purpose. Such template is then forwarded to NSO and the Budget Office. Should these request further clarifications, the Treasury would liaise with the respective line Ministries/Departments accordingly.

As to the Creditors' analysis, Treasury once again highlighted the fact that NSO derives information on creditors from the templates submitted by the respective Ministries/Departments, which information is closely monitored by NSO on a quarterly basis. Management commented that this was the first time that NSO requested creditors' information on the last quarter of 2009 and that the total creditors figure being reported is also inclusive of Public Debt.

In a communication to NAO dated 5 October 2010, NSO stated that with regards to data derived from DAS and *ad hoc* systems at the VAT Division, IRD and DSS, it is not within the remit of NSO to ensure that all revenue recorded in such systems is fully reflected in DAS at the time when data is extracted for EDP Notification purposes. It is the Treasury's responsibility to ensure that the procedures for the timely transfer of data from *ad hoc* systems to DAS are followed.

Statement of Abandoned Claims, Cash Losses and Stores Written Off

With reference to 'Abandoned Claims' reported by the VAT Division, Treasury stated that it had enquired with the Division whether the reported amount, in actual fact, represented a write-off. According to Treasury, VAT replied that such amount in question did not require MFEI authority since the amount represented assessments generated by the VAT system. For the next submission, Treasury will ensure that such cancellations will not be reported as 'Abandoned'.

When referring to the completeness of Appendix M of the FR, Management confirmed that some Departments did indeed report different figures when compiling write-offs in both the Arrears of Revenue Return and Statement of Abandoned Claims. It was pointed out that, besides the possibility of there being a different officer compiling both returns, Treasury is constrained by pre-defined deadlines to compile the figures to be reported in the FR.

Treasury endeavours to obtain full and correct submissions from Ministries/Departments, besides requesting supporting documentation regarding write-offs and clear identification of endorsing officers. Notwithstanding the fact that such requirements are amply highlighted in the Circular, it is acknowledged that some Ministries/Departments still fail to provide full and accurate information. Treasury will be further enforcing departments to submit a proper identification of endorsing officers in the next Circular to be issued, stating that "*any returns which do not clearly identify the endorsing officers will be considered as not submitted and reported accordingly to the MFEI and the Auditor General.*"

In reply to NAO's recommendations, Treasury concluded that an exercise comparing figures of 'Abandoned Claims' reported in Appendix M as against write-offs declared in the Statement of Return of Arrears for the year 2009, has already been undertaken on a trial basis during the period March – June 2010. This internal exercise led Management to the conclusion that it is practically impossible to tally both submissions since whilst the exercise concerning the Statement of Abandoned Claims, Cash Losses and Stores Written Off is concluded in June, the Arrears of Revenue exercise is ongoing due to NAO's testing on such submissions.

With regards to applying stricter measures towards ensuring compliance with the relative Circular, Management reaffirmed its position that every effort is already being made in this respect.

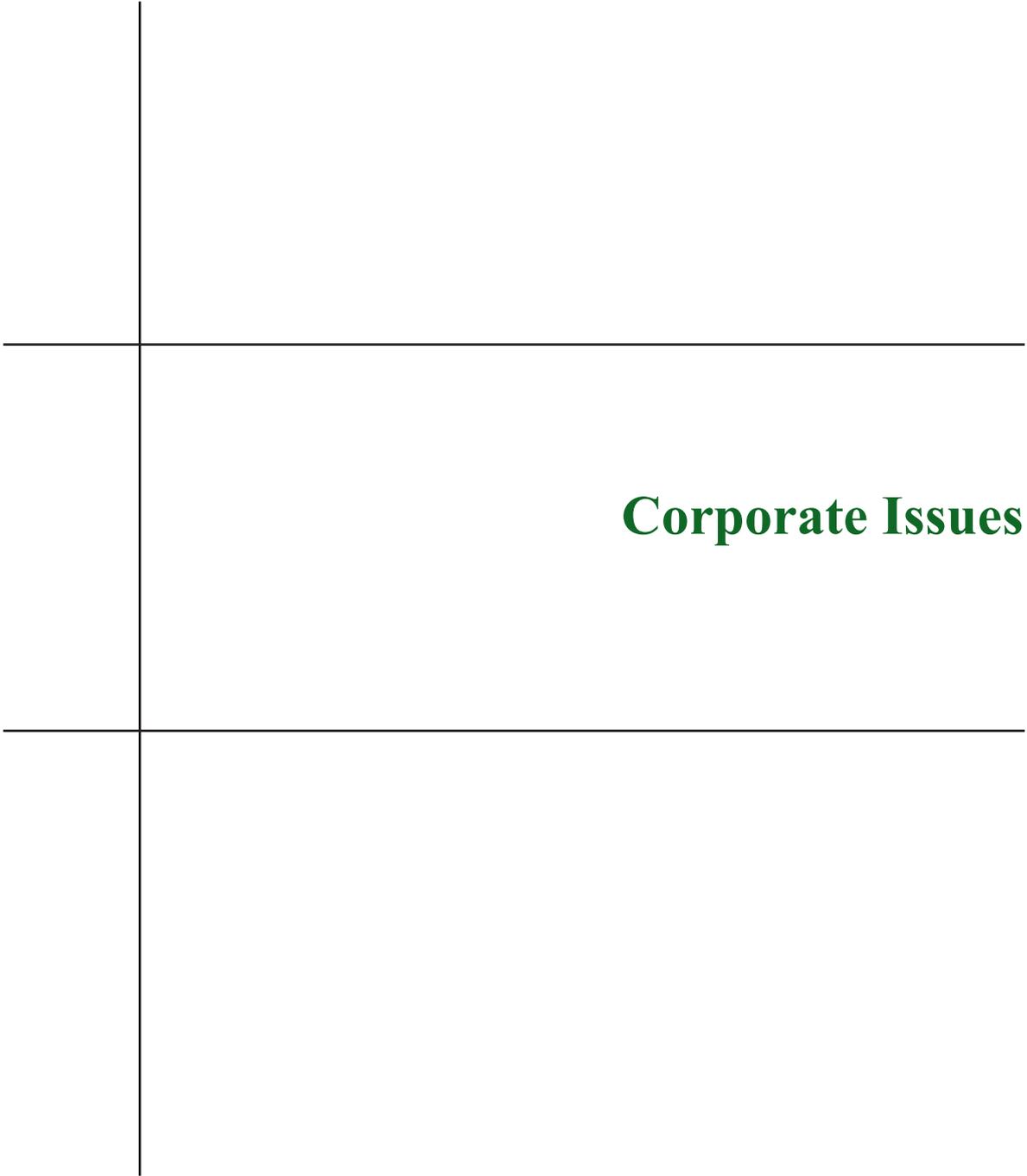
The Budget Office submitted these comments:

Revenue

Management confirmed that, wherever necessary, the Ministry shall provide details of those instances where explanations of variances were lacking, as indicated in Table 2, especially in those cases where variances are relatively material in comparison to the Approved Estimates.

Excess of Expenditure over Estimates

With respect to NAO's recommendation suggesting a Government wide approach to variance analysis, the Budget Office stated that it shall continue to pursue the submission by Ministries/Departments, of the standard monthly Revised Estimates Statements, pertaining to the Revenue, Recurrent and Capital Votes under their respective responsibilities.



Corporate Issues

Arrears of Revenue 2009

Background

The timely collection of revenue and control over arrears of revenue is the responsibility of Accounting Officers. Treasury Circular No. 3/2010 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 Arrears of Revenue Return (ARR), in duplicate, to the Accountant General, by not later than the 1 April 2010, 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. 3/2010.

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 2009 should be indicated.

Ministries/Departments are obliged to submit the position of Debtors on a quarterly basis in the form of specified templates, to be uploaded on the Accrual Accounting Financial Reporting System. In this regard, Treasury Circular No. 3/2010 also states that “*Heads of Department are requested to **note the link** between this return and the end of year Debtors template sent to Treasury as part of the Accrual Accounting data transmission programme.*”

Returns

Details of arrears of revenue included in the Table on page 72/73 have been compiled only from Returns forwarded to the National Audit Office (NAO) by the Treasury Division. The following Ministries/Departments submitted ‘Nil’ Returns:

- Office of the President
- House of Representatives
- Office of the Prime Minister
 - o Public Service Commission
 - o Electoral Office
 - o Department of Local Government
- Ministry for Infrastructure, Transport and Communications
 - o Civil Registration
 - o Public Registry

- Ministry of Foreign Affairs
- Ministry for Gozo
 - o Director Corporate Services
- Ministry for Social Policy
 - o Government Pharmaceuticals
- Ministry of Finance, the Economy and Investment
 - o Economic Policy Division
 - o Public Lotto Department
 - o Tax Compliance Unit
 - o Privatisation Unit
 - o Consumer and Competition
- Ministry for Justice and Home Affairs
 - o Corporate Services
 - o Malta Security Service
 - o Correctional Services

Treasury published a list of defaulting Ministries/Departments in Part I of the 2009 Financial Report. These Ministries/Departments failed to submit the annual ARR. Defaulters are listed below:

- Ministry of Foreign Affairs
 - o Citizenship and Expatriate Affairs
- Ministry for Infrastructure, Transport and Communications
 - o ADT - Valletta Accessibility Measures
- Ministry of Education, Culture, Youth and Sport
 - o Education Department
- Ministry for Social Policy
 - o The Ministry
 - o Department for Social Security – National Insurance Contributions Pre-1998
 - o Social Security Benefits
 - o Department for Social Housing
- Ministry of Health, the Elderly and Community Care
 - o Elderly and Community Care
- Ministry of Finance, the Economy and Investment
 - o Lotteries and Gaming Authority

Additionally, the annual ARR of the following Departments were not submitted:

- Ministry of Education, Culture, Youth and Sport
 - o Mediterranean Conference Centre
- Ministry of Finance, the Economy and Investment
 - o Inland Revenue Division - Social Security Contributions with effect from 1998

Debtors

When comparing figures reported by fifty-five Ministries/Departments in their Return of Arrears for the year ended 31 December 2009, to declared figures in the Debtors' templates submitted by same, discrepancies were found in six Departments. In a communication to this Office dated 20 October 2010, Treasury commented that the Division endeavours to assist Departments to submit accurate and timely information in both Returns, and that having both Returns agree is not technically possible in all circumstances, due to urgent reporting exigencies that need to be serviced early in the year. Treasury also reiterated that the final ownership of all financial figures submitted rests with the respective Heads of Departments, although every effort is being made to verify such figures. In the majority of cases, Heads of Departments resubmit revised Returns when queried by the Division.

Notes and Comments on Arrears of Revenue

Office of the Prime Minister

The gross closing balance of €17,641 due from individuals is made up of €2,369 newly accrued arrears in respect of overpaid salaries to two employees, and a balance of €15,272 which has been outstanding between two and five years. The latter amount is due by an individual for breaching the Contract of Service.

Armed Forces of Malta

The amount of €95,855.50, reported as not due, includes a claim amounting to €95,469.76 which was originally debited to one of the Commercial Banks in connection with extra duties incurred during the Euro Changeover period, which expense should have been borne by the Central Bank of Malta and then charged accordingly.

Out of the gross closing balance of €1,358,067 as at the end of the year, the amount of €13,929 is still being estimated as not collectable and mainly relates to dues from Malta Maritime Authority (since 2002) and Posta Ltd. (since 1997) amounting to €7,607.73 and €2,172.56 respectively, apart from refunds of wages under contestation (1994 – 1995) amounting to €4,148.74.

The net collectable arrears as at year end stood at €1,344,138 and is made up of arrears in respect of services rendered to third parties as follows:

	€
a) Patrol Craft Conveyances/Hire of Vehicles & Machinery	5,408
b) Security Duties rendered at Commercial Banks, a Corporation and Government Departments/Entities	1,256,924
c) Services rendered by the Armed Forces of Malta (AFM)/Helicopter and Sundry Services	81,806

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

	€
Arrears outstanding for one year or less	1,314,547
Arrears outstanding over one year but less than two years	24,234
Arrears outstanding over two years but less than five years	3,674
Arrears outstanding over five years but less than ten years	155
Arrears outstanding over ten years	1,528

Tourism

The difference between the gross closing balance for year 2008 and gross opening balance for year 2009 represent amendments, amounting to €93.17, made to an outstanding invoice issued in 2008.

A complete analysis showing the ageing of debtors could not be prepared as at end December 2009 since, as also indicated hereunder, accurate information for amounts due to the Malta Tourism Authority (MTA) was not available.

The following is a sub-classification of the gross closing balance of arrears as reported by Tourism in its amended ARR ending 31 December 2009:

	€
MTA – Ex-Hotels and Catering Establishments Board (HCEB) and Police Licences	1,051,421
Ex-White Rocks Complex	78,457
Tourism – dues from Local Councils in respect of beach cleaning services	202,588
Tourism – Refund of Salaries	7,144
Total	1,339,610

Malta Tourism Authority – Ex-Hotels and Catering Establishments Board and Police Licences

The total balance outstanding from MTA in respect of Ex-HCEB and Police Licences are not accurate and could not be properly verified. It transpired that the computerised system is a live system and since it is updated on an ongoing basis, it does not give the exact position as at a given date. Two identical reports, both titled ‘Licences Financial Summary for Each Sector’, for Financial Year 2009 supporting the closing balance figure, showed different amounts since these were printed on different dates. The first report printed on 24 March 2010 shows a closing balance of €1,035,960.90 while the second report printed on 27 July 2010 shows a total of €1,051,421.00.

Amounts ‘Not Due’

The amount of €147,883 reported as ‘Not Due’ relates to Credit Notes issued during 2009 mainly due to cancellation of licences. However, when this Office requested a detailed computerised report supporting the foregoing amounts, the total amount indicated on the report provided totalled €681,113.24. Consequently, figures reported in the Return under this heading could not be validated.

In a communication to NAO in September 2010 the Authority stated that *“MTA has decided to change the licences software and at the moment several discussions are in hand with a leading software developing company to come with a completely new system. Discussions are still ongoing due to the complicated nature of different licences (and contribution) rates”*.

Dues to Ex-White Rocks Complex

The amount of €78,457.47 indicated as ‘Estimated as not collectable’ pertains to the White Rocks which was a Government-owned company set up to administer the then White Rocks Holiday Complex. Both the company and the complex have ceased operations for years. In fact, this amount has been due since pre-1995. During 2010, the Tourism requested approval from MFEI to write off the entire amount.

Dues from Local Councils for Beach Cleaning Services

The amount of €202,587.94, considered as not recoverable, is due from various Local Councils for beach cleaning services carried out between 1995 and 1997. Although invoices totalling the indicated amount were sent to Local Councils, these were never honoured. MFEI’s writing-off approval was also requested in respect of these dues.

Refund of Salaries

The amount of €7,144 due from an ex-employee is being estimated as not collectable. The Department of Corporate Services within the Office of the Prime Minister has requested legal advice on the matter from the Attorney General. However, the latter is of the opinion that this refund is not due. Hence, a write-off approval will be requested from MFEI.

Government Printing Press

The net closing balance is in respect of:

	€
a) Jobbing	220,468
b) Revolving Fund	207,901

The net amounts are classified as follows:

	€
Outstanding for less than one year	282,260
Outstanding over one year but less than two years	70,554
Outstanding between two years and five years	75,555

*Ministry for Gozo**Projects and Development Department*

The Ministry for Gozo did not submit the ARR for Financial Year 2008 for the Departments falling under its portfolio. This had to be requested and the necessary verifications carried out before checking figures in the statement submitted for this year.

Out of the opening balance of €303,838 due to the Projects and Development Department, the total amount of €42,536 was collected, of which €41,379 related to the Public Cleansing. An amount of €25,256 due to the Agriculture Section from Xewkija Local Council, in respect of services provided during the period 2004 – 2006, is in dispute and therefore estimated as not collectable.

The gross outstanding balance of €292,777 as at end December 2009 as reported by the Ministry for Gozo in its amended Return is made up of dues to the following Sections:

	€
Public Cleansing – Waste Disposal	149,030
Public Cleansing – Local Councils	60,367
Works Branch	52,577
Agriculture Section	30,803
Total	292,777

The ageing of the net collectable arrears can be analysed as follows:

	€
Amounts outstanding for less than one year	31,476
Amounts outstanding for over one year but less than two years	29,988
Amounts outstanding for over two years but less than five years	19,677
Amounts outstanding for over five years but less than ten years	147,650
Amounts outstanding for over ten years but less than twenty years	38,730
Total	267,521

Gozo General Hospital

For the first time, NAO received a Return from the Ministry for Gozo showing arrears of revenue due to Gozo General Hospital (GGH). In actual fact, NAO received two statements, one dated 18 March 2010 with a net closing balance of €88,790.23 for the year ending 2009 and another one for the same period dated 22 May 2010, with a net closing balance of €73,666.86. On the other hand, documentation giving breakdown of amounts by individual and nationality, supporting

the Return, totaled €84,318.38. Since the situation with regards to such arrears of revenue at GGH is not very clear, the outstanding amounts have not been included with the reported figures.

The Ministry for Gozo stated that all revenue collected by GGH is deposited into account Item 0434 – Hospital Fees, which falls under the Health Division. According to the Ministry for Gozo, GGH can never have full control over revenue from Hospital Fees, since the Health Division has access to all transactions, contrary to the GGH. Moreover, the patients (or their insurance) can settle bills directly with the Health Division, whilst GGH are not necessarily informed of such payments, and this might create a situation whereby GGH reports outstanding arrears when these have already been settled.

On the other hand, the Health Division informed NAO that they have never received any payments directly from insurances or patients relating to GGH. The Health Division reiterated that GGH was never included in the Division's ARR and they do not have any records of their amounts outstanding. Finally, the Health Division suggested that the Ministry for Gozo should include their revenue of Hospital Fees in their Revenue Vote and that this request has to be initiated from their end by informing the Treasury Division and MFEI accordingly.

NAO feels that the Ministry for Gozo and the Health Division should settle this matter as early as possible since the present state of affairs is unacceptable.

Ministry for Infrastructure, Transport and Communications

Road Formation and Main Sewer Contributions

The gross opening balance differed from last year by €1,294 due to an adjustment in the 2008 Return of Arrears in connection with a Refund of Salary.

The gross closing balance of €4,372,597 is made up of:

	€
Road Formation	1,847,328
Main Sewer	2,525,269

These dues are collected by Malta Environment and Planning Authority on behalf of Government and subsequently forwarded to the Ministry for Infrastructure, Transport and Communications (MITC).

Transport Malta

The gross/net closing balance of arrears amounting to €9,821,345 as reported in the 2009 Statement of Arrears submitted by the Malta Transport Authority (ADT), is made up of dues in respect of motor vehicle road licences and fees. Attempts by this Office to obtain a breakdown accompanied with an ageing analysis of this figure proved futile.

In a communication to NAO dated 24 August 2010, Management commented that since the establishment of the new Authority for Transport in Malta, the issue concerning the collection of arrears was being actively considered. ADT also stated that various alternatives were being explored which were to be communicated to NAO accordingly. Up to the writing of this Report, no such communication has been received.

Television Licences Unit

The discrepancy between the gross closing balance of €7,063,116 as reported for the year 2008 and the opening balance amounting to €7,063,698 in the 2009 Return, is due to cut-off dates.

Following a review of the Return of Arrears submitted by MITC in connection with Television Licences, the said Ministry submitted its comments regarding the following issues raised by this Office:

Newly Accrued Arrears

With regards to the substantial increase in Arrears of Revenue for 2009, the Ministry commented that “*Newly accrued arrears have increased for a number of reasons – i.e. the erroneous belief that EU membership means that TV licences should not be levied ...and the electoral promise that TV licences will be removed.*” MITC also pointed out that it issues invoices and reminders on a regular basis. This increase in arrears translated directly in an increase in the ‘Estimated amount considered as not collectable.’

Administrative Mechanisms

In a correspondence to this Office, dated 1 September 2010, the Ministry confirmed that “*.....an administrative mechanism has been put in place to identify write-offs and amounts declared not due. During 2009 there were no such cases. One has to keep in mind that by virtue of legislative amendments introduced in 2008 declarations on oath that a TV was destroyed cannot have retro-active effect and so such declarations do not involve a write-off or a sum that is not due but simply a discontinuation of licence.*”

However, this Office noted that an amount of €132,964 was reported by MITC as ‘Amounts not due and/or adjusted’ in the Return. Upon enquiry, MITC stated that this amount represents amounts that were originally charged to the licences accounts, but were subsequently found to have been either erroneously charged or otherwise required reversal/adjustment in terms of the Ministry’s policy and procedures. This included such cases as:

- licences declaring on oath that their television/s has/have been scrapped, in which case the license fees for the current year are in terms of law not due. Such cases constitute the larger proportion of the sum reported;
- licences issued under an erroneous name;
- merging of licenses that were originally registered separately which result in a reduction of the fee as per law; and
- other amounts declared as not due through Management’s decision.

A deductive exercise had also been carried out to approximate the amount of past arrears collected, which during 2009 amounted to €9,571.

Malta Communications Authority

The gross closing balance of €95,818 is made up of:

	€
Numbering Fees	2,643
Broadband Wireless Access (BWA) Licence Fees	93,175

Numbering Fees are defined as per Article 11 of Chapter 399 of the Laws of Malta: Electronic Communications (Regulation) Act. Section 11(1) which states “*The Authority shall establish and manage the national numbering plan for electronic communication services, and shall control the assignment of all national numbering resources. In doing so it shall ensure that adequate numbers and numbering ranges are provided for all publicly available electronic communications services.*”

BWA Licences – This type of licence awards to the licensee the right to use a defined radio frequency spectrum for the purposes of implementing and operating a broadband wireless access network.

Newly Accrued Arrears

According to the Malta Communications Authority, the newly accrued arrears of €93,174.94 pertain to two annual BWA licences fees of €46,587.47, issued by means of a judicial letter to a private company, for the period October 2008 to October 2010, in line with BWA licence conditions.

Civil Aviation

The net collectable arrears as at 31 December 2009, as reported by the Department, consist of:

	€
a) Miscellaneous Licences	69,770
b) Airport Tax	312,276

The opening gross balance of Airport Tax arrears for 2009 includes an amount of €690,993 which was paid in November 2008 but not was recognised in the previous Return. Subsequently, this figure is being adjusted under the 'Not Due' column in the ARR 2009.

On 1 November 2008, the Airport (Passenger Service Charge) Regulations 1997 were revoked by means of Legal Notice 160 of 2008. The closing balance of Airport Tax amounting to €312,276 consists of pending tax arrears which were identified during 2009. According to the Department, these are to be collected by monthly installments.

Land and Public Registry

The gross opening balance of €56,831, relating to uncollected amounts of the Searches Unit, could not be verified, since as already reported in last year's Annual Audit Report, the 2008 ARR was incomplete and inaccurate.

Once again, NAO could not verify the amount of past arrears collected (€3,358), as no records of arrears collected are kept at the Searches Unit. This was confirmed during a meeting held at the Land Registry on 18 May 2010. The Department stated that as from 2010, an attempt to identify these arrears will be made by comparing the Debtors' Template as forwarded to Treasury, against the 'List of Claims Issued during 2009 Remaining Unpaid as at 31 December 2009'.

During 2009, official letters were sent to all those defaulters who had still not settled their claims that were issued during 2007 and remained unpaid as at 31 March 2009.

The Department has estimated amount of €48,606 as not collectable. The outcome of a test case which is presently being heard at Court, will determine action to be taken against defaulters in the future.

Recommendation

The recommendation put forward in last year's Report by the Auditor General is still valid. Besides implementing adequate systems of control, the Land Registry must intensify its efforts to collect all outstanding arrears before these become time-barred as prescribed by law.

Ministry for Resources and Rural Affairs

The 2009 Statement of Arrears of Revenue submitted by the Ministry for Resources and Rural Affairs (MRRA), incorporates the following Revenue Categories and the net closing balance of €662,526 is comprised of:

	€
Breach of Contracts, Damages and Maintenance	96,411
Dues to Ministry for Rural Affairs and the Environment (MRAE) (Prior Amalgamation)	123,960
Dues by Local Councils – Central Districts Office	124,032
Dues by Local Councils – Cleansing Department	216,256
Dues from Deposits of Waste and Rubble	958
Dues to Manufacturing Services Department	100,909

Testing on 2009 Return

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

Veterinary Services

- An agreement was signed on 4 February 2009 in respect of arrears amounting to €187,572.79 which were previously written off. During 2009 an amount of €7,000 was collected. On 18 August 2010, the Assistant Principal (Finance) was informed to include the outstanding arrears amounting to €180,572.79 as 'Arrears Newly Accrued' in the 2010 Return and to report amounts collected annually as 'Past Arrears Collected'.
- A note in the 2009 Return indicated that an upward revision of €3,612.31 was included as 'Arrears Newly Accrued'. The reason given for the adjustment was "*erroneously reported last year*". Clarification was requested however, no justifiable explanation was provided.

Dues to Manufacturing Services Department

Amounts not due and/or Adjustments

An amount of €690.45 was erroneously reported as not due as the amount was written off the previous year.

2008 Follow-Up

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

Past Arrears Written off and/or Adjusted

The officer confirmed on 4 August 2010, that authorisation to write off two amounts (€180.07 and €20.97) was still not sought, but these would be referred for write-off approval immediately.

Past Arrears Collected

Last year, from a sample of sixteen arrears collected, only receipts relating to two amounts were forwarded. Consequently, testing was carried out on Past Arrears reported as collected during 2009 in order to determine if any improvement resulted. A sample of twenty-four from a population of forty-eight was selected from the Fishmarketing Scheme category, since the amounts collected amounted to €211,580.68.

The outcome was that copies of the receipts requested in respect of the sample amounting to €208,344.26 were not forwarded. A reply dated 28 July 2010 was sent by an officer who explained that:

- Departmental Accounting System (DAS) does not allow extraction of data according to fish hawkers and that there is no facility to print extra copies of receipts; and
- initially, two copies of the DAS receipts are printed, the originals handed to the hawkers and copies together with other income documents sent to the officer concerned on a monthly basis.

Paying Agency Reported Arrears

- It was confirmed that arrears collected during 2009, amounting to €531.19 represent the 20% portion due to the public fund. However, included in this amount were two arrears (€32.15 and €4.80) which were not received, as

the former was non-recoverable since the ‘debtor’ had passed away on 3 April 2007 and the latter was collected on 29 July 2010. Although these amounts are immaterial, is the fact that the status of these arrears as at 31 December 2009 was not reported accurately, a fact previously reported in last year’s Annual Audit Report, is of concern.

- The officer had been informed to include an amount of €1,177.99 separately since this amount, if recovered, is fully due to the public fund. However, it was again reported as ‘Net Collectable Arrears’ within the Paying Agency Section. This was queried on 14 July 2010 but, as at date of writing of this Report, no reply was provided.

Dues to Manufacturing Services Department

Past Arrears Written off and/or Adjusted

- A meeting was held on 27 July 2010 in which the officer in charge of arrears confirmed that no further action was taken, due to the complex nature of the circumstances, to resolve the shortcomings previously reported namely:
 - a balance of €21,599.59 which was not covered with the necessary write-off approval and it was not possible to establish which claims this amount referred to; and
 - nine claims amounting to €43,911.85 approved for write-off but which were excluded from the 2008 Return.
- During the same meeting, the officer acknowledged that an amount of €1,472.95 previously written off and later settled was not adjusted in the 2009 Return as instructed. The officer explained that he considers it unnecessary to change the present system as this rarely happens.

Dues by Local Councils – Cleansing Department

Court Case Developments

In May 2010, a Court sentence was delivered in respect of arrears amounting to €18,464.60. An appeal against the sentence has been lodged.

Recommendations

From the exercise carried out, it can be concluded that several weaknesses highlighted in last year’s Report were not addressed. In the case of MRAE – ‘Past Arrears Collected’, the outcome indicated that the situation has deteriorated, since none of the receipts requested were provided. In fact, correspondence exchanged between two MRRA officers on 4 August 2010 revealed that with regards to filing procedures, a degree of ‘internal’ disorganisation exists.

It is of concern, that the preparation of the Statement of Arrears of Revenue is not being given the importance deemed necessary to ensure its accuracy and completeness.

Therefore, NAO reiterates that it is advisable that MRRA considers performing a review of the process involved to compile the Statement of Arrears, in order to identify and address the problems and shortcomings encountered. NAO again suggests that the recommendations featured in the 2008 Annual Audit Report should be adopted.

Ministry of Education, Culture, Youth and Sport

The following is a sub-classification of the gross closing balance of arrears as reported by the Ministry of Education, Culture, Youth and Sport in its amended ARR ending 31 December 2009:

		€
a) Director Corporate Services	<i>Breach of Contract</i>	128,441
	<i>Overpayment in Salaries</i>	149,418
	<i>Running of Tuck Shops</i>	7,851
b) Ministry - Administration	<i>Allowance Overpayment</i>	1,862
c) Institute for Tourism Studies	<i>B/L Running of Institute for Tourism Studies</i>	234,437
d) Examinations Department		4,080
e) Libraries Department		-
f) Maintenance Grants Section		
- Malta College for Arts Science and Technology	<i>Stipends Overpayments</i>	23,909
- University		150,613
- Junior College and Upper Secondary		5,795
Total		706,406

Out of the €706,406 gross closing balance, the amount of €3,297 relates to dues which are considered as not being recouped. The net collectable arrears of revenue due to Government as at end December 2009 as indicated in the Return stood at €703,109, and can be analysed as follows:

	€
Amounts outstanding for less than one year	170,228
Amounts outstanding for over one year but less than two years	182,198
Amounts outstanding for over two years but less than five years	131,474
Amounts outstanding for over five years but less than ten years	127,275
Amounts outstanding for over ten years but less than twenty years	77,934
Amounts outstanding for over twenty years	14,000

Corporate Services Directorate

Arrears due to Government falling under the responsibility of the Directorate mainly arose from overpaid salaries, breach of contracts and the running of Tuck Shops.

Overpaid Salaries

Following the necessary verifications by NAO, a difference of €10,112 was noted between the opening balance of overpaid salaries as originally reported, and the closing balance for the prior year. It resulted that five ex-employees who actually reimbursed the amount due in past years, were still being reported as having their pending amounts still unsettled. During 2009, the amount of €169 overpaid salaries was written off.

The amount of €13,748 is reported as 'Not Due', out of which the sum of €11,763 relates to an appealed case which the Directorate lost in Court. The remaining amount of €1,985 relates to a refund which was erroneously requested from an employee and no overpayment was effected.

The amount of €2,315 that is being considered as not collectable is in respect of claims that were requested to be written off in 2009 and their respective approval was obtained in 2010.

Breach of Contract

The amount of €128,441 reported as outstanding at the end of year relates to six individuals who breached their Contract of Employment. The Directorate has taken the necessary legal actions through the Attorney General, in 2009, for their recovery. However, to-date no action has been taken by the latter.

Running of Tuck Shops

The outstanding balance at year end of €7,851 relates to two cases which are both still pending Court proceedings.

Ministry Allowance Overpayment

The amount due of €1,862 is in respect of an overpaid allowance to an ex-employee which was to be repaid by instalments.

Libraries Department

The Libraries Department submitted a 'Nil' Return for 2009.

Examinations Department

During 2009, out of the amount of €1,020 outstanding at the beginning of the year, the amount of €849 was collected. A credit note of €41 was issued during the year to reverse an invoice which was incorrectly raised. This amount was included under the column 'Amount Not Due'. Out of the gross closing balance, the amount of €3,951 relates to newly accrued arrears.

Institute for Tourism Studies

The original Return submitted by the Institute for Tourism Studies was not accurate. Following the necessary verifications, it was observed that the opening balance for 2009 differed from the closing balance for the previous year mainly due to a number of claims which were actually collected but were still showing as outstanding in the previous year's Return. An amended Statement of Arrears of Revenue for 2009 was requested and re-submitted.

Out of the €300,634 outstanding at the beginning of the year, €65,853 was collected, whilst a further €52,015 representing an invoice to the Employment and Training Corporation was cancelled, while another invoice of €110 was erroneously issued and therefore both amounts are deemed as not due. The remaining €13,962, comprising amounts due from several individual, were written off since most of them became time-barred.

*Maintenance Grant Section*a) *Malta College for Arts, Science and Technology*

Two pending overpaid stipends amounting to €652 were inadvertently omitted from this year's opening balance in the Statement of Arrears of Revenue pertaining to Malta College for Arts Science and Technology and a new Return was requested and re-submitted to this Office.

Out of the €23,421 reported as outstanding on 1 January 2009, the amount of €8,258 was collected. A student was erroneously requested to refund the stipend equivalent to €38 when he actually had attended school. Hence the amount is reported as not due.

An amount of €982 relating to maintenance grant, overpaid to five students with socio-economic problems, is estimated as not collectable. These students had requested to be exonerated from refunding the amounts due. However, write-off approval has not yet been requested.

b) Junior College and Upper Secondary

A debtor owing the amount of €50 was erroneously omitted from the opening balance of this year's Return and the Statement of Arrears of Revenue was re-submitted.

Out of the amount of €6,243 due at the beginning of the year, only the amount of €398 was collected whilst a further €50 were written off.

c) University

The University of Malta also submitted an inaccurate ARR. A number of shortcomings were observed whilst this Office was carrying out the necessary verifications. The Stipend's Office still lacks audit trail of the refunds due from students and even continued to record data on an Excel database, which information is also considered as incomplete. Moreover, due to lack and/or incomplete records relating to past arrears, accuracy of figures submitted could still not be ascertained. Such shortfalls with respect to the University's Stipends Office have been regularly reported upon in the Auditor's General Annual Audit Reports since 2007. To-date, although effort has been made by the officer in charge to address the deficiencies noted in the past, errors still have been detected.

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

The net closing balance of €2,066,210 is made up of the following:

	€
a) Licences	18,473
b) Hospital fees (St. Lukes Hospital/Mater Dei Hospital)	854,943
c) Hospital fees (EU)	914,779
d) Hospital fees (Sir Paul Boffa Hospital)	25,559
e) Hospital tests	58
f) Refunds/Resignations	170,032
g) Overpayments	82,366

Submission of Return

The Division submitted the Return on the 6 April 2010, however, testing revealed that this Return was incomplete. The final Return was re-submitted on the 31 August 2010. Discussions with the Health Division indirectly revealed that this may be due to internal communication problems.

Testing

Sixty-four per cent of €31,247.76 hospital fees written off were tested. Testing revealed that a number of reminders were being sent out to defaulters, and in some cases these were followed up with judicial letters. However in most cases, these were not followed up, as it was deemed that the cost of legal action would be prohibitive.

An amount of €3,019.73, representing 95% of total resignations written off was tested. The defaulter resided abroad and never appeared in court. It was eventually decided to write off the amount in view of the increasing legal fees being incurred by the Health Division.

Sixty per cent of hospital fees not due amounting to €8,350.77, licenses not due and E125 claims written off and not due were also tested. No irregularities were noted from testing carried out.

Recommendation

It is recommended that the Division sets up adequate procedures to avoid the issues referred to above from recurring in the future. Any uncertainties should be discussed and clarified with the Treasury Division so that reporting is always done in accordance to Treasury guidelines.

Ministry for Social Policy

Department of Industrial and Employment Relations

These arrears consist of outstanding repayments of loans given in respect of the ‘Self-Employed Loan Incentive Scheme’ introduced during the 1989 Budget, with the aim of assisting individuals to start up a business enterprise. This scheme was closed by the end of 1992.

A difference of €102 in the opening gross balance of the Department resulted from a recent revision in the 2008 ARR arising from double counting of January 2008 figures in the previous Return.

An ageing analysis of this year’s gross closing balance amounting to €327,324.04 revealed that all amounts have been due for a period ranging from eight to seventeen years.

Collection of Arrears

Past arrears collected during 2009 amounted to €5,679.29, representing 1.71% of the opening balance of €333,003. NAO was informed that the Department sends judicial letters every four years to prevent amounts from becoming time-barred by law. Reminders are also sent on an annual basis to those individuals who fail to submit any payments during the preceding twelve months.

Amounts considered as not collectable

Testing was carried out on an estimated amount considered as not collectable of €192,851. The test revealed that out of twenty-six individuals tested, ten were not sent reminders during 2009 and judicial letters in 2008. No action was taken to recoup the amount due from the heirs of a debtor who had passed away. Eight of these individuals, owing a total balance of €59,342.14, never effected any payments to the Department.

Recommendation

The Department may consider undertaking an exercise to assess each individual debtor’s case with the possibility of recouping the relative amounts due. The viability of recouping debts from heirs of deceased individuals should also be considered. Additionally, the possibility of writing off time-barred amounts needs to be assessed by the Department.

Ministry of Finance, the Economy and Investment

The gross closing balance as at 31 December 2009, as provided by the Ministry, consists of:

	€
a) Corporate Services Directorate	406,350
b) Accountancy Board	3,922

An amount of €401,868 being newly accrued arrears represents the reimbursement of annual rent payable by the Ministry on behalf of the Malta Information Technology Agency (MITA).

As in the previous year, the Ministry could not provide a breakdown of ‘Past Arrears Collected’ of the Accountancy Board since the template used for cash collections is updated on an ongoing basis and cannot report its position at a particular date. However, this should be resolved since a copy of the report as at end December 2009 has been retained, such that the Ministry should be in a position to reconcile outstanding dues as at December 2010 with the position as at end December 2009.

Lists of ‘Newly Accrued’ warrant holders still owing registration fees and regulatory fees/penalties was provided to NAO.

Treasury Division

The gross closing balance as at 31 December 2009, as provided by the Treasury Division, consists of:

	€
a) Pension Claims from Entities	7,612,461
b) Overpayment to Pensioners	29,592
c) Refunds of Deceased Pensioners	7,074

Opening Balance

The opening balance as at 1 January 2009 does not tally with the closing balance as at 31 December 2008 by €2,723 being ‘Refunds of Deceased Pensioners’ amounting to €2,720 not recorded in 2008 ARR. The other €3 originated from rounding up of the figures.

Newly Accrued Arrears

During an audit carried out on the 2008 ARR, in respect of ‘Pensions Claims due by Public Entities’, it was found that claims for the contribution of pensions and gratuity were not being raised regularly. In its comments to NAO’s Report, the Treasury Division stated that *“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 MITA to implement a module to the Pension Program which facilitates the calculation and also generates a report automatically.”*

In this regard, it is to be highlighted that the amount recorded under ‘Newly Accrued Arrears’ in 2009 ARR refers to two claims only, totaling €263,812. This is indicative of the fact that the proposed action referred to above is still not fully implemented.

Past Arrears Collected

During 2009, the Treasury Division did not collect any past arrears, as the amount recorded in the ARR under ‘Past Arrears Collected’ was an adjustment relating to 2008 ARR which should have been entered under ‘Amounts not due and/or adjustments’ in the Return.

Estimated Amount considered as not Collectable

In the ‘Report by the Auditor General – Public Accounts 2008’, NAO reported that €377,392 due to the Treasury Division by a Public Entity which was contested in the Civil Courts, was not recorded under ‘Estimated Amount considered as not Collectable.’ This amount was still not recorded properly in 2009 ARR.

Recommendations

- The Treasury Division must intensify its efforts so that arrears are accurately recorded on a timely basis and followed-up in order that outstanding arrears are duly collected.

- Claims that are contested by the Public Entities should be recorded under the appropriate column in the ARR.

Inland Revenue Division

The gross closing balance of €565,024,078 consisting of income tax arrears as reported by the Inland Revenue Division (IRD) in its ARR ending 31 December 2009, is classified as follows:

	€
Pre' 99 System (Up to Year of Assessment 1998)	224,260,108
Self-Assessment System (Post Year of Assessment 1998)	340,763,970

All breakdowns forwarded by IRD were found to tally with reported Return of Arrears figures for 2009 by the Division. No detailed testing was carried out on these figures in view of a compliance audit on the state of arrears as at 31 December 2008 reported upon separately on page 221 of this Report.

Capital Transfer Duty Division

Differences were once again noted between the opening gross closing balance of arrears against the closing balances reported last year in both figures relating to Death and Donation (Malta and Gozo) and Duty on Documents. Identified variances in Death and Donation arrears as explained by the Capital Transfer Duty (CTD) Division, related to correction of identified errors and misclassifications. With regards to discrepancies in Duty on Documents arrears, in a communication dated 23 September 2010, Management commented that such differences are due to the fact that adjustments to claims are accounted for by the computer system at the time amounts are inputted in the system, rather than when they are actually made.

The gross closing balance as reported by CTD is made up as follows:

	€
Duty on Documents	10,517,328
Death and Donation	3,207,747

It is to be noted that, as already reported in previous years, differences were noted between figures quoted in the CTD's Return of Arrears and figures as per breakdowns of arrears submitted by same. Contrary to last year, this year's differences were so considerable, that NAO cannot ascertain that figures reported in the Division's Return are accurate. As a result, the gross closing balance cannot be analysed and reported upon as in last year's Report.

Recommendations

- It must be ensured that opening balances in the Return of Arrears tally with closing balance figures of the previous year. Any adjustments to previous years' balances should be accounted for after the opening balance in the Return. Should the Division deem it necessary to adjust the opening balance, a note to this effect must be stated in the Return.
- Newly accrued arrears should be reported in the appropriate column in the Return.
- More due attention is to be given whilst updating movement of arrears during the year, thus eliminating, as far as possible, any miscalculations.
- Figures reported in the Return of Arrears should be supported with the appropriate breakdowns. CTD should strive to report the correct figures before submitting the Return to Treasury.

Customs Division

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

	€
a) Import and Export Duties	11,346,647
b) Licences, Taxes and Fines	11,487
c) Fees of Office	2,407
d) Reimbursements	756,170

A difference of €18,399,648 was noted between this year's opening balance and last year's closing balance, consisting of €11,650,000 and €6,749,648 of the Fuel Section and Excise Section respectively. These amounts were reported in last year's ARR, although not yet due as at 31 December 2008. This balance was adjusted in this year's Return as instructed by Treasury, since amounts still within the credit period are not considered as arrears of revenue by the same Division.

Value Added Tax Division

A marginal difference of €160 in the 2009 gross opening balance of arrears when compared to the 2008 gross closing balance reported by the Value Added Tax (VAT) Division, is due to an error which was subsequently corrected in the 2009 Return. The following is a sub-classification of the gross closing balance of arrears as reported by the Division in its ARR ending 31 December 2009:

	€
a) VAT (1998)	334,864,427
b) VAT (1994)	14,931,629
c) CET	6,663,396
d) Refunds to Govt. on stocks – 1997	620,381
e) ECO Contribution	2,571,410

The state of arrears of the VAT Division within the MFEI is being reported upon separately on page 228 of this Report.

Contracts Division

The gross closing balance relating to Penalties and Damages amounted to €393,269. No arrears were collected during the year, whilst the only movement in arrears related to the write-off of €64,559. As reported in previous years, dues from a Court case decided in favour of the Division, amounting to €11,236, have not yet been collected.

Notwithstanding this, NAO noted some progress being made *vis-à-vis* the Attorney General to collect amounts that are long overdue. In a communication to NAO dated 3 July 2010, the Division stated that a substantial amount of cases still await the Court's decision, while other cases are in the process of being written off or were written off during 2010. This led to an 'estimated amount considered as not collectable' of €70,971, leading to a net closing balance of €322,298.

Government Property Division

The difference of €62,856 in the opening balance for 2009, compared to the gross closing balance of the preceding year, is due to an encroachment which was erroneously left out of the 2008 Return of Arrears.

The majority of arrears outstanding relate to Commercial Tenements, as detailed in the following breakdown of gross outstanding arrears as at 31 December 2009:

	€
a) Rural	274,344
b) Perpetual	116,918
c) Residential	1,219,196
d) Non-Residential	899,969
e) Commercial	8,062,811
f) Encroachments	138,487
	<u>10,711,724</u>
g) Debtors: Below-the-Line Accounts	2,757,193
	<u>13,468,917</u>

The amount of €2,757,193 represents amounts due from Government Departments/Entities for expropriations.

NAO noted that, as in the previous Return of Arrears for 2008, the Government Property Division did not declare any amounts estimated as not collectable.

Commerce Division

The following is a sub-classification of the gross/net closing balance of arrears as reported by the Commerce Division in the 2009 ARR:

	€
a) Licences, Taxes and Fines	4,703,685
b) Penalties paid by Students	7,549
c) Miscellaneous Receipts	1,908

Estimated Amount considered as Not Collectable

As in previous years, the Division reported a 'Nil' balance under the 'Estimated amount considered as not collectable' in the Return. Thereby, NAO's recommendation as reported in last year's 'Report by the Auditor General – Public Accounts 2008', encouraging the Division to carry out an exercise to identify the collectability of pending arrears, still stands.

Ministry for Justice and Home Affairs

Courts of Justice Division – Malta

Court Fees

As already reported in previous years, the Arrears of Revenue statements with respect to Court Fees, which are extracted from the CORTEX computerised system, are not proving to be reliable. In 2009, a CAPEX project, whereby the CORTEX system is amalgamated into the LECAM system was proposed by MITA. The project is expected to tackle flaws in the system including those related to the Arrears of Revenue. Funds for this project were approved in 2010 and therefore the task was expected to be initiated during the foregoing year. Until such a project is finalised, the Courts of Justice Division (CJD) maintained that the reporting of Arrears of Revenue under this category cannot be submitted.

Court Fines - Magistrate

CJD also stated that when extracting an Arrears of Revenue report from the current computerised system, namely the LECAM, they noted that whilst comparing the closing balance for 2008 (covering period 1996 to 2008) against the opening balance of 2009 there was a discrepancy of €49,404. MITA was informed with this variance and the matter

was to be tackled and resolved possibly during 2010. Consequently the Arrears of Revenue due from Magistrates' Court Fines, in consonance with previous years, were again not submitted for the year under review.

Court Fines – Judges

The Statement of Arrears of Revenue as at 31 December 2009 comprised only the Court Fines imposed by Judges. The difference between the opening balance of €5,300,811 as against the closing balance of last year's Return which stood at €5,282,177 is due to a fine imposed in 2005 which was not accounted for in the previous years' Return of Arrears.

Past Arrears Written Off

Fines written off totalling to €3,443 are covered by Finance authority and represent various amounts equivalent to €23.29 or less, imposed between 1969 and 1989.

Amounts Not Due

These represent three fines revoked by the Court subsequent to an appeal as well as a cancelled fine.

Estimated Amount considered as Not Collectable

The amount of €48,972 was estimated as not collectable. Except for two appealed fines of €58.23, the remaining amount related to seven fines which were converted into imprisonment.

Out of the €5,427,913.19 net closing balance, €225,470 i.e. only 4%, relates to 'Newly Accrued Arrears'. This outstanding balance is due from individuals and can be analysed as follows:

	€
Amounts outstanding for less than one year	225,470
Amounts outstanding for over one year but less than two years	14,663
Amounts outstanding for over two years but less than five years	19,292
Amounts outstanding for over five years but less than ten years	1,149,088
Amounts outstanding for over ten years but less than fifteen years	3,760,515
Amounts outstanding for over fifteen years but less than twenty years	71,493
Amounts outstanding for over twenty years	187,392
Total	<u>5,427,913</u>

Courts of Justice Division – Gozo Law Courts

The last ARR submitted in respect of the Gozo Law Courts Division showing the position as at end December 2007, had outstanding balances for Fees and Fines amounting to €182,665 and €165,815 respectively. The position as at end 2008 was requested to carry out the necessary testing on the Return submitted for the year under review.

The closing balance as at 31 December 2009 as reported by the Gozo Law Courts amounting to €493,717, is made up of €246,291 in accrued Fines and €247,426 in outstanding Fees due.

Fines

A discrepancy of €4,565 was noted between the closing balance of 2007 and opening balance of 2008. It transpired that a number of fines inflicted in 2007 were not yet entered in the system when the report for the said year was generated.

As at 31 December 2008, gross arrears outstanding stood at €228,088, of which €141,139 were collected during 2009, while the amount of €164,593 were dues newly accrued during the year. A total of 119 fines amounting to €5,251, covering appealed and revoked fines, are being reported as not due. In the case of appealed fines, a new entry is created when the sentence is delivered.

From the arrears outstanding as at end December 2009, which amounted to €246,291, a total of forty-four fines were reviewed. One unsettled fine included in the 'Return of Arrears' Report could not be traced in the LECAM system. This shortcoming was pointed out to the Gozo Courts who immediately forwarded the concern to the service provider supporting the computerised system.

Fees

Accrued Court Fees extracted from the CORTEX computerised system are not proving to be reliable. Several shortcomings prevailing from previous years have not yet been sorted out.

As reported by the Gozo Law Courts, from the gross arrears of €263,075 outstanding as at 1 January 2009, the amount of €88,990 was collected during the year, while €73,340 was newly accrued resulting in outstanding dues of €247,426 as at end December 2009.

The ageing of the net collectable arrears can be analysed as follows:

	€
Amounts outstanding for less than one year	237,934
Amounts outstanding for over one year but less than two years	67,728
Amounts outstanding for over two years but less than five years	89,953
Amounts outstanding for over five years but less than ten years	41,258
Amounts outstanding for over ten years but less than twenty years	42,970
Amounts outstanding for over twenty years	13,874
Total	<u>493,717</u>

Police Department

Arrears pertaining to the Police Department are made up of Weapons Licences (Sporting Licences), Services to Third Parties (Extra Duty) and Fines to Airline Companies (Miscellaneous Fines). The difference is the opening balance of €1,774 relating to Services to Third Parties, consists of two erroneous computations as highlighted by NAO whilst auditing the 2008 Statement of Arrears.

Submission of Return and Initial Overview

Following the initial review of the Return and ancillary documents submitted, it transpired that whilst arrears written off and arrears not due with respect to Weapons Licences are reported separately in the Return submitted, as required by Treasury Circular No. 3/2010, these balances are not shown separately in the detailed individual lists comprising these balances.

In addition, the detailed individual lists for Weapons Licences of a particular district and Mobile Unit Services to Third Parties were erroneously not provided with the Return submitted. Following NAO's request, a soft copy of all the documents ancillary to the Return was provided.

Testing

Following a detailed audit carried out on the Department's 2008 Statement of Arrears, which was reported on separately in last year's Annual Audit Report, follow-up testing was carried out to identify any improvement on the shortcomings reported.

A sample of twenty-one cases, representing Weapons Licences written off or not due, were selected for review. These included six files which had been selected for the previous year's testing and had not been provided. The remaining fifteen cases represented 75% of €5,459 Weapons Licences written off or not due during 2009.

All files relating to 2008 were provided for testing, whereas four out of fifteen files were not yet submitted up to the writing of this Report.

Testing revealed the following shortcomings:

- From testing carried out, it was observed that one particular shotgun, was registered with two different individuals at the same time in the Weapons system.
- In one instance, arrears due relating to the period between the acquisition of the weapon up till the date when the firearm was destroyed, were not requested from the defaulter's heirs, following the passing away of the defaulter.
- Three cases were noted where an affidavit was not requested to substantiate statements provided by defaulters or their heirs, that the weapons could not be traced or had been destroyed. In only one of these cases, an official incident report was eventually filed by the defaulter.
- Six instances were noted whereby arrears due from registered individuals who were deceased were noted as not due. It is not clear whether this treatment is correct and consistent with the treatment of similar cases in previous years, some of which were written off. Furthermore, it might have been more appropriate to write off such amounts as a portion of the arrears due may have arisen prior to the date when the defaulter passed away.
- As reported in the previous year, it was noted that in the majority of cases, following Police investigations when the whereabouts of the weapon cannot be located or such weapon has been destroyed, an affidavit is produced by the defaulter or his heirs. Consequently, arrears are noted as written off or not due, the weapon is marked as not traced, and the case is closed.

Recommendations

It is to be ensured that, as far as possible, all documentation is kept secure and well filed. This would ensure that all files requested could be submitted in a timely manner thus enabling audit conclusions to be reached on the whole sample.

Although the duplicate entry in the Weapons system noted above was duly rectified by the Department, it is suggested that an exercise is carried out to identify any other similar cases. It is also strongly recommended that such errors are rectified and the system upgraded to completely eliminate any future occurrences.

Finally, this Office reiterates that, whilst acknowledging the challenges being faced by the Department, more emphasis should be made to locate untraced weapons and their owner.

Civil Protection

The Civil Protection Department reported a gross closing balance of €33,095. However, since the Statement of Arrears in respect of 2008 performance had not been submitted, it was not possible to confirm the opening gross balance as at 1 January 2009 amounting to €27,236.

Newly Accrued Arrears

Initial testing revealed that, of the newly accrued arrears amounting to €29,285.90, a total of €12,271.94 (41.9%) has been collected during 2010, whilst an amount of €17,013.96 (58.09%) was still outstanding. From a sample of sixteen arrears checked, it transpired that a further €5,872.59 was collected during 2010.

The settlement of a claim of €5,923 on 17 February 2010 included an overpayment of €847. This was off-set against the cost of providing fire fighting training services without issuing an invoice. The officer in charge was informed by NAO to include the amount of €847 in the 2010 Statement of Arrears.

Collectable Arrears

Arrears dated prior to 2009 consist of nine claims amounting to €3,810.07 which were all issued during 2008. Eight of the arrears checked, amounting to €3,714.98 (97.5%), were still outstanding, of which one claim of €371 is being contested.

Recommendations

The Department has a debt collection policy of sending three reminders to defaulters within a year, with the third being a final warning that the Department will take legal action. From verbal enquiries it was established, that the Department has recently introduced the procedure of ensuring that an entity requesting a service has settled outstanding debts, (if any), before accepting to provide the service.

On the basis of this information it is recommended that the Civil Protection Department:

- continues to enforce the present debt collection policy introduced; and
- considers, besides sending reminders, contacting defaulters over the phone to collect amounts due.

Ministries/Departments Arrears of Revenue 2009

Ministry/Department		Gross Outstanding on 31/12/2008	Collected during 2009	Written-off 2009	Not due 2009	Arrears 2009
Office of the Ombudsman	€	0	0	0	0	15,302
Office of the Prime Minister	€	54,765	29,090	0	10,403	2,369
Armed Forces of Malta	€	585,897	445,931	591	95,855	1,314,547
Tourism ^d	€	1,410,559	508,348	0	147,883	585,282
Information Department	€	30,736	27,984	0	31	20,232
Government Printing Press	€	161,331	15,222	0	0	282,260
Mediterranean Conference Centre	€	a	b	b	b	b
Ministry for Gozo ^a	€	303,838	42,536	0	0	31,475
Gozo General Hospital ^a	€	c	c	c	c	c
Ministry for Infrastructure, Transport and Communications: Road Formation/Main Sewer contributions ^a	€	2,512	2,512	0	0	4,372,597
Transport Malta (ADT) ^a	€	9,431,028	0	0	0	390,317
Television Licencing Unit ^d	€	7,063,698	9,571	0	132,964	1,649,531
Malta Communications Authority ^a	€	71,787	25,199	0	0	49,230
Civil Aviation ^a	€	2,013,633	980,085	0	692,624	384,072
Land and Public Registry ^d	€	56,831	3,358	0	0	19,991
Ministry for Resources and Rural Affairs	€	999,859	381,970	0	2,581	288,168
Ministry of Education, Culture, Youth and Sport ^d	€	754,753	137,102	15,522	65,952	170,229
Ministry for Social Policy: Social Security Division ^b : National Insurance Contributions Pre-1998	€	a	b	b	b	b
Overpayments of Benefits	€	b	b	b	b	b
Social Welfare Standards	€	0	0	0	0	34,411
Health Division	€	1,966,395	452,218	34,767	11,973	899,453
Industrial and Employment Relations ^d	€	333,003	5,679	0	0	0
Department of Social Housing ^b	€	a	b	b	b	b
Ministry of Finance, the Economy and Investment	€	17,007	14,713	0	0	407,978
Treasury Division (Pensions Section) ^d	€	7,423,340	62,607	0	0	288,394
Inland Revenue Division: Income Tax ^f	€	742,638,917	618,772,429	0	305,409,448	746,567,038
Social Security Contributions with Effect from 1998 ^b	€	a	b	b	b	b
Capital Transfer Duty Division: Duty on Documents ^d	€	31,890,754	2,250,522	0	33,033,720	13,910,816
Death and Donation Duty (incl Penalties) ^d	€	5,171,601	519	0	1,988,251	24,916
Customs Division ^d	€	10,312,199	3,122,117	2,474	133	4,929,236
VAT Division ^d	€	326,818,031	79,587,358	16,929,141	101,042,605	230,392,316
Contracts Division	€	457,828	0	64,559	0	0
Government Property Division ^d	€	13,764,076	4,399,116	92,039	0	4,195,996
Commerce Division	€	4,628,881	976,157	1,631	0	1,062,049
Ministry for Justice and Home Affairs: Attorney General	€	10,500	7,807	0	0	200
Notary to Government	€	29	29	0	0	203
Courts of Justice: Malta ^d	€	5,300,811	44,816	3,443	1,137	225,470
Gozo ^a	€	491,164	230,129	5,252	0	237,934
Police Department ^d	€	560,253	102,841	655	5,270	152,502
Correctional Services Department ^a	€	0	0	0	0	0
Civil Protection ^a	€	27,236	23,426	0	0	29,285
TOTALS ^a	€	1,174,753,252	712,661,391	17,150,074	442,640,830	1,012,933,799

a) Did not send Return of Arrears 2008.

b) Return of Arrears 2009 not submitted.

c) Information not available or incomplete.

d) Opening Balance 2009 does not tally with Closing Balance 2008 (vide relevant comments in proceeding pages).

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

f) Figures as per Return submitted by Division. No adjustment could be carried out relating to adding back of the negative debit balances to the gross closing balance. Previously, income tax arrears were classified in Maltese and Foreign currency. Foreign currency balances are now being denominated in Euro.

Gross Outstanding on 31/12/2009	Gross Variation	Amounts Est. as not Collectable	Net collectable arrears as at 31/12/2009	Net collectable arrears as at 31/12/2008	Net Variation	Due from Govt. Dept. & Para. Bodies	Individual & Private Companies
15,302	15,302	0	15,302	0	15,302	15,302	0
17,641	-37,124	0	17,641	34,897	-17,256	0	17,641
1,358,067	772,170	13,929	1,344,138	571,960	772,178	85,475	1,258,663
1,339,610	-70,949	288,189	1,051,421	1,129,606	-78,185	0	1,051,421
22,953	-7,783	0	22,953	27,196	-4,243	22,953	0
428,369	267,038	0	428,369	161,332	267,037	427,221	1,148
b	b	b	b	a	b	b	b
292,777	-11,061	25,256	267,521	a	a	118,491	149,030
c	c	c	c	a	c	c	c
4,372,597	4,370,085	0	4,372,597	3,806	4,368,791	4,372,597	0
9,821,345	390,317	0	9,821,345	a	a	c	c
8,570,694	1,506,996	3,428,277	5,142,417	4,125,006	1,017,411	100,000	5,042,417
95,818	24,031	0	95,818	a	a	0	95,818
724,996	-1,288,637	342,950	382,046	a	a	32,429	349,617
73,464	16,633	48,606	24,858	c	c	0	24,858
903,476	-96,383	240,950	662,526	739,515	-76,989	466,046	196,480
706,406	-48,347	3,297	703,109	695,468	7,641	185,700	517,408
b	b	b	b	a	b	b	b
b	b	b	b	9,219,420	b	b	b
34,411	34,411	0	34,411	0	34,411	34,411	0
2,366,890	400,495	300,680	2,066,210	1,797,910	268,300	58	2,066,152
327,324	-5,679	192,851	134,473	140,805	-6,332	0	134,473
b	b	b	b	a	b	b	b
410,272	393,265	0	410,272	17,007	393,265	405,383	4,889
7,649,127	225,787	0	7,649,127	7,420,617	228,510	7,612,461	36,666
565,024,078	-177,614,839	463,232,268	101,791,810	135,943,255	-34,151,445	c	c
b	b	b	b	a	b	b	b
10,517,328	-21,373,426	463,779	10,053,549	10,160,295	-106,746	0	10,053,549
3,207,747	-1,963,854	159,894	3,047,853	3,193,282	-145,429	0	3,047,853
12,116,711	1,804,512	0	12,116,711	28,711,848	-16,595,137	490,169	11,626,542
359,651,243	32,833,212	328,400,885	31,250,358	26,362,051	4,888,307	0	31,250,358
393,269	-64,559	70,971	322,298	457,828	-135,530	0	322,298
13,468,917	-295,159	0	13,468,917	13,701,220	-232,303	4,377,066	9,091,851
4,713,142	84,261	0	4,713,142	4,628,881	84,261	0	4,713,142
2,893	-7,607	569	2,324	9,931	-7,607	0	2,324
203	174	0	203	29	174	203	0
5,476,885	176,074	48,972	5,427,913	5,282,177	145,736	c	c
493,717	2,553	0	493,717	a	a	0	493,793
603,989	43,736	0	603,989	558,479	45,510	35,297	568,692
0	0	0	0	a	0	0	0
33,095	5,859	0	33,095	a	a	7,004	26,091
1,015,234,756	-159,518,496	797,262,323	217,972,433	255,093,821	-39,020,368	18,788,266	82,143,174



Office of the Prime Minister

Department of Information Expenditure

Background

The audit covered the Expenditure of the Department of Information (DOI) for the year ended 31 December 2009.

Audit Scope and Methodology

The objectives of the audit were to ensure that the 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.

An overview of the procedures and controls in place was obtained by means of meetings with various DOI officials. The following tests were performed:

- The Operational and Maintenance expenditure transactions recorded within the Departmental Accounting System (DAS) Nominal Ledger for the year 2009 were analysed. A total of 1,303 Payment Vouchers (PVs) were raised during the year under review, collectively amounting to a total Operational and Maintenance expenditure of €391,000.
- Initially a sample of sixty-five PVs, giving a Confidence Level of 90% and a Confidence Interval of 10%, was chosen. However, the sample was increased by a further ten transactions to be able to additionally test Information Services. The sample was selected on the basis of materiality of amounts paid and nature of expense.

- The PVs selected were reviewed against relevant Regulations and the respective departmental files were examined to confirm whether the procurement process was duly followed.
- A physical check of newly acquired assets, falling within the sample, was carried out. The recording of such assets in the inventory database was confirmed to ensure conformity with MF Circular No. 14/99.
- The recording of items in the Stock Ledger Control Database, of the sampled PVs, was also confirmed.
- Information regarding the use of vehicles and overseas travel was analysed.

Key Issue

Hire of Electric Car

A log-book to record trips made by a hired Reva Electric Car during 2009 was not made available. NAO was thus hindered in confirming whether the car was used solely for official purposes. In fact, the last journey recorded on the car's log-book dated 27 November 2008. It transpired that the car was transferred to the Government Printing Press (GPP) in December 2008. DOI confirmed that no record of mileage was available at GPP.

The vehicle was used until 31 July 2009, when it was returned to the company. However, there was no official documentation available to confirm this.

Control Issues

Opportunities for improvement were identified in the following areas:

Internet Key

DOI pays a monthly charge for the service of an internet key used by a top management official. Of particular concern was the payment of €2,210.18 for the bill relating to May 2009. This Office was informed that extensive e-mail use was needed by this official whilst abroad during this period since it was prior to the European Parliament elections. According to a written statement by the official himself, the use of this service is now being, as far as possible, avoided.

Amounts due to Public Broadcasting Services Ltd.

NAO's audit sample included payments made to the Public Broadcasting Services Ltd. (PBS) collectively amounting to €9,438.25. It transpired that DOI owed PBS an amount which was disputed. Following meetings between both parties, the outstanding claim was confirmed at €78,941.25 as on 18 February 2010 relating to claims outstanding in respect of years 2004, 2008 and 2009.

According to a communication sent to the Budget Office at the Ministry of Finance, the Economy and Investment (MFEI), *“The reason why these were not paid seems to have been overcharging and lack of receipts to back up charges claimed in the invoices submitted by PBS. Over the years, the Department had requested clarifications from PBS but no replies were forthcoming and the Department could not process invoices for payment when it did not have a clear explanation of what was being paid.”*

In the same communication, the Budget Office was informed that DOI plans to settle these outstanding claims by the end of the year 2011 partly from its own resources and the remaining through an extra budgeted allocation, if available. *“Provided it is ascertained that all payments to be made to PBS are covered by duly certified claims for actual services rendered”*, Budget Office found no objection to the proposed plan from a budgetary perspective.

Tender for Transport of Government Gazette and Other Publications

Whilst reviewing the documents of the tender, relating to Transport of Government Gazette and Other Publications, NAO noted one particular invoice that had ‘number of trips undertaken’ missing.

A different invoice did not include a separate element of VAT in addition to the prices submitted in the tender, whilst another invoice had an element of VAT added separately.

Compliance Issues

Authorised Signatories

DOI failed to abide by the provisions of Treasury Circular No. 5/2008 requiring Heads of Departments and Accounting Officers to keep Treasury and NAO regularly informed of officers authorised to act as signatories. This may lead to deterioration in controls over the procurement process.

Goods/Service Purchase Orders dated after Invoice

Goods/Service Purchase Orders (GSPO), collectively amounting to €16,840.93, were not dated prior to the respective invoice. Non-adherence may result in not having enough funds to honour the actual expense.

Lack of Compliance with MF Circular No. 14/99

Items collectively amounting to €631.66, falling under the definition of tangible fixed assets, were not included in the inventory records. On the other hand, the Fixed Assets Register also contained various entries for items costing less than €116.47 which is the established limit for items to be included.

Six new cameras, purchased in 2009, were not included in the room inventory list. DOI informed NAO that the room list was last updated on 14 August 2007, but the inventory database in the computer system was updated. DOI also remarked that it was in the process of rearranging the offices and thus room lists will be replaced when everything is settled.

The physical location of an aluminium unit was incorrectly recorded. This was also confirmed from the room inventory list generated on 29 April 2010.

Recommendations

Key Issue

Hire of Electric Car

The exact mileage covered should be recorded immediately at the end of each trip for all general use vehicles. Although there are no specific Circulars to regulate the use of electric cars, the hire of such car was financed out of public funds

and the purpose of trips made should have been documented to ensure accountability.

Control Issues

Internet Key

It is advisable to obtain detailed information regarding the rates charged when subscribing to similar services. This would ensure that costs for these services are monitored and controlled.

Amounts due to the Public Broadcasting Services Ltd.

DOI is advised to monitor the situation and to adhere to the plan approved by the Budget Office in order to settle these long outstanding claims by end 2011.

Tender for Transport of Government Gazette and Other Publications

Future tenders for any goods and services should clearly indicate the final price, including VAT. Additionally, suppliers should be requested to provide the necessary detail on invoices to enable the Department to confirm that the amount invoiced is according to tender prior to issuing of payment.

Compliance Issues

Authorised Signatories

The Department is to take the necessary action in order to ensure compliance to Treasury Circular No. 5/2008.

Goods/Service Purchase Orders dated after Invoice

Efforts are to be made in order to, whenever possible, issue GSPOs prior to invoices in line with Government's policies.

Lack of Compliance with MF Circular No. 14/99

- Items which fall under the definition of tangible fixed assets should be included in the inventory records. Items costing less than €116.47 are to be

treated as consumables and controlled through the stock control system.

- New room inventory lists are to be produced, whenever items are added or removed, and hung in the respective rooms.

Management Comments

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

- *"..... the practical limitations in the use of the electric car, namely the extremely short distances possible between charges practically excluded any use other than official."*
- The recommendation concerning the service of the Internet Key has been taken on board, even prior to the audit. Management also remarked that service is not made use of *"unless it was totally unavoidable and no other service was available"*.
- The plan approved by the Budget Office to settle outstanding amounts due to Public Broadcasting Services Ltd. is being followed. Amounts due were reduced to €57,985.02 by 30 August 2010.
- The invoice which had the 'number of trips undertaken' missing was not covered by the tender obligations, but was an extra job covered by a direct order at a fixed and agreed rate of €280 (excluding VAT) per trip. The issue of the VAT element on invoices *"was noted and is being adhered to"*.
- Treasury and NAO were duly notified of officers authorised to act as signatories through communication dated 4 May 2010.
- GSPOs are issued prior to invoice *"except where the precise cost of the services received is not known until works are completed and duly certified."* In two instances reported upon, the GSPO were originally issued prior to the respective invoice, however an amendment was required. These purchases collectively amounted to €1,182.44.

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 three private audit firms on behalf of the Auditor General. These audit firms were appointed in January 2010, following an adjudication of tender, for an introductory period of nine months, which may be renewed every year for a total period of not more than five consecutive years.

Following the recent Local Councils' Reform and the revision of the Local Councils Act (Cap 363) during 2009, a number of amendments were enacted by Parliament through ACT XVI of 2009. These legislative changes, which focused on diverse aspects of the Local Councils' operations, came into force as from December 2009. Amendments made, though not limited to the following include, the introduction of communities, the change in the financial year-end of Local Councils from 31 March to 31 December, the increase by one year in the operating term of Local Councils, changes in the functions of Local Councils and procedures and meetings. Other revisions included the modifications to the Financial Regulations which now include the introduction of allowances granted to Councillors, the increase in the financial allocation advanced to the Councils and the prohibition of any donation whether in money or in kind by Local Councils. From a residents' perspective, whilst enhancing accessibility and transparency in the Councils' operations, the revised legislation further encourages residents' participation.

The Financial Statements being reported upon covered the period of nine months from 1 April 2009 to 31 December

2009, during which the Government allocated €20.26m (31 March 2009: €23.97m) to Local Councils (Appendix A refers).

In addition, the Government allocated €75,000 (31 December 2008: €69,802) to the Local Councils' Association (LCA). The audit of the Association was also carried out by a private audit firm appointed in terms of Part VI, Article 36 of the Local Councils (Association) (Amendment) Regulations, 1999.

Audit Scope and Methodology

The scope of the National Audit Office (NAO) was to ascertain whether the annual Financial Statements, prepared by the respective Executive Secretaries and also approved by the Mayors and Councillors, were in accordance with the applicable accounting policies and that they gave a true and fair view of the Statement of Income and Expenditure of the Council and its Retained Funds at year-end. These objectives were achieved by analysing the audit opinion given by the Local Government Auditors (LGAs) on the Financial Statements, as well as by examining the weaknesses and inefficiencies highlighted in the Management Letters drawn up thereon. Furthermore, response to the Management Letter submitted by each Local Council was also scrutinised.

Key Issues

By the time this Report was prepared, i.e. end of September 2010, the Local Councils of Gżira, Mqabba, Paola and Żebbuġ (Malta) had not yet submitted their Financial Statements to NAO.

Qualified Reports

No Audit Opinion expressed – San Ġiljan Local Council

LGA could not express an opinion on the Financial Statements as presented by San Ġiljan Local Council. As at 31 December 2009 the carrying amount of the Council's Property, Plant and Equipment amounted to €379,201. Despite that this figure contrasts with that of €931,218 shown in the Fixed Asset Register (FAR), explanations for the difference of €552,017 were not provided.

Additionally, the Council did not follow the accounting treatment established for Government Grants and thus a prior year adjustment amounting to €76,540 was deemed necessary. Whilst the Council was entitled to grants receivable from the Malta Environment and Planning Authority (MEPA) amounting to €331,237, only €275,035 was accounted for. Satisfactory explanations as to why the difference of €56,202 was not recorded were not provided. Consequently, it could not be ascertained that reported figures for Deferred Income and Grants Reserve shown in the Statement of Affairs, as well as Income from Grants disclosed in the Statement of Income and Expenditure, are not materially misstated.

Moreover, due to the fact that San Ġiljan Local Council forms part of the Sliema Joint Committee and the Financial Statements of the latter were not yet available by the time of audit, LGA was unable to determine completeness of income due to this Council with respect to the Local Enforcement System (LES).

'Except for' Audit Opinion expressed

A significant number of Audit Reports have been qualified because the Financial Statements did not include the budgeted figures. However, such a requirement is no longer applicable since Local Councils started preparing accounts on an accruals based system. As a result, these Councils were not included in the list of qualified Audit Reports in Appendix B since it was deemed unfair to report them simply because an amendment to the Financial Procedures has not yet been effected.

Another forty-three Audit Reports out of the sixty-four submitted¹ 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 1993, or Deficit in the Statement of Income and Expenditure or Net Current Liability position.
2. The Financial Statements in their entirety suggest that the going concern assumption used in the preparation of these accounts is dependent on further sources of funds other than the annual financial allocation by Central Government. Any adverse change in either of these assumptions would not allow the Council to meet its financial obligations as they fall due without curtailing its future commitments.
3. Amounts due from the LES were based solely on the data issued from the same system since, as in previous years, timely information by the Joint Committees was not provided. Observations relevant to the Joint Committees are included under the respective sub-title.
4. Other specific issues for the Local Councils on an individual basis.

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

Negative Working Capital³

Eleven Local Councils (31 March 2009: twelve) registered a negative Working Capital⁴ during the year under review.

Table 1 lists these Councils, the Working Capital for the year and the corresponding figures for the previous two years.

Birgu

The increase in the negative Working Capital was the result of an increase of €10,563 in Payables which was coupled up with a decrease in Receivables and Cash Equivalents of €27,949 and €31,085 respectively. In addition, there was a significant increase of €27,506 in General Income during the current nine-month period when compared to the proportionate figure of the prior year. However the Council experienced an increase in costs incurred relating to Refuse Collection, Office Services, Information Services, Overseas Travelling Services and Community and Hospitality Expenditure. Furthermore, additions

¹ Forty-three Audit Reports represent 67.19% (31 March 2009: 77.6%) of all the submitted Financial Statements. These do not include Local Councils whose only qualification related to the presentation of Financial Statements.

² FSI is defined by the Local Councils (Financial) Regulations, 1993 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 Comparative figures with respect to Income and Expenditure items as disclosed in the analytical review are based on a nine-month calculation.

⁴ Working Capital is defined as Current Assets less Current Liabilities.

Table 1 – Negative Working Capital

Local Council	1 April 2009 – 31 December 2009	1 April 2008 – 31 March 2009	1 April 2007 – 31 March 2008
	€	€	€
Birgu	(156,385)	(86,788)	(36,462)
Birkirkara	(486,204)	(609,769)*	(251,001)
Kerċem	(36,510)	(23,934)	9,647
Mġarr	(148,579)	66,919	116,288
Pieta'	(10,088)	8,351	130,796
Qormi	(46,192)	89,370	37,491
Rabat (Malta)	(124,887)	145,298	482,911
Rabat (Gozo)	(73,041)	(39,763)	(109,094)
San Ġwann	(97,590)	(173,074)*	190,255
Sannat	(6,282)	74,314	66,847
Xagħra	(12,995)	(82,909)*	(130,394)

to Property, Plant and Equipment, which during the current period amounted to €29,962, also contributed to the deterioration of the Working Capital. On the other hand, the decrease in Receivables was mainly attributable to an increase in Provision for Doubtful Debts with respect to amounts due from LES of €12,806, as well as 'reimbursable' expenses incurred in connection with a European Union (EU) Fund Project of €10,896, both of which most probably will not be recovered.

Birkirkara

While income generated by the Council during the current nine-month operation increased by €325,505, overall proportionate expenditure incurred decreased by €18,130. This also resulted in a decrease of €229,679 in Payables which, though partly outweighed by a decrease of €112,331 in Receivables, still helped the Council to recoup part of the negative Working Capital registered during the prior year. Despite that the Council's financial situation has improved when compared to prior year, the negative Working Capital still prevails.

Kerċem

The increase of €16,596 in the current portion of Long-term Borrowings, coupled up with an increase of €40,000 in Other Payables during the current financial period, led the Council to experience a further increase of €12,576 in its negative Working Capital when compared to the previous year. This was mainly due to the significant increase in the Property, Plant and Equipment acquired during the current period, which totalled €124,724. Additionally, a decrease of €6,226 and €2,599 in Receivables and Cash Equivalents respectively, was encountered.

Mġarr

The Council's Current Liabilities exceeded Current Assets by €148,579 and from a positive financial situation during the prior year, the Council moved to a negative position. This was due to a decrease in Cash Equivalents of around €93,109 together with an increase of €137,800 in Payables. This was the result of a substantial increase of €237,193 in Property, Plant and Equipment additions. Furthermore, the Council experienced increases in expenditure relating to Road and Street Patching Works, Road Markings, Refuse Collection, Other Contractual Services and Other Expenses. In addition, it was noted that funds spent on Community and Hospitality, Incidental Expenses, Travel and Transport Expenses have more than doubled when compared to the prior year. Other slight increases were encountered in Utilities, Rent, Insurance, Cost for Leasing of Equipment, as well as Training and Public Relations Costs.

Pieta'

The decrease of €20,838 in Deferred Income more than covered the slight increase in outstanding dues to Payables which amounted to €11,228. However, this was not sufficient to sustain the decrease in Receivables and Cash Equivalents of €14,758 and €15,154 respectively. The decrease in Receivables was attributed to a decrease in LES Receivables amounting to €20,944 following an increase of €28,419 in Provision for Doubtful Debts. On the other hand, Cash was absorbed by higher costs incurred with respect to Repairs and Upkeep, Contract and Management Services, Information Services, Community and Hospitality Costs, as well as Personal Emoluments. Additionally, Property, Plant and Equipment acquired during the current period amounted to €28,073. All of

* Prior year comparative has been re-stated to reflect prior year adjustments passed during the current financial period.

these led the Council to register a negative Working Capital during the current financial period.

Qormi

From a positive Working Capital of €89,370 recorded during the previous year, the Council closed the current financial period with a negative Working Capital of €46,192. This was brought about by the considerable rise in Payables amounting to €166,199, with the main increase of €108,437 being registered in Accrued Expenditure, in addition to a decrease of €12,423 in Cash Equivalents. This was the result of substantial increases in Operations and Maintenance Expenses and Administrative Costs mainly with respect to Road Pavements, Road Markings, Refuse Collection, Hiring of Skips, Road Cleaning, Cleaning of Public Conveniences, Utilities, Information Services and Other Hospitality Costs. Additional substantial increases of €166,678 with respect to LES Expenses, €10,225 in relation to Cultural Events and €15,123 regarding Community Services were reported. A slight increase was also noted in Personal Emoluments incurred during the current nine-month operation. Moreover, during the period under review, the Council invested €320,968 in new Property, Plant and Equipment. However, this negative situation was partly addressed by a total increase of €43,060 in Receivables. The increase in Receivables was attributed to a considerable increase of €82,607 in Prepayments and Accrued Income, together with an increase in LES Receivables of €121,369 against which a Provision for Doubtful Debts amounting to €164,361 was further recognised during the current period.

Rabat (Malta)

The Council's Current Liabilities exceeded Current Assets by €124,887. This abnormal liability position was mainly brought about by a decrease in both Receivables and Cash Equivalents over the prior year of €97,023 and €187,209 respectively. This drawdown in Cash Equivalents was the effect of a general increase in Operations and Maintenance Expenditure. This was coupled up with further increases in Personal Emoluments and Utilities, expenses on Cultural Events and Penalty Fees. Furthermore, Property, Plant and Equipment additions recorded during the current period totalled to €377,209.

Rabat (Gozo)

The increase of €217,057 in Receivables over the prior year was not sufficient to sustain the decrease in Cash Equivalents of €28,957 and the increase of €221,378 in Payables. This meant that the Local Council's financial situation got worse when compared to the previous financial year. This was attributed to a further investment

of €408,148 in Property, Plant and Equipment undertaken by the Council during the current period. Furthermore, Contractual Services incurred during the current year increased by €77,943 in general, when compared to prior year. Additional increases were also noted in almost all expenses included under the Administration and Other Expenses category, leading to total Administrative Costs of €262,182 (31 March 2009: €201,473⁵).

San Ġwann

The Council managed to reduce total Payables to €184,224 (31 March 2009: €240,320) as at period-end at the expense of a decrease in its Cash Equivalents. During the current nine-month operation, income generated by the Council increased by €88,101 when compared to the same period for the prior year. Additionally, except for Personal Emoluments, in which a slight increase of €12,290 was encountered, a reduction of €253,228 in the overall expenditure incurred under Operations and Maintenance Expenses, Administration Costs and Finance Costs was noted. However, Property, Plant and Equipment newly acquired during the current period amounted to €32,954. Despite that the Council's financial situation has strengthened when compared to prior year, the negative Working Capital situation has not been cleared.

Sannat

Notwithstanding the fact that Receivables at year-end increased by €15,013 over the prior year, this was not sufficient to sustain the considerable decrease of €80,458 in Cash Equivalents and the slight increase in Payables of €15,151. This situation was the result of increases in high expenditure incurred on Road Patching Works, Street Signs, Bring-in Sites, Cleaning and Maintenance Services, Street Lighting, Utilities, Material and Supplies, Others Repairs and Upkeep, Office Services, Information Services, Other Contractual Services, Professional Services and Personal Emoluments. Another factor attributing to the negative Working Capital reported during the current period was the newly acquired Property, Plant and Equipment amounting to €141,053.

Xaghra

The Council managed to decrease Payables by €40,349 whilst increasing Cash Equivalents by €29,543. This was brought about by an increase in Income of €31,967 earned by the Council over the same period during the prior year. Expenditure in general was also kept under control with the effect that this decreased by €3,872. Furthermore, Property, Plant and Equipment acquired during the period were kept to a minimum, with a total investment of €13,115. Nevertheless, a negative Working Capital still prevails.

⁵ Expenditure for a twelve-month period.

Improvement in Working Capital

Table 2 indicates seven Local Councils which improved their financial position this year, from a negative to a positive Working Capital:

Table 2 – Improvement to Working Capital

Local Council	1 April 2009 – 31 December 2009	1 April 2008 – 31 March 2009	1 April 2007 – 31 March 2008
	€	€	€
Attard	16,842	(39,351)*	239,725
Birżebbuġa	68,829	(9,165)	121,296
Fontana	19,962	(22,723)*	3,308
Nadur	30,585	(7,971)	(4,209)
Qala	4,321	(7,706)	41,625
San Lawrenz	353	(27,637)	(19,749)
Xewkija	40,124	(32,990)	24,327

Financial Situation Indicator

The Local Councils (Financial) Regulations, 1993 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.

Twenty Local Councils (31 March 2009) registered an FSI below the 10% benchmark as required by law. These are shown in Table 3:

Table 3 – Financial Situation Indicator

Local Council	Government Allocation 1 April 2009 – 31 December 2009 ⁶	Current Assets less Liabilities 1 April 2009 – 31 December 2009	FSI 1 April 2009 – 31 December 2009	FSI 1 April 2008 – 31 March 2009
	€	€	%	%
Attard	351,306	18,303	5.21	(9.19)*
Birgu	164,900	(156,385)	(94.84)	(44.63)
Birkirkara	710,066	(418,695)	(58.97)	(58.12)*
Għasri	109,970	10,334	9.40	17.73
Isla	169,690	5,568	3.28	5.01
Kalkara	167,135	3,402	2.04	12.71
Kerċem	159,032	(36,510)	(22.96)	(12.31)
Mgarr	304,894	(148,579)	(48.73)	19.57
Mosta	675,266	1,914	0.28	0.24
Msida	288,087	1,474	0.51	2.94
Naxxar	567,053	33,580	5.92	12.30
Pieta'	179,816	(10,088)	(5.61)	14.21
Qormi	657,625	(11,371)	(1.73)	13.78
Rabat (Malta)	657,186	(124,887)	(19.00)	18.77
Rabat (Gozo)	323,375	(73,041)	(22.59)	(10.67)
San Ġwann	426,815	(97,590)	(22.86)	(34.43)
San Pawl il-Baħar	780,524	69,343	8.88	21.96
Santa Venera	259,444	14,286	5.51	4.65
Siġġiewi	468,729	27,328	5.83	33.93*
Xagħra	306,523	(12,995)	(4.24)	(22.11)*

⁶ Government Allocation in terms of Section 55 of the Local Councils Act as stated in audited Financial Statements of the Local Councils.

*Prior year comparative has been re-stated to reflect prior year adjustments passed during the current financial period.

Statement of Income and Expenditure Deficit ⁷

As already mentioned in the Background, the financial year-end of Local Councils was changed from 31 March to 31 December. The first financial period falling due, following this amendment, covered nine months from 1 April 2009 to 31 December 2009. Thus, the surplus/deficit as reported by Local Councils during the period under review cannot be literally compared to that of prior years which covered twelve months operation, due to the different time frames.

Twenty-one Councils (31 March 2009: twenty-four) registered a deficit in the Statement of Income and Expenditure⁸ for the period. Table 4 presents the locality, the deficit for the period under review and the corresponding figures for the previous two years:

Table 4 – Statement of Income and Expenditure Deficit

Local Council	1 April 2009 – 31 December 2009	1 April 2008 – 31 March 2009	1 April 2007 – 31 March 2008
	€	€	€
Birgu	(71,760)	(94,787)	(7,901)
Bormla	(50,121)	21,306*	23,179
Isla	(17,665)	(5,277)	9,617
Kalkara	(17,164)	5,584	4,178
Kirkop	(5,133)	65,575	(21,480)
Lija	(7,883)	(29,475)	(22,640)
Luqa	(78,098)	91,320	117,393
Marsaxlokk	(8,299)	(21,320)	(27,741)
Mdina	(26,528)	17,091	708
Mosta	(22,851)	45,296*	118,281
Msida	(21,586)	103,045*	(16,219)
Mtarfa	(4,321)	21,699	54,310
Naxxar	(89,063)	(8,410)	74,110
Pembroke	(21,861)	(60,980)	(20,247)
Pieta'	(30,676)	(142,360)	(102,718)
Qala	(4,797)	1,885	(4,647)
Rabat (Malta)	(39,151)	60,170	60,326
Tarxien	(76,342)	41,932	29,461
Żabbar	(23,302)	(60,083)	74,559
Żebbuġ (Gozo)	(25,297)	13,227	74,291
Żurrieq	(135,977)	45,352	(14,082)

⁷ A deficit in the Statement of Income and Expenditure results when expenditure is greater than revenue.

⁸ While figures for the period under review are reproduced as shown in the Financial Statements, comparative figures with respect to Income and Expenditure items as disclosed in the analytical review are based on a nine-month calculation.

* Prior year comparative has been re-stated to reflect prior year adjustments passed during the current financial period.

The following were reasons attributed to the Local Councils, which as indicated in Table 4, have proportionately reported a higher deficit at the end of the current nine-month operation when compared to the prior twelve months.

Birgu

Even though at face value the deficit position has improved during the current period when compared to the prior year, the Local Council is still experiencing a high deficit situation considering that the reported deficit covers only nine months. The Local Council's financial situation has already been analysed under the 'Negative Working Capital' section in this Report.

Bormla

The deficit for the year was mainly the result of a decrease in income earned from Cultural Activities. This was coupled up by increases in reported expenditure of Road and Street Cleaning, Cleaning and Maintenance of Soft Areas, Street Lighting and Tipping Fees. Furthermore, Personal Emoluments have also registered a slight increase. On the other hand, the general Administrative Expenditure reported by the Local Council during the current period was still in line with that incurred during the prior year.

Isla

Funds received from Central Government relatively increased during the current period, while Income raised under Bye-Laws as well as General Income have doubled when compared to previous year. However, this was not enough to sustain the considerable increase in Personal Emoluments, Operations and Maintenance Expenses and Administrative Costs. Included under these categories were increases in Roads and Street Maintenance, Bring-in Sites, Hire of Skips, Meetings and Conventions, as well as an abnormal increase in Community and Hospitality Expenditure.

Kalkara

The proportionate increase in income of €25,553 was totally outweighed by the significant increase in expenditure of €46,905 resulting from large increases in spending on Road Markings, Street Lighting and Other Expenses, Community Service and Events, as well as Foreign Travel. New Street Signs purchased and installed by the Council during the period were erroneously expensed in the Statement of Income and Expenditure rather than being treated as one of a capital nature, thus impinging on the deficit reported during the current period.

Kirkop

The deficit for the period was mainly the result of substantial increases in expenditures such as Repairs and Upkeep, Refuse Collection, LES Expenses, Street Lighting, Hospitality Costs, Professional Services, as well as Community Services and Events. Furthermore, due to the considerable LES Receivables, which have been outstanding for more than two years, the Provision for Doubtful Debts was increased by €42,077 to cover such dues which may remain uncollectible, thus also contributing to the increase in deficit.

Lija

Even though the deficit position has improved during the current period when compared to the prior year, the Local Council is still experiencing a deficit situation.

Luqa

The reported deficit was the result of an increase in the Provision for Doubtful Debts amounting to €195,018. Up to the previous year, the Council was accounting for a general provision of 20% on Total Receivables. However, the provision was increased during the current year to entirely cover LES Receivables outstanding for more than two years.

Marsaxlokk

Even though the deficit position has improved during the current period when compared to the prior year, the Local Council is still experiencing a deficit situation.

Mdina

The significant increase in both the Income Received from the Joint Committee with respect to LES, as well as Contributions and Donations forwarded to the Council, was not enough to sustain the considerable increase in Community and Hospitality Expenses which amounted to €65,270 (31 March 2009: €3,407) for these nine months. This was coupled up with additional spending in Cleaning Services which was also on the high side when compared to the previous year.

Mosta

During the nine months under review, Patching Expenses and Repairs to Public Property have doubled when compared to the previous year. This is partly due to the fact that expenditure of a capital nature was erroneously treated

as an expense for the period. Additionally, increases in costs for Street Lighting, Refuse Collection, Advertising and Public Relations Expenses, Community Services, Engineering Services, Printing and Stationery, Management and Operations Services as well as Telecommunications expenditure, resulted in the deficit reported by the Council as at 31 December 2009.

Msida

The main factor leading to the reported deficit was the €51,575 over-provision with respect to LES Receivables. In addition, there was also a substantial rise in Patching Expenses from €2,077 for the year ended 31 March 2009 to €12,946 during the current period.

Mtarfa

The considerable increase of €28,504 recorded under the General Income category was totally outweighed by increases in payments relating to Personal Emoluments, Repair and Upkeep of Public Property, Waste Disposal and Other Contractual Services. Additional increases were also encountered in Transport and Information Services. The most substantial increase was registered under Community and Hospitality Expenses, which amounted to €47,133 for the nine months under review, compared to €8,859 during a full year in the prior twelve month period.

Naxxar

Except for funds received from Central Government, the Council has experienced a throughout decrease in the income it generated during the current period totalling to €17,305. This was coupled up by increases in expenditure relating to Personal Emoluments, Road and Street Lighting, Operating Materials and Supplies, Travel, Transport, Insurance and Professional Services. Furthermore, Utilities as well as Community and Hospitality Expenses, incurred during the current nine-month operation, have doubled when compared to figures reported in the audited Financial Statements of last year.

Pembroke

Even though the deficit position has improved during the current period when compared to the prior year, the Local Council is still experiencing a deficit situation.

Pieta'

The Local Council's financial situation has already been analysed under the 'Negative Working Capital' section in this Report.

Qala

The slight increase in the Council's income, apart from funds received from Central Government, was not enough to sustain the main increase recorded under Community Services and Events which expenditure for the nine-month period under review totalled €39,336, an increase of 57% over the previous year.

Rabat (Malta)

The Local Council's financial situation has already been analysed under the 'Negative Working Capital' section in this Report.

Tarxien

Repairs and Upkeep Expenses during the current period more than tripled when compared to last year. This was due to major Patching Works, amounting to €68,211, which were undertaken in the current nine-month operation. Additional increases were also noted in Refuse Collection Expenditure. Furthermore, a Provision for Doubtful Debts totalling to €69,521 was recognised in the Financial Statements so as to cover LES Tribunal pending tickets with respect to the pre-pooling period. Slight increases in Personal Emoluments, Road and Street Cleaning, Information Services and Community and Hospitality Expenses have been encountered. The increase of €47,755 in income generated by the Councils' operations helped to absorb part of the aforementioned costs.

Żabbar

Even though the deficit position has improved during the current period when compared to the prior year, the Local Council is still experiencing a deficit between income and expenditure.

Żebbuġ (Gozo)

The increase of €33,935 in income earned by the Council during the nine-month operation was totally absorbed by the significant increase of €99,338 in Administrative and Other Expenditure. This was the result of abnormal increases totalling to €59,437 and €18,664 with respect to Cultural and Social Events respectively. Minor increases that attracted attention related to Other Repairs and Upkeep, Office Services, Information Services and Professional Services Expenditure.

Żurrieq

The deficit reported during the current period was the result of a substantial increase in Other Repairs and

Upkeep Expenditure, together with the recognition of an increase in the Provision for Doubtful Debts amounting to €180,549. LES Receivables outstanding for more than two years amounted to €240,120 as at 31 December 2009, and thus Provision for Doubtful Debts was adjusted so as to provide for these outstanding dues. Additionally, except for Depreciation Charges, a general increase in

Administration and Other Expenditure was noted during the current period. Furthermore, despite that during the period the Council reported a slight increase in its overall income when compared to the prior year, it is crucial to note that income earned from LES, Investment Income and General Income substantially decreased during the nine-month operation.

Rectified Positive balance between Income and Expenditure

The fifteen Local Councils which rectified their position during the current period are indicated in Table 5:

Table 5 – Rectified Positive balance between Income and Expenditure

Local Council	1 April 2009 – 31 December 2009	1 April 2008 – 31 March 2009	1 April 2007 – 31 March 2008
	€	€	€
Attard	23,114	(127,364)*	22,660
Balzan	43,952	(6,947)	5,387
Birkirkara	124,540	(292,127)*	(41,954)
Fontana	24,386	(16,654)	14,480
Għarghur	4,941	(2,404)	(9,524)
Għasri	13,738	(1,179)	7,782
Munxar	1,346	(6,879)	8,824
San Ġiljan	83,229	(39,880)*	(162,555)
San Ġwann	25,420	(404,825)	59,524
San Lawrenz	36,799	(6,873)	(20,804)
Santa Luċija	4,950	(14,587)	23,388
Santa Venera	40,157	(48,399)	(9,207)
Valletta	20,247	(39,413)	58,436
Xaghra	16,896	(25,257)*	1,388
Xgħajra	7,309	(1,941)	7,796

Control Issues

LGAs identified a number of control issues necessitating urgent improvement:

- Local Council not making use of the reporting tools in hand such as the twelve-month Budget, the three-year Business Plan, the Quarterly Reports and the yearly Administrative Reports.
- Cash not deposited daily or twice weekly.
- Petty cash limit for daily expenditure exceeded.
- Budgeted expenditure for certain expenses exceeded.
- Income recording system in use not entailing a proper audit trail.
- No receipts issued other than for day-to-day permits, resulting in lack of proper income records received by the Council.
- No system of Purchase Request Forms and Purchase Orders maintained.
- Payment Vouchers either not signed or not raised before the approval in the Schedule of Payments.
- Reimbursement to Councillors and Local Council employees not fully supported by the appropriate documentation.
- Vacation leave and sick leave not documented properly for easy reference as to the number of unutilised leave remaining.

*Prior year comparative has been re-stated to reflect prior year adjustments passed during the current financial period.

Compliance Issues

Finalisation of Annual Financial Statements

In accordance with the Local Councils (Audit) Procedures 2006 (P2.05) and other instructions to Local Councils issued through memos by the Department for Local Government (DLG), 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 9 February 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).

Twenty-eight (31 March 2009: eleven) out of sixty-eight Local Councils managed to submit the respective Financial Statements by the required deadline of 9 February 2010. Although NAO notes this positive development it is expected that more Local Councils make the necessary effort to ensure that all required information is submitted by the established timeframes. A further eleven Local Councils submitted the Financial Statements by the end of that same week, while another eleven submitted them by the end of February 2010 (Appendix C refers). The remaining Local Councils kept prolonging either till June 2010, when the audited Financial Statements were due, or did not submit them at all. This lack of non-adherence to the procedures reflected negatively on the audit plan schedule as in most cases LGAs had to postpone the commencement of the respective audits.

Audit Report and Financial Statements

Only ten Audit Reports (31 March 2009: thirty) were delivered by 30 March 2010 in accordance with the Local Councils (Audit) Procedures 2006 and relevant instructions issued by DLG. Another twenty-three Local Councils submitted the audited Financial Statements by the end of April 2010, while the other thirty-one kept delaying the submission, apart from the Financial Statements of four Local Councils which were not submitted at all by end September 2010 when this report was finalised (Appendix D refers). Once again, NAO expects Local Councils to take all necessary action to ensure the timely submission of these Audit Reports.

Local Councils' response following Management Letters

Management Letters highlighted a number of audit findings and relative recommendations. As at 15 May 2010, or six weeks after the Audit Report, only thirty-three Local Councils sent a response to the Management Letter as required by Article 8, sub-article (2) of the Local Councils (Audit) Regulations, 1993. In addition, twenty-one Local Councils exceeded the stipulated deadline to submit their reply to the Management Letter while another fourteen 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.

Repetitive weaknesses reported in the Management Letter

During various meetings between NAO and DLG in the presence of LGAs, the latter pointed out that, very often the same irregularities are being, year after year, highlighted in the Management Letter, without no apparent remedial action being taken. This cannot be tolerated any further.

It could be concluded that Local Councils simply ignore these Management Letter points indicating a total lack of accountability on the part of the Councils involved. Most Local Councils have common problems, mainly relating to the proper upkeep of the FAR, unrecorded liabilities and non-abidance to the procurement procedures, apart from the proper accounting treatment of grants. An additional point is the fact that a number of Financial Statements are in a terrible state when they are presented to LGAs for auditing. Thus, LGAs have to carry out accounting work, where the accounts do not meet the required level.

In the light of all this, DLG issued memo 106/2010 titled '*Nuqqasijiet mill-Kunsilli Lokali*'. Through this memo, which NAO considers as a step in the right direction, DLG highlighted the main weaknesses that are consistently encountered by LGAs in the majority of Local Councils, as well as outlined how these are to be addressed. The responsibility to ensure that such directives are being adhered to was entrusted in the Executive Secretaries, as the executive, administrative and financial heads of the Councils.

Areas of Concern

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

1. Accounting;
2. Property, Plant and Equipment;

3. Receivables;
4. Payables;
5. Bank/Cash;
6. Local Enforcement System;
7. Procurement;
8. Invoices;
9. Salaries; and
10. Non-compliance with certain Provisions outlined in the Subsidiary Legislation.

Appendix E 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. Accrued expenses at year-end either not calculated or not included in the Nominal Ledger and Financial Statements.
- b. Prepayments and accrued income at year-end either not accurately calculated, if at all, or not included in the Nominal Ledger and Financial Statements.
- c. Performance bonuses payable to the Executive Secretary and Council clerks not accrued for at year-end.
- d. Expenses not accrued for in prior years and included in current year, thus inflating current year's expenditure.
- e. Trial balance not tallying due to an error in the accounting system.
- f. Opening balances brought forward from prior year not in agreement with the closing balances of the prior year's audited Financial Statements.
- g. Groupings of expenses shown in the Financial Statements not consistent with those of the prior year.
- h. Expenses from a particular activity netted off from the activity's income.
- i. Expenditure of a capital nature recorded as expenditure of a revenue nature and *vice-versa*.
- j. Deferred income accounted for as income received during the current year.
- k. General income of the Council accounted for on a cash basis and only recorded in the system when the income was deposited into the bank.
- l. Inventory items completely omitted from the accounts.
- m. The value of inventory as disclosed in the Council's Financial Statements not reflecting the actual cost of the inventory in hand.
- n. Gifts distributed during events or stationery used for the conduct of office operations, recorded as inventory rather than recognised as expenditure in the Statement of Income and Expenditure.
- o. Difference between amount recognised in the Financial Statements as 'Funds received from Central Government' and the actual annual financial allocation, due to fees charged for Bring-in Sites, Internet Service, Tipping Fees and e-Government Fees, netted off from income.
- p. No proper accounting and the respective disclosure as required in terms of International Accounting Standards (IAS) 17 – 'Leases' omitted in respect of motor vans owned on a hire purchase basis.
- q. Debit balances included in payables' list and credit balances included in receivables' list.
- r. Date posted in the Nominal Ledger not representing that of the authentic invoice document but the date of the Schedule of Payments.

Property, Plant and Equipment

- a. FAR not maintained.
- b. Discrepancies between the Nominal Ledger and the FAR.
- c. FAR not updated with additions and lacked necessary details to identify the existence and location of the assets.
- d. Disposed or obsolete assets not removed from the FAR.
- e. Low value items included in the FAR rather than written off as expenditure.
- f. FAR updated with payments on account to suppliers rather than the total cost of the completed project.
- g. The cost of a project capitalised under the wrong fixed asset code and thus the wrong depreciation rates taken.
- h. Total depreciation charge as per Nominal Ledger not agreeing to that as per Financial Statements.
- i. Depreciation charge calculated wrongly or manually and posted once a year, rather than on a monthly basis using the 'Sage' accounting software.
- j. Incorrect depreciation rates applied.
- k. Software automatically considering the Depreciation start date as the first day of the month following the purchase date rather than the actual date of acquisition.
- l. Insurance policy not covering the Net Book Value (NBV) of Property, Plant and Equipment as per Financial Statements (Appendix F refers).
- m. No common reference in the description of the asset in the FAR corresponding to the related transaction in the Nominal Ledger.
- n. Assets of the same nature included under different nominal accounts in the Nominal Ledger and the FAR.
- o. Assets capitalised when bills are issued by the contractor rather than when the project is completed and its economic useful life begins.
- p. Large number of accounts created for different items under Property, Plant and Equipment, which

- can be grouped together for better classification.
- q. FAR kept on Microsoft Excel rather than the 'Sage' accounting system.
 - r. Local Councils not recording any write-offs for broken or damaged street signs due to vandalism or other factors, thus overstating the fixed assets.
 - s. Over-depreciated assets resulting in assets having a negative NBV in the FAR.
 - t. The Capital Approach method used by the Council to account for grants received instead of the Income Approach, in line with the standard approach required to be adopted.
 - u. Grants incorrectly recognised as income in the year it was received, rather than recognised as Deferred Income until the project is started and then transferring a portion to income in line with the depreciation charge.
 - v. Grants income erroneously treated as income received under Section 55 of the Local Councils Act.

Receivables

- a. No acceptable audit procedures could be performed on certain receivables in order to obtain reasonable assurance on the collection of long overdue amounts.
- b. Long overdue receivables included in receivables' list, at times not covered by an adequate provision.
- c. Difficulties in collecting fines adjudicated in the Council's favour by the Local Enforcement Tribunal, which have been pending since 1 January 2000.
- d. Amounts due to the Local Council from Government and/or the Joint Committee relating to 2010 wrongly accounted for in the current financial period.
- e. Amounts due to the Local Council from Joint Committee, relating to 2009, not included.

Payables

- a. Long overdue payables included in payables' list.
- b. Supplier statements either not made available for audit purposes or not even obtained by the Council.
- c. Regular reconciliations between amounts due to payables and amounts as per supplier statements not carried out.
- d. Discrepancies between payables' statements and suppliers' personal accounts, mainly due to purchases made by the Local Council not accounted for.
- e. Schedule of Payments not referenced with cheque numbers covering the payment or else adjusted manually without being endorsed by two Local Council board members.

- f. Council's payables issue invoices only when payment is effected, thus the Local Council accounts for expenditure at a late stage even though amounts can be easily ascertained when job is actually completed.
- g. Discrepancies between the amount recognised in the suppliers' ledger when compared to the amount on the invoice.
- h. Suppliers overpaid.
- i. Payables' invoices not duly accounted for when received, with the result that payments are being posted prior to the posting of the respective invoice.
- j. Payments forwarded to suppliers before approved by the Council in the Schedule of Payments.
- k. Local Council not appropriately apportioning the short and long term portions of grants received from Urban Improvement Fund (UIF).

Bank/Cash

- a. Petty cash float kept at the Council's premises higher than the established limit.
- b. Discrepancies between amounts as per physical cash count and amounts as per accounting records.
- c. No cash records kept for a number of months, even though cash deposits were traced.
- d. Closing cash balance shown as negative in the Financial Statements of the Local Council.
- e. Stale cheques not written off or not investigated.
- f. Bank reconciliations not prepared on a regular basis.
- g. Unexplained discrepancies in the bank reconciliation.
- h. Post year-end bank statements not available.
- i. Bank charges and interest received, which in their nature should not appear as outstanding in the reconciliation, are still included in the bank reconciliation even though the ledger balance and the statement balance are the same.
- j. Bank loan and loan interest payments as per bank statement not agreeing to the respective amounts in the Financial Statements.
- k. Cheques distributed to suppliers before the date of the cheque (post-dated cheques).
- l. No copy of the cheques issued is kept before these are sent to suppliers, making it difficult to trace back when queries with suppliers arise.
- m. Bank accounts dormant for long periods of time.
- n. Cheques relating to 2009, presented during January 2010, not featuring in the list of unrepresented cheques as at period-end.
- o. Wrong calculations in determining the current and non-current portions of bank loan.

Local Enforcement System

LGAs expressed their concern that the non-recoverability of long outstanding LES Receivables from one year to another is further increasing the risk that these dues become statute-barred and will never be recouped by the Councils.

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 recovered. Thus, guided by the principle of the prudence concept, a full provision is expected to be taken for receivables older than two years. A number of Local Councils have already adequately reduced, by way of a provision, those outstanding receivables where recoverability is deemed remote. However, other Local Councils failed to reflect this fact in their Financial Statements, meaning that a high value of receivables was disclosed under Current Assets, thus the accounts did not show a true and fair view. Nevertheless, in several cases the situation was still rectified through the adjustments proposed by LGAs, which were taken on board by the respective Local Councils.

Other common issues relating to LES Receivables encountered during the audits included the following listed hereunder:

- a. Annual audited Financial Statements of the Joint Committee for the period ended 31 December 2009 were not submitted to Local Councils. Consequently, LGAs could not rely on independent audited information as provided by the Joint Committee to provide reasonable assurance on the amounts being recorded by Local Councils in their Financial Statements.
- b. Income, Receivables and Provisions for Doubtful Debts relating to LES understated.
- c. Discrepancies in the recording of LES generated income as reported in the Financial Statements when compared to LES reports made available by the service provider entrusted by the Ministry to administer all information related to LES.
- d. Receipts in respect of income received not issued by the Councils, particularly when the source was from a Government entity, Department or another Local Council.
- e. Prior to the proposal for the recognition of a Provision for Doubtful Debts by LGAs for long outstanding balances, certain Councils did not provide for LES Receivables which have been due for more than two years.

Procurement

Non-abidance to the Tendering Procedures

The Local Councils (Tendering) Regulations, 1993 and the Local Councils (Tendering) Procedures, 1996 provide guidance on how purchasing of works, goods and services by Local Councils is to be conducted. In summary, besides other conditions, Council Purchase Orders, agreements and contracts may be approved by the Council provided that:

- for purchases of value not greater than €1,165, items of the same nature are not purchased within a consecutive four month period;
- the procurement of goods whose value falls between €1,165 and €4,659 is supported by at least three official signed quotations together with a written justification for the selected quotation or offer as approved by the Council; and
- a public tender is issued according to the Local Councils (Tendering) Regulations, 1993 and the Local Councils (Tendering) Procedures, 1996 with respect to purchases exceeding the cost of €4,659.

However, as noted from the weaknesses highlighted by LGAs in their Management Letters, the majority of Local Councils are not adhering to the rules cited above. The main areas of non-compliance include:

- a. Expenditure made by direct order without obtaining any quotation or without the relative call for tender.
- b. No contract of agreement between the Council and persons offering administrative services.
- c. The Council utilising expired contracts without issuing new contracts.
- d. Copy of certain contracts not kept by the Local Council.
- e. Renewal of contracts either not signed by the party undertaking the work or signed after the renewed contract has started.
- f. Renewals of expired contracts not approved in Council meetings.
- g. Application for tender kept open for the public for less than thirty days.
- h. Tenders not opened in the presence of the Executive Secretary and two Councillors.
- i. No revised tender offer issued when parameters changed or when the tender offer value increased by more than 10%.
- j. New tenders issued during the year not always awarded to the cheapest bidder.
- k. Tender documents, such as tender form, proposed bill of quantity, bid bond, acceptance letter and performance bond, missing.

- l. Schedule of tenders list not underlined to indicate cut-off after the last tenderer, indicating the end of the list.
- m. No copy of renewed Tender Guarantee and Third Party Liability Insurance.
- n. Performance Guarantee for expired contracts not renewed while the service continued to be rendered.
- o. The value Bid Bonds and Performance Guarantee lower than that prescribed in the Local Councils (Tendering) Procedures, 1996.
- p. Copy of the adjudication report for a tender not filed, nor results published on the Council's notice board.
- q. Local Council relying only on certifications by the supplier's architects in case of certification of projects.
- d. Salaries disclosed in the Financial Statements not in agreement with the workings that emerge from the Final Settlement System (FSS) documentation.
- e. Annual FS7 form not reconciled with the monthly returns.
- f. Social Security Contribution (SSC) and tax payments, as well as the respective returns, not sent to the Commissioner of the Inland Revenue within the required one-month time frame.
- g. SSC and tax deductions wrongly calculated.
- h. Performance bonus omitted from FSS documentation and thus the relevant tax not deducted.
- i. Performance bonus for the current nine-month period taken for a whole year.
- j. Employees not paid the December statutory bonus.
- k. Employment income for employees working on reduced hours wrongly declared under part-time in the FS5.

Invoices

- a. Amount on supplier's invoice different than that on Purchase Order and also different from the amount posted in the accounts.
- b. Supplier invoices dated outside the financial period included with the expenditure for the year.
- c. Supplier invoices recorded in the accounts excluding Value Added Tax (VAT), whereas the invoice correctly included VAT.
- d. Supplier invoices in Maltese Lira or US Dollars included in accounts as Euro for the same amount.
- e. Invoices in respect of disputed amounts not booked in the accounts of the Council.
- f. Payments not supported by a proper fiscal receipt showing the VAT registration number of the company supplying the goods/providing the service.
- g. Payments to suppliers supported by invoices which were either not properly addressed to the Council or addressed to a third party.
- h. Expenses only supported by cash till chits rather than proper supplier invoices.
- i. Expense Claim Forms not available to accompany the original copy of the supplier invoice in those cases where a Councillor or employee was reimbursed for expenses incurred during his duties.
- j. Invoices issued to customers from Word Processor rather than through the invoicing tool embedded in 'Sage'.
- k. Invoices adjusted manually.
- l. Full-time Deputy Executive Secretaries, who also carried out work in another Council in the absence of the Executive Secretaries, had their income wrongly taxed at 15% in line with Part-time Regulations.
- m. Employment and Training Corporation (ETC) engagement form of new recruits not made available.
- n. Mayor's Honoraria exceeding maximum allowance as stipulated in the Local Council Procedures.
- o. Mayor's remuneration not included in the payroll system of the Council, with the result that the former was not presented with an FS3 form showing his earnings with the Council for a particular calendar year.

Non-compliance with certain Provisions outlined in the Subsidiary Legislation

- a. Councillors failed to attend in aggregate more than one-third of the meetings called within a six-month period.
- b. Council meetings not held at least once a month/ every five consecutive weeks.
- c. Minutes of the Council's meetings not bound on a yearly basis.
- d. Quarterly Financial Report and the Financial Indicator Report not approved on time during Council's meetings.
- e. Deficiencies in the Financial Statements presented by the Council, such as figures in the Statements and Notes to the Financial Statements not casting or not cross-referenced, fixed assets grid of current and prior year missing, bank overdrawn balance classified with Cash and Cash Equivalents rather than with Payables and bank loan and deferred income not properly split between short and long term.
- f. Financial Statements not in accordance with specimen format/International Financial Reporting Standards (IFRSs).
- a. Documentation such as FS3s and FS7 forms not signed.
- b. Payslips not in agreement with the monthly FS5.
- c. Discrepancy between amounts declared in FS5 forms submitted to the Inland Revenue Division (IRD) and the actual emoluments paid/posted in the Nominal Ledger.

Salaries

- g. Financial Statements not showing the corresponding budget figures for the period as required in terms of the Local Councils (Financial) Procedures.
- h. Capital commitments and guarantees in favour of third-parties not disclosed in the Financial Statements.
- i. Council's budget for 2010 not corresponding to the capital commitments disclosed in the Financial Statements.
- j. FSI below the benchmark of 10% in twenty Councils.
- k. Although the FSI is positive, certain LES Receivables might prove difficult to collect in full within the current year and the going concern assumption used in the preparation of these Financial Statements is dependent on further sources of funds other than the annual financial allocation by Central Government.
- l. Although not permissible, twenty-three Local Councils advanced donations to various entities, in aggregate amounting to at least €16,364.
- m. Bye-Law not in place to allow for the carrying of an income earning activity.
- n. Twenty-five out of sixty-four Local Councils organised a Christmas staff party which was financed out of the Council's funds (Appendix G refers).
- o. Local Council made use of internet banking facility, which was not limited to 'view only' purposes.
- p. Mayor and Executive Secretary provided with a mobile telephone line and a health insurance policy, at the Council's expense.
- q. Mayor's home internet service, paid out of the Council's funds, approved by the same Council.
- r. Councillors and Council employees reimbursed for fuel costs upon presentation of a fiscal receipt.
- s. Social and cultural events, some consisting of meals and parties organised for residents, expensed from the Council's funds.

Concerns encountered in the majority, or in a large number, of Local Councils

Incorrect treatment of Grants Received

IAS 20 – 'Accounting for Government Grants and Disclosure of Government Assistance' outlines two broad approaches – the Income and the Capital Approach – for the accounting of Government Grants. However, following a consultation exercise held in 2008 by NAO with LGAs in office at that time, it was decided that for consistency purposes, the Income Approach as outlined in IAS 20 was to be applied by all Local Councils when accounting for UIF funds. Hence, grants received to acquire items of Property, Plant and Equipment should be treated as deferred income. Income is subsequently to be recognised on a systematic and rational basis in accordance with the

useful life of the asset, i.e. a portion of the income should be transferred every year to account for the depreciation charge.

However, certain Local Councils were erroneously recording grants received as Other Government Income. Furthermore, a number of Local Councils were still adopting the Capital Approach to account for UIF grants received.

Amounts due from Water Services Corporation

Another concern affecting a large number of Local Councils was the issue with Water Services Corporation (WSC). Local Councils had, in previous years, recognised amounts due to them from WSC for trenching works, as well as reimbursements for water-house connections carried out by the Local Councils on behalf of WSC. However, these amounts were never settled and the original agreement between the individual Local Councils and WSC signed in 2002 has now expired.

Last year, LGAs recommended that the Councils are to refrain from accruing this income and write back the current estimated amounts until it becomes certain these will be receivable, while closely monitoring the developments regarding the new agreement. However, certain Local Councils still believe that the balances are fully recoverable. On the other hand, some Councils reversed the accrued income and others did not accrue any further income as from the current financial period. Amounts due to Local Councils as reported in Management Letters are found in Appendix H.

In the meantime, the LCA and WSC are in the process of negotiating a new agreement. In March 2010, WSC agreed to pay all arrears to Local Councils for the years 2007, 2008 and 2009. However, no formal agreement was signed to date. The new agreement should cover the methodology and payments regarding the reinstatement of roads when works on the WSC's infrastructure are carried out in areas under the governance of Local Councils.

No revised Employment Contract in place following the Local Councils' reform

During the course of the audits, LGAs noted that a number of Council employees had no signed contract of employment in line with their present conditions of work. LGAs were informed that the DLG instructed Councils to change their staff contracts from definite to indefinite contracts. However, most of the revised employment contracts were not yet drawn up. In turn, LGAs highlighted the importance that every employer is legally bound to have a signed contract of employment in place, which sets out the conditions of work of each individual employee.

Mayors' Honoraria not properly taxed

The issue of what tax rate is applicable on the Mayors' Honoraria has been the subject of a long debate between the IRD and the LCA that has not as yet been resolved. In fifteen out of sixty-eight cases, Local Councils are considering the Mayor as a part-timer and effectively the monthly tax deductions are being made at 15% in line with Part-time Regulations. Other tax rates of 20% and 25% on the Mayors' Honoraria have also been encountered in other instances.

Payslips not being drawn up

From testing carried out by LGAs, it transpired that a number of Local Councils did not bother to furnish employees with a payslip but only prepared a payment voucher with the relative cheque. While this practice is not recommendable, it is pertinent for Local Councils to prepare a payslip to be attached to each periodic emolument. As a minimum, the payslip should include details of the gross pay, tax deductions in line with FSS rules and SSC. Other items that have to be disclosed on the face of the payslips include bonuses – legal and performance, income supplements, as well as the balance of leave entitlement.

Other Particular Concerns

As part of the audit methodology, LGAs went through the prior year Management Letter points to identify if the shortcomings highlighted in the prior year were addressed or not. It resulted that there were a number of these weaknesses that were not addressed and/or the respective recommendations were not taken on board by certain Local Councils.

A number of other 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.

Balzan

The Council has long overdue payable balances in dispute, amounting to €14,648, out of which €5,590 has been carried forward from previous periods.

The Local Council cannot force suppliers to reach an agreement. Letters were sent but no reply was received. Thus, the Council has to wait for the prescribed period by law before writing off the balances. With respect to this long outstanding payable, there is a legal document hindering the Local Council from proceeding with payment.

Difference amounting to €40,122 in the NBV between the Nominal Ledger and the FAR due to the latter not being updated with additions for the year.

The differences in cost have been rectified. With respect to the difference in depreciation, this came about since prior LGAs carried out a manual calculation of depreciation and an adjustment was passed with the difference. These adjustments could not be done in the FAR. The only way to reconcile is to reverse these audit adjustments in the accounting system.

Birgu

The Council is taking long to settle its amounts due in view of the bad financial situation that it is in. This resulted in a 16% increase in Payables from €152,946 to €177,744 at the end of this financial period.

The Council is aware of its cash flow situation and is not undertaking any capital expenditure apart from urgent improvement works necessary. The Council is only taking part in activities co-funded by schemes issued by the DLG.

The total payments made during the period under review in the form of donations amounted to €1,148.

Following the audit, the Local Council did not issue donations as it is abiding by the new amendments in the Local Councils Act.

Birkirkara

The Local Council exceeded the budgeted expenditure for Professional Services by €28,023 and Social and Cultural Activities by €6,271.

For the period ended December 2009, the Council was forecasting a balanced budget. However the actual results showed a surplus of income over expenditure of €124,540. This indicates that the Council has actually out-performed its budget for the financial period in question. Nonetheless, it must be admitted that in certain areas of expenditure, the Council has exceeded the budget but this was complemented with an excess in budgeted income. The Council actually earned more income than it expected to receive and correspondingly it increased its expenditure. While it should be ensured that the Council continuously monitors and compares the actual with the budgeted income and expenditure, LGA's recommendations are taken on board and during the financial year ending 31 December 2010, funds within the budget would be reallocated and adjusted to reflect shifts emanating from decreases or increases in budgeted income or expenditure.

In a payable's reconciliation, an amount of €79,920 was noted to be in dispute. The amount was not accounted for but only disclosed as a contingent liability.

In this case, the Council has been chasing the supplier in question to discuss and address the dispute in question. The dispute arose from incorrect measurements of garden and road construction works, as well as certain bad workmanship which is not acceptable to the Council. Despite various tentative requests by the Council's Quantity Surveyor to address the matter with the supplier's architect, the latter has been continuously postponing the problem. The Council will try harder during the next year to address and settle the problem once and for all.

When a reasonableness test was performed on fixed assets, the depreciation charge was found to be overstated by slightly over €25,000. The problem seems to be the software used by the Council.

The Council has completely reconstructed its FAR during the financial year ended 31 March 2005 after a thorough exercise which has been carried out by the Council's administration, and since then it has been maintained in perfect condition. The Council has been relentlessly chasing its software provider to solve the problem highlighted by LGA. To date, the supplier has not yet provided a feasible solution. Nonetheless, the Council will do its utmost to have this problem solved by the end of the financial year ending 31 December 2010.

Birżebbuġa

At period-end, there was a difference of €265,304 between the FAR and the Nominal Ledger.

The Council agrees that a stock take of the assets is necessary in order to identify the differences.

The Local Council reimburses Councillors and employees for mobile calls and fuel costs. These are refunded on the presentation of the fiscal receipt instead of on a call-by-call basis and against records of actual mileage driven in the performance of Council duties.

Councillors are not entitled anymore to reimbursements as from the financial year ending 31 December 2010 since they will start receiving two allowances. Moreover, on other reimbursements, the Council will follow LGA's recommendation.

During the year ended 31 March 2009, the Local Council received an amount of €52,411 for grants from MEPA under the UIF for the construction of a skate-boarding ring. This was recognised in full as income during the same year, rather than being matched with the related costs. During the current financial period, the Council also

had understated liabilities and overstated retained funds of €44,419.

The points were noted.

Bormla

A refund from the Housing Construction and Maintenance Department (HCMD), in respect of road resurfacing works amounting to €35,599, was incorrectly recognised as income in the Statement of Income and Expenditure. This income should have been allocated against the cost of the asset and recognised as a grant. A correct classification of this amount would result in a deficit of €85,720 to the Council, i.e. a higher amount than was actually reported.

These road works were not included in the projected capital expenditure. The works took priority following the extensive damages that HCMD's contractor inflicted during the building of a massive block of flats. The Council requested HCMD to repair the damages and as such reinstate the road. HCMD finally conceded to the Council's request and came to an agreement that HCMD will refund the Council for expenses involved to repair the damages. A tender had to be issued for the works involved. The bills had to be sent to HCMD for refund. The amount is thus not regarded as a grant but as a refund for expenses already incurred.

It is understood that the Local Council is experiencing difficulties with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. There are fines pending from 1 January 2000 to 31 March 2009 amounting to €232,061, against which a provision of €125,351 was recognised. However, balances older than two years should be fully provided for and thus the amount of provision should increase to €171,633. This would have put the Council in a higher deficit position.

The Council had made a provision of €125,351 covering only up to 31 December 2006. This was in line with the Council's policy of systematically increasing the provision every year starting from the year ended 31 March 2007, until this would represent the whole amount receivable less two years. The provision movements were as follows:

- *Year ended 31 March 2007 – provided up to the year 2000*
- *Year ended 31 March 2008 – provided up to the year 2002*
- *Year ended 31 March 2009 – provided up to the year 2005*
- *Period ended 31 December 2009 – provided up to the year 2006*
- *Planned for the year ending 31 December 2010 – provision will cover up to 31 December 2008*

With respect to the chasing of receivables, the Council has already gone through the exercise with the help of two different Legal Advisors a few years back. Unfortunately, the response did not even cover the legal expenses involved and as such the Council is finding it difficult to go through the exercise once again. Nonetheless, the Council cannot but stress the fact that historically the Licensing and Testing Directorate (LTD) was the responsible authority for collecting the funds year in year out when the offenders go to renew their licence.

According to the FAR of the Council, 15,000 metres of 'Christmas Rope Light' was purchased by the Council during the years 2001, 2002 and 2003 for a total amount of €48,223. However, at least since the audit for the year ended 31 March 2007, LGA were never able to physically inspect these items and Council officials confirmed that these were not present at the Council's premises. They also hinted that the issue had been ongoing since 2003 but they were not able to determine what has become of the assets in question. LGA followed up the matter again during the subsequent audit, i.e. for the year ended 31 March 2008 and urged the Council to take the necessary action since the situation still prevailed. Accordingly, the Council wrote off part of the cost for an amount of €25,627, showing it as a prior year adjustment relating to year ended 31 March 2007.

Since during the audit for the financial year ended 31 March 2009, LGA were again not able to physically inspect the assets in question, they put pressure on the Council to settle this matter once and for all. Unfortunately, no action was taken in this respect and the Audit Report had to be qualified accordingly. The related Council's reply to the Management Letter indicated that the Council had taken action during the financial period ending 31 December 2009 and had written off the inventories in question. Consequently, the entire amount of €48,223 has now been written off from the Financial Statements.

NAO noted that there is no formal procedure for Local Councils to follow when physical assets cannot be traced. In line with the General Financial Regulations, a documented course of action should be in place, and adopted, when physical inventory items are found missing.

The transfer of the value of Christmas Lights Decorations from Fixed Assets to Stock was done by the Council following the course of action suggested by the investigating team (minutes dated 4 June 2003). Nonetheless, the Council considered full write-off of the value of the item in question during the financial year 31 December 2009.

Floriana

LES amounts receivable of €12,817 for the period October to December 2009, LES money due from other Local

Councils totalling €24,802 and an amount of €11,784 due from LTD covering November and December 2009 were omitted from the accounts.

It is difficult to investigate properly the origins of LES income from other Local Councils unless the present global system is changed. This is due to the fact that a large number of Local Councils decline to send a copy of the deposit slip together with the respective detailed contraventions list paid. This is making it impossible to determine which contraventions were duly deposited in the Council's account. The present system followed by all Local Councils and Joint Committees does not provide practical ways of obtaining assurance on LES income and debts recorded in the Financial Statements.

A bank guarantee for €34,940, paid in favour of MEPA in 2002 for works commenced in Sir Luigi Preziosi garden, was not yet released even though the work was completed in October 2003.

MEPA informed the Council that this bank guarantee is in the process of being released.

The Local Council entered into a twinning agreement with Macerata in Italy where the Council spent €4,655 when it made use of a local music band's service. According to the Local Councils (Twinning) Regulations 2009, the Council should allocate and expend no more than €3,500 or 0.5% of the financial allocation for that financial year, whichever is the highest, for all activities related to the twinning.

The Council does not agree with the interpretation of LGA. Although the band performed in Macerata, which is the twinned city of Floriana, this does not mean that this expenditure should have been part of the financial allocation stipulated by Legal Notice 144 of 2009. This visit was part of an EU funded project (Europe for Citizens), whereby Floriana's band, together with other bands from other foreign localities, was invited to perform in Macerata. A refusal to such invitation would have left remarkable negative effects on the relationship with the twinned city. Furthermore, this was an important occasion for the locality and for Malta to expose its talents in a foreign country.

Fgura

The Local Council promoted one of its employees to the maximum of Scale 11. However, it failed to follow the procedures in the Council's Clerical Employees Collective Agreement 2006 – 2010. An internal call for application (in terms of Article 14) was not issued. Furthermore, the foregoing employee did not hold the minimum qualifications or three years experience required in terms of Article 8 of the said agreement. The promotion was also given to the maximum of Scale 11 when Article 9

stipulates that a promoted employee is placed to be at two notches below the maximum of the new scale.

The employee was promoted to Scale 11 following a recommendation by the Deputy Executive Secretary and Council approval. It must be noted that Article 8 of the Collective Agreement governing clerical staff, which forms part of the basis of this recommendation, merely states the qualifications or experience necessary to qualify for particular grades. Promotions and filling of vacancies are regulated by Article 14 of the same Collective Agreement. This clearly states that all vacancies and promotions shall be filled following an internal call issued by the same Council.

The Local Council opened two fixed-term bank accounts, whose aggregate deposit amounted to €600,000, without prior Council approval.

This matter was included in an Interim Operations Review report prepared by the Executive Secretary, which is currently being evaluated by the DLG. The Executive Secretary confirmed that the money deposited was not recorded in the Council's minutes.

Ghajnsielem

The Local Council exceeded the budgeted expenditure for Professional Services by €12,796 and Community and Hospitality by €12,921.

The Council does not agree with LGA on the Professional Services over-expenditure since the budget was around €11,000 after audit adjustments. The over-expenditure on Community and Hospitality was mostly due to the expenditure on the Bethlehem project.

Gharb

The Local Council exceeded the budgeted expenditure for Community and Hospitality by €20,717, Contractual Services by €13,020 and Repair and Upkeep by €6,676.

LGA's recommendation as regards revision of budgets was favourably noted.

Gharghur

The FAR was not maintained in the appropriate manner in case of Property, Plant and Equipment, while the respective amounts did not agree to the Nominal Ledger. A number of variances were noted – the cost and the NBV in the FAR were overstated by €5,422 and €93,597 respectively, while depreciation in FAR was understated by €88,175. Furthermore, additions in the FAR were overstated by

€10,704 when compared to those disclosed in the Financial Statements.

The FAR will be revised during the coming year in order to rectify the discrepancies and implement the various recommendations highlighted by LGA.

Ghasri

The total accumulated depreciation in the FAR was lower than the figure in the Financial Statements by €111,674, while the NBV in the FAR exceeded that in the Financial Statements by €109,363.

The FAR does not agree with the Nominal Ledger due to adjustments passed by LGAs in previous years. In such cases, the FAR needs to be reconstructed afresh in order for such adjustments to agree with the depreciation and NBV figures in the Nominal Ledger. A reconciliation exercise has to be carried out in order to identify and correct the differences.

Gudja

Trade payables included a long overdue balance of €24,100 payable to a private company with respect to *Ta' Xlejli* project. This related to a claim by the Local Council's architect stating that the supplier's bill of quantities was in excess of what was performed at the time. Consequently, the supplier instituted legal proceedings against the Council due to a dispute over actual work performed.

The Council is claiming that the amount of €24,100 requested is exaggerated, if at all due. This is now being disputed in court. The Council is following this matter very closely so as to reflect the outcome of this court decision, since at present, the Court is still dealing with the preliminary pleas. Any final Court decision will be reflected in the accounts.

According to the Local Council's budget, the Council is anticipating a capital expenditure of €44,000 comprising construction of €30,000, urban improvements of €12,000 and equipment amounting to €2,000. However, these did not agree with the disclosure in the Financial Statements, which show a total capital commitment of €166,001.

The capital commitments of the Council reported in the Financial Statements were in line with the Council's original budget. The original budget was eventually revised in line with the actual Government allocation and was adjusted to include construction of €140,000, improvements of €12,000, and equipment of €2,000. Unfortunately, the Council was overcome by events and the adjustment in the Financial Statements was not made.

Since November 2008, the Local Council discharged all its functions pertaining to LES to the Żejtun Joint Committee. The Council accrued for €31,963 LES Income Receivable for the period July to December 2009, as per estimates produced by the Joint Committee. Since the audited Financial Statements of the Joint Committee were not received by the Local Council, verification of income proved difficult, apart from the €21,497 which were actually received in December 2009 (of which €13,446 related to last year whereby the comparative figures were restated).

The Council accurately recognised the income accruing from the LES basing the amount on the monthly management accounts of the Joint Committee, since the accounting is on the accruals concept. This entailed that, as at 31 December 2009, the amount of €31,963 was still accrued. In LGA's opinion, these monthly management accounts were not reliable enough and 'were unable to verify the income'. The members of the Council attend the Joint Committee meetings and receive the Joint Committee's management accounts on a regular basis. The fact that the Joint Committee did not provide a set of audited accounts should not imply that an irregularity was made by the Council. In line with the accounting policies for Local Councils, the Council accounted for the accrued income. Given the circumstances, the Council has agreed with LGA's reversal of this income. The Council has been asking the Joint Committee for the audited accounts and will continue to do so until such time these audited accounts are in hand. Any pressure from the official side and higher authorities to solve this matter will be appreciated by the Council.

Hamrun

The Council did not obtain supplier statements as required by standing instructions from DLG, to ensure completeness of all invoices. LGA noted a difference of €22,096 relating to two suppliers when reconciling the amounts as per invoice with those as per payables' list.

The Council will do its best to obtain statements from all suppliers at year-end.

No record was kept for LES contraventions collected by the LCA, the LTD and other Local Councils on behalf of Hamrun Local Council. Thus, the figure for Amounts Receivable from LES can be misstated.

The LES Income as per service provider report amounted to €176,201, while the income posted in the Nominal Ledger totalled €271,072. This resulted in a discrepancy of €94,871.

Further investigation revealed that the opening balance of LES Tribunal pending payments at the beginning of the year was understated by €70,328 when compared to the relevant LES report. This error resulted in an understated

revenue figure for the prior year, together with an understated deferred income figure for the current year.

The Local Council is eagerly waiting the reform in LES, which is to include an enhanced accounting system. This will assist the Council in monitoring and reconciling all contraventions due.

Isla

In the previous year, the Council did not account for the cost of a 5-a-side synthetic football pitch turf which amounted to €23,294. Therefore, Property, Plant and Equipment were understated, while Receivables were overstated. Furthermore, the Local Council was urged to obtain a copy of the audited Financial Statements of the management and administration of '31 ta' Mejju 1981' 5-a-side Synthetic Football Ground, since this was not yet provided to the Council.

For the year ending 31 December 2010, the Council will ensure that the Senglea Nursery accounts have been checked and certified by a qualified accountant.

The reconciliation between the FAR and Nominal Ledger did not agree as at 31 December 2009. Cost and NBV in the FAR were overstated by €11,398 and €14,539 respectively, while depreciation was understated by €3,141.

The overstated cost in FAR refers to the Synthetic Football Ground since at year-end, adjustments were passed in the supplier's account to reflect the work as per architect's valuation. During 2010, the necessary adjustments will be made for the FAR to reconcile with the Nominal Ledger.

The Local Council entered into a twinning agreement with Cassino Local Council in Italy. The Isla Local Council has expended more than €9,694 in activities in connection with this agreement. However, expenditure relating to twinning should not have exceeded €3,500 or 0.5% of the financial allocation of the Local Council for that year, whichever is higher, as per the Local Council (Twinning) Regulations, 2009.

This situation arose since the Council of Cassino were also part of the town twinning citizens' meeting. Such meeting was originally planned for July-August 2009 but due to lack of other participating countries they had to postpone the meeting to October-November 2009. Cassino participants had already purchased flight tickets, thus the Council had to hold an English Language Course and other activities for such delegation. The DLG was notified.

Kirkop

The Council's budget is anticipating capital expenditure of €90,000 for 2010. On the other hand, disclosure in the

Financial Statements shows a total capital commitment of €158,430. LGA recommends that the Council reconciles such variances so that the Financial Statements and the Annual Budget truly reflect the Council's future capital commitments.

The Council noted the instructions made by LGA and will adhere to them.

Lija

The NBV as per FAR amounted to €319,241, while that as per accounting records amounted to €285,896. The difference of €33,345 related to Office Furniture and Fittings, Office Equipment, Urban Improvements and Construction Works.

Although the Council acknowledges that there are discrepancies between the FAR and the Nominal Ledger, this has arisen due to adjustments that the previous LGAs had proposed and with which the Council complied. Due to the nature of the FAR software in use, these adjustments could not be reflected in the register. Also, the depreciation adjustments that were previously proposed were aggregate adjustments and not item-specific so it is difficult to pinpoint which assets need to be adjusted.

Luqa

LGA noted that a balance of €21,981 owing to a supplier has been outstanding for more than six years.

The balance mentioned relates to an amount which will not be paid until the respective works are carried out properly.

The Property, Plant and Equipment's NBV as per FAR differs from the figure in the accounting records, recorded as €747,278 and €561,233 respectively.

The Property, Plant and Equipment of the Council are recorded as suggested by LGA in the Management Letter. The discrepancies between the FAR and Nominal Ledger could have been caused by audit adjustments made by previous LGAs over the years, with these being passed only in the Nominal Ledger. The FAR will be looked into and the necessary adjustments made to reconcile the FAR with the Nominal Ledger.

Marsascala

The audit revealed instances where funds collected from particular social events were not being received at the Council's premises but were directly received by helpers. It also transpired that during the period under review a particular helper incidentally misplaced the money

collected and by the time of the audit visit, this issue was still unresolved.

The Council will endeavour to ensure that funds collected from social events will be collected by Local Council personnel and receipts issued thereon. This will eliminate the possibility of misplaced money. Moreover, the Council has already informed the Organising Committee to seek a method to refund the Council for any misplaced money.

The Local Council entered into a twinning agreement with the Qala Local Council, with the Council expending more than €5,000 in activities in connection with this agreement, when the maximum allowable expenditure in such cases is €3,500.

The Council will seek to keep accurate records on twinning expenses since apart from expenditure, the Council should also associate the income related with twinning and sponsorships. For example, in the case of an EU funded project, the Council should state that it has applied and been accepted for EU funding and should also mention the co-financing application.

Marsaxlokk

During the period under review, the Council entered into a seven-year agreement with a local football club for the renting of the football ground. This agreement commenced on 1 October 2009 for a total rental charge of €16,400 for the seven years. The Council paid all the €16,400 in advance on signing of the agreement and although the prepayment accounting was done correctly, however LGA highlighted a number of issues which were not in accordance with Local Council Regulations. No call for quotations or tender offer was issued, even though the amount exceeded €1,165. Furthermore, in terms of the Local Councils (Financial) Procedures, 1996 rent cannot be prepaid for more than one year and therefore, the Council's agreement in this case may be in conflict with such regulations. Also, the Council should not have entered such an agreement for longer than three years, being the standard period which normally binds a Council in any contract. LGA was sceptical of the value derived from such a long-term agreement as well as from the nature of the service being provided. The audit firm in question is of the opinion that the substance of such an agreement is a donation in kind, provided by the Council to the football club.

The main reason for the agreement with the football club was to promote sports in the locality especially for persons under 18 years of age. A tender could not be issued since there is only one football club in the locality. The advance payment was made in order to achieve the best price for this facility.

Upon reconciliation of the FAR with the Nominal Ledger, it transpired that the former's NBV is overstated by €167,626.

A reconciliation exercise will be carried out whereby the FAR will be brought in line with the Nominal Ledger and assets that no longer exist will be written off as disposals.

A balance of €12,854 is long overdue by the Council to an architect. This balance is being disputed by the Council and in fact the payable has not chased the Council for payment.

The Council did not submit a reply.

Mdina

The Council has been providing for office rent since 1994 in its accounts, even though there is no rental agreement in place with any entity or Department. This rental expense was never paid and has to date accumulated an accrual of €35,766.

This is rather a complex issue. Matters became complicated when the premises allocated to the Council were passed on to Heritage Malta. The original arrangement has been made with the Department of Museums. The Council shall discuss this matter and proceed to try and find an adequate solution. The Council shall however continue to provide for an accrual in its accounts until the matter is solved.

Capital commitments amounting to €72,800 were not disclosed in the Notes to the Financial Statements for the period ended 31 December 2009.

The Council shall in future disclose all capital commitments in accordance with IAS 16.

Mellieħa

The Local Council is recording €18,574 as gross LES pre-pooling Receivables and also providing €13,217 as Doubtful Debts. On the other hand, the amount due according to the 'Summary of Tribunal pending payments' is €16,688, thus resulting in a difference of €1,886.

The Council did not submit a reply.

The Local Council did not always issue receipts in respect of income received, particularly when the source was from a Government entity or Department. The income included funds amounting to €4,500 for the *Skema Attivita Kulturali* and a donation of €1,644 for Puttinu Cares.

It should be assured that the Council issues receipts

at all times except when the funds come directly from the DLG. In this context, the Council will follow LGA's recommendations and will start issuing receipts to the DLG as well. With respect to the money collected on account of 'Donation for Puttinu Cares', this was an exceptional case and no receipt was issued because the funds were collected spontaneously during an activity organised by the Council. These funds were forwarded to the Council by the helper in question so that the cheque could be issued to the charitable institution accordingly.

The Local Council hired the service of a foreign supplier for the provision of musical entertainment. Article 73 of the Income Tax Act stipulates that any payments made by a Maltese person to a non-resident in return for services rendered in Malta should entail a deduction of withholding tax. This will eventually be forwarded to the IRD.

Indeed this was the first time that the Council hired the services of a foreign service-provider. The Local Council Procedures do not refer to the point highlighted by LGA. Nonetheless, the Council would be referring to LGA's recommendation for similar future transactions.

Mgarr

Variances between the FAR and the Nominal Ledger resulted in an understated cost and depreciation figures of €5,295 and €406,210 respectively. On the other hand, the NBV was overstated by €401,096, with the Council providing no explanation as to why the difference in the NBV does not add up to the differences in the cost and depreciation.

LGA was not provided with the depreciation calculations made by the Council. Testing by the former concluded that the Council took a full year's depreciation rather than a nine-month depreciation figure. Consequently, depreciation for the period under review was overstated by approximately €12,000.

The Council has capital commitments amounting to €222,787, as detailed in the Annual Budget for the financial year ending 2010, but disclosure to this effect was not made in the Financial Statements.

The Council did not submit a reply.

Mosta

The Council withholds a deposit upon application for permits by any individual or body corporate. These deposits are refunded back if the respective site is left in good condition when heavy machinery such as tower cranes and similar equipment are used. Although records

are kept, these indicate that the balance due by the Council to applicants at the end of the year amounted to €32,021 while the corresponding liability in the Nominal Ledger was €27,899. It was also noted that the amount featuring as bank balance in the respective bank account where the foregoing deposits are held was €27,484, i.e. €4,537 short when compared to the records being maintained.

The point made by LGA was noted.

LGA was not provided with adequate documentation to verify Payables amounting to €277,328 featuring in the Financial Statements. Moreover, the Council did not perform monthly payables' reconciliations. Negative balances on the aged payables' list were also noted.

The Council will go through the payables and accruals lists and ensure that all payables are reconciled. Also, it will seek monthly statements in order to be able to reconcile the amounts due.

The Financial Statements recognised the amount of €197,992 as Other Receivables. However documentation to substantiate this figure was not provided.

The point made by LGA was noted.

An amount of accrued income, which should have been accounted for, was not recognised in the period under review. Also, no supporting documentation was provided for the full amount of accrued income totalling to €176,566, disclosed in the Financial Statements.

The Council shall see that proper accounting adjustments in respect of accrued income are carried out at period-end and that all amounts disclosed are supported by appropriate documentation.

Since the Council transferred the administration of the football ground 'Tal-Għajba' in the hands of the Mosta Football Club in prior years, the latter were required to prepare audited annual Financial Statements. However, the Council was neither provided with these accounts nor with a transfer agreement. The latter shortcoming was also mentioned in last year's Management Letter.

The Council will do its utmost to obtain a copy of the transfer agreement and also to ensure that the Mosta Football Club adheres to the conditions laid out in the same agreement.

The Council recognised the amount of €12,808 as stock of books and maps. However, the amount was calculated using the selling price of each respective item rather than the cost price, thus current assets have been inflated accordingly.

The Council will follow the suggestion offered by LGA to be in line with IAS 2, in that, it will value its stocks at purchase price and other attributable direct costs.

No supporting documentation and explanations were given with respect to 'rents due to lands' amounting to €13,370. This amount was brought forward from previous years.

From an analysis of the Payables as at 31 December 2009, it transpired that 85% of the total payables, amounting to €273,922, were long overdue. The Council had a garnishee order where all of its bank accounts were blocked, thus it had to postpone payments for some time. The Council is to check the amounts due and either make the necessary payments or else writes off the balances according to each circumstance.

The Council did not submit a reply.

Msida

The LES Provision for Doubtful Debts as per accounts amounted to €285,000. However, receivables older than two years amounted to €233,425. If the overprovision of €51,575 was not recognised in the Financial Statements, the Council would have ended up with a positive Income and Expenditure situation of €30,171, while FSI would have improved from 0.51% to 18.4%.

The Council did not submit a reply.

Munxar

The unspent balance of €2,854 in the Special Needs Funds, relating to Xlendi Beach Facilities, should be paid back to Central Government since the project was completed years ago. The Nominal Ledger should be adjusted accordingly.

The Council did not submit a reply.

The Council received €40,000 by way of Special Needs Funds for the replacement and maintenance of lamp posts at Xlendi Bay. The amount was erroneously credited to income, in its entirety, when it should have been treated as a grant received and a portion of this amount released each year in line with the amount of depreciation.

The funds were received to be spent for extra cleaning and maintenance services during the tourist influx at Xlendi Bay in summer. In fact, that is how the funds were spent.

The Munxar playing field, which is still under construction, is included in the FAR at €85,439. This method of capitalisation of the asset before it is complete is deemed inappropriate, since the asset is being depreciated even though it is not yet ready.

The Munxar playing field project will be reclassified as an asset under construction.

The procurement of service for the restoration works carried out at Xlendi flour mill, which expenditure amounted to €10,068, was not obtained through a public call for tenders as required by standing regulations but only through quotations from different suppliers.

Restoration works at Xlendi flour mill are being done by contractors who sent their quotes after the Council published a request on a local newspaper on 11 March 2009.

Nadur

Total accumulated depreciation in the FAR amounted to €399,755 while the figure in the Financial Statements was €586,495, resulting in a difference of €186,740. The NBV in the FAR of €450,830 exceeds that disclosed in the Financial Statements by €10,379.

It must be noted that when depreciation adjustments are made by LGA, the accounting software does not allow for this in the FAR. Thus the FAR and the Nominal Ledger will not match.

Accrued costs amounting to €7,644 were not recorded at year-end. If these had to be accrued for, the Council would have ended up with an FSI below the established limit.

Contrary to the comments made by LGA, the Council had accrued for street lighting, as well as water and electricity. Some of the other accrued costs were not posted, but this was an oversight from the Council.

Naxxar

The Audit Report of the Naxxar Local Council had to be qualified, since LGA found no practical ways of obtaining reasonable assurance that all the Trade and Other Payables recorded in the Financial Statements were not materially misstated. From testing carried out, which was based on a sample basis, the following shortcomings were encountered:

- The list of payables included negative balances due to missing invoices.
- Certain amounts featured as still payable in the payables' list, when the Council believes that these were paid in the period under review.

Note has been taken on the comment made. Action has already been taken to make the necessary adjustments, as well as to control future entries.

Variances between the FAR and the Nominal Ledger resulted in an understated cost and depreciation figures of €258,930 and €373,808 respectively in the Financial Statements. On the other hand, the NBV was overstated by €115,212.

The point raised was noted.

Trade Receivables amounting to €60,760 (i.e. 93% of the total amount due) were more than one year overdue. Following further analysis by LGA, it transpired that €25,409 of the foregoing amount is being contested in Court, while €31,891 should eventually be received following confirmation of the work undertaken by MEPA. The remaining amount was analysed and a further €27,242 was recognised in Provision for Doubtful Debts after writing off €806.

The Council took note and will be taking action accordingly.

Pieta'

Despite that reconciliations between LES reports and the accounting system were prepared on a regular basis, the revenue figure reported in the Financial Statements was overstated by €10,770 when compared to the relevant reports generated from the LES.

The Council did not submit a reply.

Qala

The accumulated depreciation in the FAR differed from that reported in the Financial Statements by €186,740. However this is not in line with the variance in the NBV, where the figure in the FAR exceeds that disclosed in the Financial Statements by €10,379.

The Council stated that the FAR on the Sage software agrees with the Nominal Ledger found on this same software. The Local Council also reviewed the cost totals of each fixed asset category in the FAR against those in the Nominal Ledger and these agreed. Postings to the appropriate depreciation accounts are made by month end in Sage. The total accumulated depreciation in the FAR does not agree with the accumulated depreciation in the Nominal Ledger since in previous years, LGAs have made adjustments to depreciation in the Nominal Ledger. When such adjustments are made, the FAR needs to be reconstructed completely in order to agree with the adjustments made to the depreciation, and consequently the NBV of the assets.

The Council exceeded the budgeted expenditure for Community and Hospitality, Repair and Upkeep and

Contracting Services by €10,836, €4,659 and €2,662 respectively.

With respect to differences between actual and budgeted expenditure, this was constituted by the cash flow situation of the Local Council during this financial year. The Council understands the point mentioned by LGA and has taken note of the comments.

Qrendi

The Local Council has a contracted mobile telephone line which is utilised by the Mayor. Furthermore, up to September 2009, the Council was still providing top-up vouchers to the Councillors. Such payments are not permitted under Local Councils Regulations.

The Mayor utilises this mobile strictly on Council-related issues and all expenses are verified by the Council's Finance Committee. As regards the purchase of top-up vouchers that were being utilised by Councillors, this was decided unanimously in a Local Council's meeting in order to compensate for telephone calls made by the Councillors who serve on the Council on a completely voluntarily basis. These top-up vouchers were last given to Councillors on September 2009 and therefore stopped as a result of the Local Councils Reform which came into force as from January 2010.

A tender, for a total value of €6,644, was awarded to a private company providing cleaning and clearing of non-urban roads. The contract entered into was extended for another year, despite a clause in the original agreement of 2006 stating that the contract is only extendable from October 2007 to October 2008.

The Local Council did not disclose its capital commitments amounting to €132,500 in the Financial Statements.

The Council did not submit a reply.

Rabat (Gozo)

The list of Accrued Receivables included a material amount of €38,636 receivable from MEPA. However, this was only based on an unofficial draft document dated 27 May 2009, which was neither signed by the Council nor by MEPA Officials.

The contract regarding UIF for the amount of €38,636 will be soon signed. This was not done before because of tight schedules of the Council and MEPA.

The Local Council did not provide for LES Doubtful Receivables amounting to €76,312, which have been outstanding for more than two years. This means that the

Receivables from LES are overstated by the amount in question.

The Council did not submit a reply.

The Local Council kept receiving invoices relating to 2009 during the first months after year-end. These invoices, which totalled to €117,007, were neither taken up in the payables' ledger nor accrued for. Out of the foregoing amount, €81,134 related to suppliers' invoices not booked, while €35,873 were not provided for by way of accruals. Expenses were thus materially understated.

Had these invoices, together with the recognition of the Provision for Doubtful Debts been made, the Council would have registered a deficit of €193,319 in the Statement of Income and Expenditure. Furthermore, this would have resulted in a worse financial situation with a negative Working Capital of €266,360 and a negative FSI of 82.37%.

The amounts referred to by LGA were substantially overstated. Correspondence was exchanged between the Council and LGA about these balances, wherein it was stated that some of the suppliers' invoices and accruals were already posted in Sage.

Depreciation (inclusive of grants) in the Financial Statements was overstated by €428,336 when compared to the figures disclosed in the FAR. On the other hand, the figure for NBV in the Financial Statements was understated by €419,726 in comparison to the FAR.

Sage accounting package encountered a technical problem in the FAR which up to the presentation of records for audit purposes was not solved by the Sage officials. Efforts will be made so that this technical problem will solve the reconciliation problem between the FAR and the Nominal Ledger.

Safi

Following further investigations carried out with respect to the misappropriation of funds by the Executive Secretary in November 2008, it transpired that additional funds amounting to €38,604 were misappropriated between January 2004 and December 2006. This amount is to be paid over a two-year period commencing from 1 November 2009 up to 31 October 2011 at an interest rate of 4%, bringing the balance to €40,213. It was agreed that payment will be done at equal monthly instalments of €1,676.

During the period under review, the Council paid €63,659 to a private company for road patching works carried out. However, procurement regulations for this services were not adhered to, since a call for tender was not issued.

The Council provides the Mayor with a fixed mobile plan, whereby monthly bills were paid entirely by the Council. This payment is not permitted under Local Councils Regulations.

The Council did not disclose its capital commitments in the Financial Statements amounting to €65,387 on special programmes and €6,800 on urban improvements.

The Council did not submit a reply.

San Ġiljan

The NBV as per FAR amounted to €931,218 while that as per accounting records amounted to €379,201, resulting in a difference of €522,017.

The Council will endeavour to update the FAR and to ensure that in future more details are given.

In addition, depreciation was calculated automatically by the accounting software. However, upon rechecking the reasonableness of the charge, a material difference of over €67,000 arose.

It also acknowledges that depreciation is being computed automatically.

No explanation was available to clarify the differences between the amounts accrued and those received as per agreements from MEPA in October 2008 for two projects amounting to €49,965 and €6,237 respectively.

The Council received a second instalment of €91,839 in respect of one of the projects mentioned above. This was erroneously recognised as income in its entirety during the current period, when only €9,184 should have been transferred to the Statement of Income and Expenditure. The remaining balance should have been included in the Statement of Affairs under Deferred Income. Thus, had this been properly accounted for, the Council would have closed its financial year with a surplus of only €574.

The Local Council reimburses, on a regular basis, Councillors and Council employees, for mobile calls and fuel costs that are deemed to have been incurred in the performance of their duties.

As from 2010, Council members' reimbursements are no longer applicable. In the case of the Executive Secretary, there is the Council decision taken on 6 December 2005 (Min ref.10/K5/05) for a fixed rate of €186.35 per quarter which is still applicable.

The anticipated capital expenditure of the Council as per budget which amounted to €18,060, does not correspond to the figure of €110,000 shown in the Financial Statements.

Point was noted.

Donations made by the Council amounted to €3,531. These included a wedding gift to a clerk amounting to €233, while the balance was donated to six Non-Government Organisations (NGOs) not approved under the Eight Schedule of the Local Councils Act.

The list of expenses listed in the Management Letter is not donations at all. In fact, the Council went through the accounts and the individual postings, and none were posted to donations.

San Lawrenz

The Local Council did not account for invoices amounting to €7,618 for the period February 2008 to December 2009 owing to a Government Department. The Council claimed that this amount is in dispute. However, the Financial Statements did not include a note to this effect.

The Council did not submit a reply.

San Pawl il-Baħar

Upon reconciling the FAR with the Nominal Ledger, the cost and the NBV as recorded in the FAR were overstated by €14,295 and €246,585 respectively. On the other hand, grants and depreciation were understated by €232,290.

These understatements refer to adjustments which were carried out during the audit process. They concerned Assets Not Yet Capitalised, therefore the depreciation charge for the year was not affected by these changes.

A tender was awarded to an NGO for the service of maintenance of public conveniences situated around the locality. Although the Local Councils (Tendering & Financial) Procedures, 1996 are silent on whether a Local Council can award a contract to a voluntary organisation, the following observations were still noted:

- The voluntary organisation is governed by the provisions of Article 38 of the Voluntary Organisations Act, 2007. This article specifically states that voluntary organisations shall not be established for trading purposes, such as in the case of managing a tender of this magnitude.
- When the tender document was made available for sale to the public, the specific conditions instructed potential bidders that the Council's budget should not exceed €18,169. However, during the period between publication date and closing date (which was shorter than one month), a letter was sent by the Council to all potential bidders who bought the tender document, stating that the Council's budget was revised to €40,000.

- The specific conditions of the tender document did not request bidders to present their intended work plan to execute the contract in question.

This matter was referred to DLG and will hopefully be settled by 31 December 2010.

The Council's public convenience project, including the capitalisation of professional fees, cost €261,978. This project was partly financed by the UIF for a total of €105,055, while the Council forked out the remaining balance. The latter decided to complete this project by utilising the current suppliers holding the contract 'Upkeep and maintenance of footpaths'. The said contract in itself covers a variety of services. However, assignments were not covered by the foregoing contract. Consequently, the Council was expected to issue a separate tender especially in view of the large-scale project.

Moreover, the same contractor is instituting legal action against the Council for deducting an amount equivalent to 5% from the gross value of works measured, representing management fees as stipulated by Clause 9 of the specific conditions of the contract. This fee was to be used by the Council to manage the contract and under no circumstances was this sum to be passed on to the contractor entrusted with the provision of the service. The Council has already accrued the amount of €13,205 as a potential liability in favour of the contractor.

For such large scale projects, the Council will issue separate tenders in the future. With regards to the 5% management fee deduction, this matter has also been referred to the DLG and is now settled with the intervention of the Director General of the DLG.

Santa Lucija

The Local Council provided the Mayor and the Executive Secretary with a mobile telephone line with the monthly bills being paid entirely by the Council. This expenditure is not allowed by Local Councils Regulations.

The Council noted the recommendations made by LGA regarding the mobile phones.

Santa Venera

The Local Council has a long overdue balance of €6,813 with a Government Department since works carried out on the aqueducts by the latter were not approved by the Council. The two parties are liaising to reach a compromise. The Local Council is willing to pay the full amount if the Department carries out the necessary repairs and maintenance works on the aqueducts.

A new tender regarding the 'Opening, Closing and Cleaning of Public Convenience' was awarded to the second most expensive offer out of six received. The awarding was solely based on satisfactory performance in the past.

The Council did not submit a reply.

Siggiewi

Income from LES was not always deposited in the bank account specifically created for contravention deposits but in the Council's Savings Account. Moreover, a reconciliation in respect of LES Income was not being prepared. The Council does not prepare a 'bank deposit sheet' which identifies income actually deposited into the bank, as required by the applicable procedures. Consequently, testing on income from LES, as well as that received under General Income, was very limited. In fact, LGA was unable to determine whether such income was deposited intact and on a regular basis.

The Council is effectively part of the Central Joint Committee and such reporting is conducted by the same organisation. Hence the Council is not able to reconcile all Income and Receivables under this system.

On request, the Council distributes mobile top-up cards to its members, as reimbursement of mobile call expenditure that is deemed to have been incurred in the performance of Council-related duties. No reimbursement claim forms are being filled by the person receiving the reimbursement. Furthermore, the Council provides the Mayor and the Executive Secretary with a fixed mobile plan, paid entirely by the Council.

This procedure has been immediately rectified and all reimbursements to the Mayor and Councillors have been stopped to reflect the direction coming from the DLG.

The Council is not recognising LES Payables representing paid contraventions where the place of incident is not Siggiewi, and which have not been remitted to the respective Local Councils by the end of the year. Failure to recognise such amounts is not giving a clear picture of the amounts owed by the Council as at 31 December 2009.

Unrecorded transactions in both the payables' list and Nominal Ledger resulted in an unreconciled net difference of €9,335.

The Council cannot understand how LGA arrived to this difference since from its record, the balance of payables within the Trial Balance amounts to €128,412 and the balance within the aged payables's reports for the same period give the same balance.

The Council did not provide any disclosures for its capital commitments in the Financial Statements, which are anticipated to include €115,000 relating to Road Resurfacing and €100,000 to Improvements to Property.

The Council did not submit a reply.

A significant expenditure of €4,361 *per annum* is being incurred by the Council to finance a Health Insurance Scheme for six members of the Council, the Executive Secretary and two clerks.

The Council has been following the procedure for nearly ten years and was never informed that it was breaking any rules or procedures.

The Council issued a call for tenders for maintenance and construction of pavements. The tender was awarded to a contractor who had already carried out works for the Council, on the basis that this offer was the second cheapest and the quality of work had always been satisfactory. Furthermore, the performance bond as specifically requested by the applicable rules has not been extended. LGA recommended that the Council is to terminate the contract with the supplier so that it complies with the relevant Local Council procedures.

This particular contractor was advised several times, both verbally and in writing, and following his non-compliance, the Council terminated the contract and issued another tender, weeks before the publication of the Auditor's Report.

Sliema

The Local Council offered a sponsorship to a sports club in Sliema for the installation of metal nets amounting to €1,609. This amount was included under Expenses for Community Services rather than Donations. Further donations amounting to €1,165 were made to a band club. The organisations benefiting from such donations do not form part of the NGOs included in the Eight Schedule of the Local Councils Act.

The amount of €1,609 highlighted by LGA is not a donation to the club. The funds were paid to assist in the installation of protective metal nets against the infestation of jelly fish which invaded the Maltese seas during summer. The actual expenditure incurred by the Club exceeded €1,609, but the Council felt that it could finance a small part of it through its budget for maintenance and cleaning of beaches. The Council feels that it should contribute to the well-being of Sliema youths and therefore sees no breach of law in providing this assistance.

The Council has always been very diligent on how it distributes its resources. The amount of €1,165 paid to

the band club and to others in the locality is in return of vocal and musical concerts organised in the locality in collaboration with the Council. The Council does not have its own musical band and therefore it has to make use of the services offered by the local musical band clubs to enhance its cultural and social objectives.

There is a difference of approximately €15,000 between the depreciation calculated automatically by the accounting software and the reasonableness testing carried out by LGA. The Council has been advised to contact its service provider in this regard in order to avoid the repetition of such variances during the next financial year.

The FAR of the Council was reconstructed during the financial year ended 31 March 2002 and since then it had been kept up-to-date in the greatest detail possible. The depreciation rates applied to each FAR category are in line with the Local Council's (Finance) Procedures and the related memos. It is however true that the software was lately experiencing a technical fault in the month-end calculation-function of depreciation. The software suppliers have already been consulted about the issue. To date, no solution from their end was presented.

Swieqi

The Council awarded four days of sick leave to the person contracted to undertake clerical duties. This person was not entitled to paid sick leave or vacation leave since such benefits are only allowed for employees registered as Council employees.

The Council noted the comments of LGA with regards to sickness benefit awarded to the contract worker. This is a one-off commitment and therefore would not be repeated.

FAR, in support of the fixed assets owned by the Council, is not being maintained to enable control over capital expenditure.

The Council will be addressing this matter during the next financial year.

No disclosure for capital commitments, in respect of a major project of road resurfacing in Madliena, was made in the Financial Statements.

The Council will make efforts to report and note all projects approved but not yet commenced within the Notes to the Financial Statements.

Ta' Xbiex

Receivables outstanding for more than one year include €40,189 and €12,722 due from two private individuals

respectively. These receivables refused to pay the balance with respect to boundary wall permits. Since the Council has taken legal advice, no provision was made in the accounts.

The Council notes LGA's comments regarding the recoverability of the pending amounts due from contractors contravening a number of bye-laws. Nevertheless the Council stresses, and this has been duly reported to the Ministry concerned, that had it not been for the income recovered from the enforcement of such bye-laws, the Ta' Xbiex Local Council would have been running at a loss for the last five years or so, as the funds allocated from Central Government do not reflect the reality. The Council will be discussing before the end of the financial year 2010 whether to provide for doubtful debts.

As in the case of Swieqi, this Local Council did not maintain a FAR, risking in losing control over the Council's assets.

Point has been noted.

Tarxien

In 2002, the Council received a formal approval from the then Ministry for Justice and Local Government, for the participation in a Joint Venture with the local football club and a private limited company. This covered the management and operation of the '5-a-side football ground Kunsill Lokali Tarxien'. However, due to its negative financial situation, the Council is not abiding to one of the fundamental conditions laid down by the Ministry, stating that in order to participate in this Joint Venture, the Council should be in a decent financial position at all times.

The audited Financial Statements of the Joint Venture which are to be prepared on a six monthly basis are not being compiled. Thus, LGA could not obtain reasonable assurance on the value of the assets and liabilities arising from this Joint Venture.

The agreement contains no clear exit clause should the Council decide to withdraw from the Joint Venture. This matter poses a legal risk which might bring the Council into a negotiation deadlock situation.

The Council has accounted for the Joint Venture in its Financial Statements by using the equity method, giving the impression that the Joint Venture is being considered as a 'jointly controlled entity'. However, in view of the fact that the Joint Venture does not bear any legal title, LGA was of the opinion that it should not be classified as such but as 'jointly controlled asset'. Besides that the Council has not made the necessary disclosures as recommended by the same IAS 31 - 'Interests in Joint Ventures', a Joint Venture which is classified as a 'jointly controlled asset' requires different accounting treatment from the one being currently adopted by the Council.

The Council disagrees with the above comments, since:

- a) *the negative financial position was brought about by a number of exceptional instances;*
- b) *the Council is represented by two board members out of the total of four board members, whereby the Chairman, being a Council representative, has a casting vote; and*
- c) *in the Council's opinion, IAS 31 does not explicitly require an entity to be a 'legal person' to fall within the definition of an 'entity' and thus disagrees with the basis of LGA's qualification in the Audit Report.*

The Council closed its financial report for the period under review with an amount receivable from LES Tribunal pending tickets relating to pre-pooling period of €69,521. Against this amount, the Council has fully recognised a Provision for Doubtful Debts. However, from documentation produced by the Żejtun Joint Committee, it transpired that the amount due for the pre-pooling actually amounted to €84,880. This amount represents unpaid tickets as at 31 December 2004.

The Council did not feel it necessary to adjust the carrying amount of receivables to €84,880 and then contemporaneously write off any such adjustment through an impairment.

Capital commitments of €176,389 were approved for resurfacing and other projects. However these were not disclosed in the Financial Statements.

The Council noted and agreed with LGA's observation that a note disclosing capital commitments did not feature in the Financial Statements in accordance to IAS 16 – Plant, Property and Equipment.

Valetta

Adequate supporting documentation was not available for Travelling Expenditure (subsistence and accommodation expenditure) incurred by the Local Council on behalf of two Council members when travelling abroad.

The Council always informs Councillors attending conferences abroad that it is imperative to obtain all receipts and other documentation covering all expenses incurred.

The Council has a number of long outstanding amounts classified under Receivables, due from previous years. The major balance, owing from the DLG amounting to €7,724, was retained by the latter in connection with waste separation. No confirmation has been attained by the Council that this amount will be collected.

Part of the amount which is owed to the Council has been received during the month of April 2010.

The Financial Statements of the Valletta Local Council in their entirety suggest that the going concern assumption used in the preparation of these accounts is dependent on further sources of funds other than the annual financial allocation by Central Government. It is also dependant on the collection of debts due to the Council and on the continuous support of the Councils' payables. Any adverse change in either of these assumptions would not allow the Council to meet its financial obligations as they fall due without curtailing its future commitments.

Continuous monitoring of income and expenditure will guarantee that the Council will meet its financial obligations.

Xaghra

The Local Council received invoices relating to 2009 in 2010, however these were not included in the payables' ledger or accrued for, resulting in unrecorded liabilities. These amounted to €9,413 for Street Lighting, Performance Bonuses of €2,225 and Other Expenses totalling €706.

Although the Council chases certain suppliers for invoices, these are not sent in a timely manner, even though it is the intention of the Council to receive invoices in time especially those relating to contracts such as street lighting. The amount of performance bonuses approved by the Local Council was not yet known by 9 February 2010 when the Financial Statements were prepared.

Xewkija

The Local Council exceeded the budgeted expenditure for Repairs and Upkeep, Community and Hospitality and Contractual Services by €15,517, €4,914 and €3,796 respectively.

The Council agrees that it should be careful how much it spends and will pay attention that this does not happen again. However, it must be noted that in total, the Local Council did not reach the budget and in fact ended up with a positive balance, compared to prior year.

Żabbar

The Local Council has accounted for LES Receivables amounting to €325,180. However LGA noted that the Council is experiencing some difficulty with the collection of fines adjudicated in its favour by the Local Enforcement Tribunal. In fact, fines pending from 1 May 2000 to 31 December 2007 amounted to €221,342. Consequently,

Provision for Doubtful Debts older than two years should be increased by €171,180. Had the Council incorporated this provision in the Financial Statements, it would have ended up with a deficit of €194,482.

The Council was on more than one occasion promised by the LTD that it will be collecting the amounts due when the perpetrators settled their road licence. The matter has lingered for approximately 10 years, with no tangible result. The Council cannot be held responsible for the long outstanding amounts. Having said that, the Council will take up LGA's comment and update the provision for doubtful debts during 2010 even though this would mean a hefty hit on the Statement of Income and Expenditure.

A contingent liability at year-end in respect of a dispute with two suppliers, amounting to €49,012 and €2,264 respectively, was not disclosed in the Financial Statements.

The remark was noted and will be taken into account for the year 2010.

Żebbuġ (Gozo)

The Local Council exceeded the budgeted expenditure for Community and Hospitality by €56,543.

The Council did not submit a reply.

During the period under review, the Local Council started the process to install luminaries and demarcation boxes. The respective purchases, amounting to €23,397, were not accounted for. These should have been recorded as Assets under Construction.

These were not recorded in the accounting system since the system was only ordered but not purchased during the year.

While accumulated depreciation in the FAR amounted to €550,588, it featured as €631,324 in the Financial Statements. However, the resulting difference of €80,736 does not tally to the variance observed for the NBV in the Financial Statements. The latter exceeded the figure recorded in the FAR by €16,082.

The FAR will be revised by the accountant.

From the sample of expenditure selected, one of the expenses tested fell within the tendering procedures bracket, but no tenders were issued or quotations obtained. This included services rendered during the production of a musical event called 'Għernuqa' amounting to €13,225. Another expense was that for hiring of lighting and sound costing €4,655, which exceeded the limit for quotations and accordingly the Council should have issued a tender.

The Council is doing its best to fully abide to Tendering Procedures and Regulations.

Zurrieq

The Local Council is insuring the Council's buildings and Xarolla Windmill for €387,840. In the absence of a FAR, LGA was unable to determine the real NBV of these assets. The adequacy or otherwise of the corresponding insurance coverage also could not be verified.

The Council is going to ask for a quotation from the accountant and if the Council accepts the quote, then this issue will be tackled.

LES Receivables, outstanding for more than two years, amounted to €240,120, while the existing provision was only €59,572.

The Council did not submit a reply.

The Council had a number of long outstanding payables, totalling €52,154, which are in dispute.

The amount of €1,955 related to the Council's contract manager and was in dispute since the latter did not provide an adequate service. The amount has now been paid.

Amounts of €641, €8,755 and €16,297 were withheld due to disputes on the actual work performed. The Council's architect claimed that the suppliers' bills of quantities were in excess of what was actually performed.

With respect to a payable amounting to €24,506, in May 2009 the Council instituted legal proceedings against the supplier. This is consequent to the fact that the supplier charged the Council an amount above that agreed with the Council in the contract agreement for the collection and separation of household and commercial waste.

Local Councils' Association

The following are the main weaknesses outlined in the Management Letter raised by LGA addressed to the LCA.

Out of the audit sample, a payment exceeding €4,659 was not procured as required by Local Councils procedures, since the necessary call for tender was not issued. Furthermore, another payment whose value was between €1,165 and €4,659, was procured from the open market, though this required at least three quotations to be obtained.

The LCA is not aware that LGA requested copies of the relative quotations. These would have been furnished if requested.

The EU refunds the cost of air tickets incurred by the LCA for attending meetings held by the former. Income received during the year in respect of these refundable air tickets amounted to €124,672, while the payments made in this regard amounted to €128,400. Thus an amount of €3,728, which still has to be recouped, should have been accrued for in the Financial Statements.

The relevant issue has been noted and resolved.

LES online payments were accounted for in 'LES Receipts' account. When funds are distributed, these are posted in another account, namely 'LES Payments'. At year-end, the net balance between the two accounts resulted in a liability of €22,526, when in actual fact, the balance is expected to be 'Nil'.

The LCA noted LGA's remarks and in fact this was disclosed separately in the Notes to the Financial Statements.

Joint Committees

Background

Prior to 2002, enforcement in the locality fell exclusively within the competence of Local Councils. However, the management of the LES was assigned to Joint Committees upon their introduction in 2002. Today, Local Councils are grouped in nine Joint Committees. Thus, while Local Councils are responsible for the day-to-day management of Local Enforcement, such as to provide and maintain proper road signs and road markings in conformity with national and international standards, as well as to maintain parking areas, Joint Committees are in charge of the administration of the full system in general. This includes the monitoring of Local Wardens, administrative work in relation to contraventions issued and Local Tribunal sittings. The collection of money from offenders and the advancement of any profit made from the system to those Local Councils which form part of the Joint Committee also fall within their remit. Furthermore, Joint Committees are entrusted with the responsibility to monitor and chase outstanding LES Receivables under their responsibility which are increasing from one year to another, despite that no road licenses should be renewed if there are any pending payments in respect of fines and penalties inflicted by the Local Tribunal.

Following the Local Councils' Reform undertaken during 2009, the nine established Joint Committees are to be phased out and the concept of Regional Committees is to be introduced. The sixty-eight Local Councils are to be embraced into five Regional Committees, mainly the Gozo Region, the Northern Region, the Central Region, the South Eastern Region and the Southern Region, as laid down in the revised Local Councils Act. However, to ensure a

smooth running of the Regional Committees, these will initially be operated in parallel with Joint Committees.

The management of revenue collected from the LES is not harmonised. While the Joint Committees of Birkirkara, Mosta, Sliema and Żejtun form part of a pooling system on an individual basis, the Gozo Joint Committee only uses a part-pooling system. On the other hand, the other four Joint Committees namely Central, Fgura, Valletta and Żurrieq do not administer a pooling system at all.

Audited Financial Statements

The Financial Statements of the Joint Committees are audited by auditors appointed by the Joint Committees themselves and do not fall under the responsibility of NAO. Since to date no legislation is in place to regulate the submission of the Joint Committees' Financial Statements, as also reported upon in previous years, in the majority of cases, Joint Committees' Audit Reports were not available by the time the audit of the Local Councils was carried out. In fact, it was only during March 2010 that the audited Financial Statements, for the years ended 31 March 2008 and 31 March 2009, of Birkirkara, Mosta, Sliema, Żejtun, Central and Gozo, Joint Committees were received. These delays have contributed to a significant number of qualified Audit Reports of Local Councils who are expected to be provided with the respective audited Financial Statements as per pooling agreement.

Thus, LGAs had no other option than to issue a qualified Audit Report to the concerned Local Councils, on the basis that they were not in a position to express an opinion on

the completeness of LES Receivables and the respective Income to be received from the Joint Committee, as recorded in the Local Councils' Financial Statements.

It was noted that, against one of the fundamental principles of the applicable Code of Ethics, in the case of the Sliema, Żejtun and Central Joint Committees, the Financial Statements were being prepared and audited by the same individual, acting as both accountant and auditor of the three Joint Committees. Although primary bookkeeping entries may have been carried out by a separate individual, this practice still implies a threat to independence.

On the other hand, the Fgura, Żurrieq and Valletta Joint Committees, who do not operate a pooling system, did not submit their Financial Statements, therefore any shortcomings similar to the above could not be identified. The latter Joint Committee further explicitly declared that it does not prepare a set of Financial Statements.

DLG should perceive the reform from Joint Committees to Regional Committees as an opportunity to regularise the submission of the Financial Statements by making it mandatory for the audited Financial Statements to be prepared in a harmonised and timely manner by a stipulated date, ensuring that audited information required by Local Councils is made available on time.

Reconciliation between Local Enforcement System and Financial Statements

Following a reconciliation exercise undertaken by NAO, LES Tribunal pending payments, as accounted for by the

Table 6 – Reconciliation between Local Enforcement System and Financial Statements

Joint Committee	LES Report 622 – Tribunal Pending as downloaded from the data provider		Post-pooling tribunal pending payments as per audited Financial Statements		Discrepancy €
	Covering period	Pending payments €	As at	Gross LES Receivables €	
Birkirkara	1 Oct 02 – 31 Mar 08	870,145	31 Mar 08	930,249	(60,104)
	1 Oct 02 – 31 Mar 09	1,051,928	31 Mar 09	1,199,678	(147,750)
Gozo ⁹	1 Jul 02 – 31 Mar 08	214,350	31 Mar 08	244,836	(30,486)
	1 Jul 02 – 31 Mar 09	242,404	31 Mar 09	274,438	(32,034)
Lvant	1 Sep 02 – 31 Mar 08	1,779,959	31 Mar 08	1,856,539	(76,580)
	1 Sep 02 – 31 Mar 09	2,131,310	31 Mar 09	2,074,377	56,933
Tramuntana	1 Sep 02 – 31 Mar 08	1,188,281	31 Mar 08	1,349,030	(160,749)
	1 Sep 02 – 31 Mar 09	1,411,604	31 Mar 09	1,548,598	(136,994)
Żejtun	1 Jan 05 – 31 Mar 08	613,788	31 Mar 08	618,332	(4,544)
	1 Jan 05 – 31 Mar 09	833,531	31 Mar 09	827,443	6,088

⁹ All the Gozitan Local Councils, excluding Rabat, make part of the Gozo Joint Committee which falls under a part-pooling system.

Joint Committees in their audited Financial Statements for years ending 31 March 2008 and 31 March 2009, were reconciled to the LES Report 622 – Tribunal Pending, extracted from the official records of the service provider. The differences highlighted in Table 6, transpired. Joint Committees who do not administer a pooling system are not disclosed in the table.

The discrepancies highlighted in Table 6 were discussed with the entity providing the service and support requirements of the LES in April 2010. The company explained that to date, it operated a live system, meaning that this was being updated instantaneously with any effected transaction. Therefore, any relevant reports cannot be provided retrospectively as at any given date. Thus, changes and updates of past fines are immediately reflected in the balances and the system only provides an instant snapshot of the data. The minimum fine as detailed in the law is attached to all contraventions at the moment of issue. Subsequently, the fine may either remain the same, or it may increase if contested before the Tribunal, if found guilty, or if the Commissioner awards a fine higher than the minimum. On the other hand, it may decrease if it is successfully appealed before the Tribunal or before the board of petitions. However, the service provider stated that with the rewrite of LES software in 2010, the accrual accounting concept was introduced into the LES. This enhancement facilitates a proper ageing analysis of contraventions.

In the case of Birkirkara Joint Committee only, the gross amount still outstanding by LES offenders as stated in the audited Financial Statements as at 31 March 2008 and 31 March 2009 includes pre-pooling receivables of €69,727 and €175,307 respectively, when this figure was expected to remain the same. As stated by the auditor of the respective Joint Committee, these pre-pooling receivables resulted following the Joint Committee's decision, upon the setting up of the Committee, to take over LES debts and to pay Local Councils forming part of the Joint Committee, the amount they were owed from LES offenders. Thus, these amounts were recorded as Receivables in the Joint Committees' Financial Statements. However, upon querying the considerable increase in the pre-pooling Receivables from 2008 to 2009 with the auditor of the Joint Committee, the latter did not provide any reasonable justification in this respect. Notwithstanding this, the Joint Committee's Audit Reports were not qualified.

Department for Local Government

Preparation of the Local Councils' Financial Statements

Paragraph P2.01 of Legal Notice 328 of 2006, specifies that, *'The Act provides for the audit of Local Councils,*

entrusted to Certified Public Accountants with a certificate to practise as auditors. The Local Councils (Audit) Regulations issued in terms of the Act prescribe the audit requirements in accordance with the Act. These Procedures contain a specimen of the Financial Statements which Local Councils should adhere to as found in Appendix P2.I. In the case where such specimen is not in conformity with the IFRSs which may come into force from time to time and effecting Local Councils, the IFRSs should prevail'.

Notwithstanding the above, due to the fact that the Local Councils (Audit) Procedures, 2006 are now outdated *vis-à-vis* IFRSs and since it is not feasible to change the specimen every time there is a change in these standards, DLG was advised to instruct Local Councils that as from 1 January 2010, Financial Statements have to be prepared in all respect in accordance with IFRSs, so as to be fully compliant with the above clause. This should avoid an audit qualification in this regard, since all the sixty-four Local Councils, which have submitted their Financial Statements for the period 1 April 2009 to 31 December 2009, have been issued a qualified audit opinion.

Performance Indicators

Substantial work on the formulation of the Performance Indicators (PIs) referred to in the Local Councils' Procedures have been carried out during 2010. The PIs proposed to cover eight critical areas namely, the environment, the road sector, education and culture, human resources management, equal opportunities, citizen participation, customer care and finance, which *inter alia* have been identified in the 2009 Local Government Reform consultation process. The proposed PIs were then discussed with key stakeholders during a workshop organised by DLG in collaboration with the Centre of Expertise for Local Government Reform (Council of Europe).

The areas to be measured, the criteria to be adopted, as well as the interpretation of key definitions and terminology to be used in respect of PIs, were then discussed and agreed upon during the planned task force meetings held by DLG. However, to date, such PIs are not yet finalised. These PIs are of particular importance in helping Local Councils monitor the actual level of performance and how they might deliver better efficiency, effectiveness and value for money. Eventually, these would also enable NAO to carry out Value-for-Money Audits as requested by Local Councils Legislation.

Delayed Submission of Statutory Documentation

The number of Councils that defaulted in submitting the required statutory documentation increased during the

period under review. Forty (31 March 2009: fifty-seven) Local Councils did not submit the unaudited Financial Statements by 9 February 2010. On the other hand, fifty-eight (31 March 2009: thirty-eight) Local Councils failed to submit the audited Financial Statements by 30 March 2010.

The audited Financial Statements of the Gzira Local Council for the year ended 31 March 2009 were only received by NAO on 18 January 2010, when the deadline for such accounts was 30 June 2009. It must be noted that the Council has again failed to submit its Financial Statements for the period ending 31 December 2009.

Fourteen Local Councils failed to submit a reply to the Management Letter, for the foregoing financial period as compared to twenty-seven in the prior year. Out of the fifty-four Local Councils which submitted the reply to the Management Letter, twenty-one Local Councils did not respect the deadline of six weeks after the Management Letter was sent to them by NAO. Furthermore, four Local Councils (including Gzira as mentioned above), did not submit the audited Financial Statements by the time of writing of this Report, i.e. end of September 2010.

It may be relevant to note that the provisions of Article 55(3)(e) of the Local Councils Act state that *“the Local Council shall pay the penalty which shall be established by regulations whenever without a valid reason it does not submit the financial declarations and the reply to a management letter within the stipulated time. Such penalty*

will be deducted from the financial allocation of the Local Council and will not be refunded when the aforesaid documents are filed”. NAO is informed that this year DLG intended to penalise only those Local Councils who did not submit their Financial Statements by 29 October 2010. NAO is of the opinion that in order to address this concern, DLG is to adopt a stricter stance, and the applicable deductions effected, in all those cases when statutory deadlines are not met.

Mid-term Audits

Whenever there is a change in the position of Executive Secretary within a particular Local Council, the Local Councils (Audit) Regulations (Subsidiary Legislation 363.02), 1993 state that a mid-term audit is required to be performed. This should serve as an independent handover exercise to the new incumbent. The responsibility for informing the Auditor General and the Director for Local Government when the Executive Secretary hands in his notice of termination of employment, or when the Local Council does not intend to renew his contract, is entrusted in the Mayor.

During the period under review, the Local Councils of Fontana, Ghajnsielem, Mdina, Mtarfa and Safi changed their Executive Secretaries exactly at year-end, i.e. on 31 December 2009. Thus, no mid-term audit was deemed necessary. Notwithstanding this, NAO was not officially informed by the Mayors of the respective Councils with these changes in Executive Secretaries.

Appendices

Appendix A – Financial Allocation*

Local Council	Government Allocation 1 April 2009 – 31 December 2009	Other supplementary income received from Central Government	Other income generated from Local Councils	Total ^A
	€	€	€	€
Attard	351,306	18,773	65,106	435,185
Balzan	161,932	6,358	22,157	190,447
Birgu	167,523	-	101,958	269,481
Birkirkara	710,066	127,171	194,621	1,031,858
Birżebbuġa	426,566	30,692	119,390	576,648
Bormla	250,451	29,540	77,589	357,580
Dingli	205,084	9,062	45,768	259,914
Fgura	325,547	16,439	133,423	475,409
Floriana	225,164	36,099	221,485	482,748
Fontana	87,935	21,083	1,017	110,035
Għajnsielem	200,455	6,786	22,178	229,419
Għarb	141,415	7,368	26,486	175,269
Għarghur	145,486	3,911	7,891	157,288
Għasri	109,970	662	6,561	117,193
Għaxaq	198,476	1,539	29,918	229,933
Gudja	166,748	6,269	60,284	233,301
Gżira	306,881	-	-	306,881
Hamrun	393,088	15,752	323,469	732,309
Iklin	146,157	11,522	25,402	183,081
Isla	164,776	4,914	65,648	235,338
Kalkara	159,090	8,045	27,121	194,256
Kerċem	159,032	-	4,954	163,986
Kirkop	124,799	13,110	93,317	231,226
Lija	157,188	4,646	7,866	169,700
Luqa	222,612	9,452	152,359	384,423
Marsa	306,852	58,310	83,011	448,173
Marsascalea	461,463	41,377	172,867	675,707
Marsaxlokk	222,435	10,396	31,943	264,774
Mdina	131,012	-	60,591	191,603
Mellieha	675,725	115,772	67,399	858,896
Mgarr	271,352	33,542	14,692	319,586
Mosta	644,532	30,734	28,316	703,582
Mqabba	162,915	-	-	162,915
Msida	288,087	-	210,251	498,338
Mtarfa	161,636	3,846	30,321	195,803
Munxar	146,444	41,769	10,013	198,226

Appendix A – Financial Allocation* (continued)

Local Council	Government Allocation 1 April 2009 – 31 December 2009	Other supplementary income received from Central Government	Other income generated from Local Councils	Total ^A
	€	€	€	€
Nadur	270,131	28,426	15,088	313,645
Naxxar	536,633	30,420	35,677	602,730
Paola	395,563	-	-	395,563
Pembroke	239,312	4,904	19,869	264,085
Pieta ⁷	179,817	-	88,496	268,313
Qala	176,706	2,674	21,969	201,349
Qormi	657,625	40,235	593,066	1,290,926
Qrendi	219,512	5,100	18,609	243,221
Rabat (Malta)	633,721	23,465	31,062	688,248
Rabat (Gozo)	323,378	27,703	284,596	635,677
Safi	151,670	11,728	168,026	331,424
San Ġiljan	394,909	48,217	462,895	906,021
San Ġwann	426,817	30,485	51,123	508,425
San Lawrenz	98,660	23,318	68,014	189,992
San Pawl il-Baħar	780,524	30,584	114,837	925,945
Sannat	136,380	12,168	1,658	150,206
Santa Luċija	200,660	5,501	13,805	219,966
Santa Venera	249,516	9,928	36,533	295,977
Siggiewi	468,730	24,408	42,382	535,520
Sliema	602,514	64,851	293,225	960,590
Swieqi	316,512	11,251	55,146	382,909
Ta' Xbiex	130,541	1,234	68,608	200,383
Tarxien	292,919	-	24,227	317,146
Valletta	445,673	85,504	390,115	921,292
Xagħra	306,523	11,831	13,656	332,010
Xewkija	208,146	25,634	15,484	249,264
Xgħajra	110,758	13,384	5,569	129,711
Żabbar	458,286	70,255	147,975	676,516
Żebbuġ (Malta)	456,960	-	-	456,960
Żebbuġ (Gozo)	288,078	7,902	13,999	309,979
Żejtun	480,385	33,907	83,741	598,033
Żurrieq	439,745	16,081	57,695	513,521
	20,257,504	1,426,037	5,782,517	27,466,058

*Source: 'Government Allocation' – as per report provided by DLG.

'Other supplementary income received from Central Government' and 'Other income generated from Local Councils' – as disclosed in the audited Financial Statements.

(A) Only the Government Allocation was disclosed in the case of Gżira, Mqabba, Paola and Żebbuġ (Malta) since the audited Financial Statements of these Local Councils had not yet been submitted by the time this Report was finalised.

Appendix B – Qualified Reports

Local Council	1	2	3	4
Attard			X	X
Balzan			X	
Birgu	X	X	X	X
Birkirkara	X	X	X	
Birżebbuġa				X
Bormla		X	X	X
Dingli			X	X
Floriana			X	X
Għarghur			X	
Għaxaq			X	
Gudja			X	
Iklin			X	
Isla	X	X		X
Kalkara	X	X	X	X
Lija			X	
Marsascala				X
Marsaxlokk			X	X
Mdina			X	X
Mellieha			X	
Mġarr	X	X	X	X
Mosta	X	X	X	X
Msida				X
Mtarfa			X	X
Naxxar			X	X
Pembroke			X	
Pieta'				X
Rabat (Malta)	X	X	X	X
Rabat (Gozo)				X
San Ġiljan			X	X
San Ġwann	X		X	X
San Pawl il-Bahar			X	X
Santa Luċija			X	
Santa Venera			X	
Siggiewi			X	X
Sliema			X	
Swieqi			X	X
Ta' Xbiex			X	
Tarxien	X	X	X	X
Xagħra				X
Xgħajra				X
Żabbar			X	
Żejtun			X	
Żurrieq				X

1. Shortage of funds or FSI less than 10% or Deficit in the Statement of Income and Expenditure or Net Current Liability position.
2. The Financial Statements in their entirety suggest that the going concern assumption used in the preparation of these Financial Statements is dependent on further sources of funds other than the annual financial allocation by Central Government. Any adverse change in either of these assumptions would not let the Council able to meet its financial obligations as they fall due without curtailing its future commitments.
3. Amounts due from LES based solely on the data issued from LES.
4. Other specific issues for the Local Councils on an individual basis.

Appendix C – Submission of Financial Statements

Date of Submission of Financial Statements	Local Council
9 February 2010 (met the deadline)	Balzan
	Birkirkara
	Birżebbuga
	Bormla
	Ghajnsielem
	Gharb
	Gudja
	Hamrun
	Iklin
	Isla
	Kirkop
	Lija
	Luqa
	Marsasala
	Munxar
	Pembroke
	Qala
	Qormi
	San Ġiljan
	San Lawrenz
	Sannat
	Santa Luċija
	Sliema
	Tarxien
	Valletta
	Xaghra
Xewkija	
Zejtun	
14 February 2010 (within the same week)	Fgura
	Floriana
	Fontana
	Gharghur
	Marsa
	Marsaxlokk
	Msida
	Nadur
	San Ġwann
	Santa Venera
Żebbuġ (Gozo)	
28 February 2010 (within the same month)	Attard
	Dingli
	Ghasri
	Ghaxaq
	Mġarr
	Mqabba
	Pieta'
	San Pawl il-Bahar
	Swieqi
	Ta' Xbiex
Żabbar	

Appendix D – Submission of Audit Reports on Financial Statements

Date of Submission of Financial Statements	Local Council
By 30 March 2010 (met the deadline)	Ghajnsielem
	Gharb
	Ghasri
	Munxar
	Nadur
	Qala
	San Lawrenz
	Sannat
	Xewkija
	Żebbuġ (Gozo)
	By 30 April 2010 (one month after the deadline)
Dingli	
Fgura	
Floriana	
Fontana	
Hamrun	
Iklin	
Isla	
Marsa	
Marsascalea	
Marsaxlokk	
Mellieħa	
Pembroke	
Qormi	
Qrendi	
Rabat (Gozo)	
Santa Luċija	
Sliema	
Swieqi	
Ta' Xbiex	
Valletta	
Xaghra	
Żejtun	

Appendix E – Management Letter Weaknesses

Local Council	1	2	3	4	5	6	7	8	9	10
Attard			X				X	X		X
Balzan	X	X	X	X	X	X	X	X		X
Birgu	X	X	X			X	X	X	X	X
Birkirkara	X	X				X	X	X	X	X
Birżebbuġa	X	X		X	X		X	X		X
Bormla	X	X	X	X	X		X	X	X	X
Dingli	X	X			X	X	X	X	X	X
Fgura	X	X	X	X			X		X	X
Floriana	X	X		X	X	X	X		X	X
Fontana	X						X		X	X
Għajnsielem	X	X					X	X	X	X
Għarb	X	X	X		X		X		X	X
Għarghur	X	X			X	X	X	X		X
Għasri	X			X			X	X	X	X
Għaxaq	X	X		X	X	X	X			X
Gudja	X	X	X	X	X	X	X	X		X
Hamrun		X		X	X		X	X	X	X
Iklin		X		X	X	X	X			X
Isla	X	X	X	X			X	X		X
Kalkara	X	X	X	X	X	X	X	X	X	X
Kerċem	X	X					X		X	X
Kirkop	X	X		X	X	X	X			X
Lija	X	X		X	X		X	X		X
Luqa	X	X		X	X		X	X	X	X
Marsa	X	X	X	X	X		X	X	X	X
Marsascala	X	X	X	X	X		X	X		X
Marsaxlokk	X	X	X		X	X	X	X		X
Mdina	X	X		X	X	X	X	X	X	X
Mellieha	X		X		X	X		X	X	X
Mgarr	X	X		X	X	X	X	X	X	X
Mosta	X	X		X	X	X	X	X	X	X
Msida	X	X	X	X	X		X	X		X
Mtarfa	X	X			X	X	X	X	X	X
Munxar	X	X	X		X		X		X	
Nadur	X	X	X		X		X		X	X
Naxxar	X	X	X	X	X	X	X	X	X	X
Pembroke	X	X		X	X	X	X	X	X	X
Pieta'	X	X		X	X	X	X	X	X	X
Qala	X	X		X	X		X	X	X	X
Qormi		X		X	X			X		X
Qrendi		X		X	X	X	X	X	X	X
Rabat (Malta)	X	X		X	X	X	X	X	X	X
Rabat (Gozo)	X	X			X	X	X	X	X	X
Safi	X	X		X	X	X	X	X		X
San Ġiljan	X	X				X		X		X

Appendix E – Management Letter Weaknesses (continued)

Local Council	1	2	3	4	5	6	7	8	9	10
San Ġwann	X	X		X	X	X	X		X	X
San Lawrenz	X	X		X	X		X	X	X	X
San Pawl il-Bahar	X	X		X	X	X	X	X		X
Sannat	X	X		X			X		X	X
Santa Luċġja	X	X		X	X	X	X			X
Santa Venera	X	X		X	X	X	X	X	X	X
Sigġiewi	X	X	X	X	X	X	X	X	X	X
Sliema	X	X		X	X	X	X			X
Swieqi	X	X			X	X	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
Xaghra	X	X			X		X	X	X	X
Xewkija	X	X		X			X		X	X
Xgħajra	X	X		X	X	X	X	X	X	X
Żabbar	X	X					X	X	X	X
Żebbuġ (Gozo)	X	X			X	X	X	X	X	X
Żejtun	X	X		X	X	X	X	X	X	X
Żurrieq	X	X	X	X	X		X	X		X

1. Accounting
2. Property, Plant and Equipment
3. Receivables
4. Payables
5. Bank/Cash
6. Local Enforcement System
7. Procurement
8. Invoices
9. Salaries
10. Non-compliance with certain Provisions outlined in the Subsidiary Legislation

Appendix F – Property, Plant and Equipment insured

Local Council	Amount as per Insurance Policy	Amount as per Financial Statements	Difference
	€	€	€
Balzan	43,486	32,810	10,676
Birkirkara	2,404,146	4,817,277	(2,413,131)
Birżebbuġa	230,000	1,097,400	(867,400)
Għaxaq	100,500	90,519	9,981
Gudja	35,953	58,486	(22,533)
Hamrun	270,093	1,154,810	(884,717)
Kirkop	37,952	76,732	(38,780)
Lija	13,174	47,871	(34,697)
Luqa	5,466	13,742	(8,276)
Pieta'	35,000	15,417	19,583
Qormi	49,714	108,341	(58,627)
Qrendi	42,864	177,682	(134,818)
Safi	112,000	326,855	(214,855)
San Ġiljan	49,310	106,167	(56,857)
San Ġwann	295,042	482,908	(187,866)
Santa Luċija	162,953	181,996	(19,043)
Sigġiewi	131,906	183,309	(51,403)
Sliema	97,064	258,880	(161,816)
Ta' Xbiex	16,206	65,888	(49,682)
Żurrieq	22,800	31,699	(8,899)
	4,155,629	9,328,789	(5,173,160)

The above list includes only those Local Councils where the over/under insurance coverage was quantified by LGA this year. However, it should be noted that there were still a number of Local Councils that had an overall over/under provision of insurance coverage which, despite being commented upon by LGA in the Management Letter, was not quantified and thus could not be included in the above list. Hence this list is not exhaustive.

Section P1.15b.04 of the Local Councils (Financial) Procedures, 1996 requires Local Councils to periodically assess the adequacy of their insurance coverage to meet all legal liabilities and unexpected or potential risks and losses. This will in return ensure that the Council's assets are effectively and adequately insured.

Appendix G – Christmas Parties financed out of Local Councils' funds

Local Council	Amount Paid
	€
Attard	Amount not specified
Birżebbuġa	500.00
Floriana	90.00
Hamrun	Amount not specified
Iklin	Amount not specified
Kalkara	455.20
Luqa	450.00
Marsaxlokk	3,025.67
Mdina	700.00
Mtarfa	899.00
Qormi	Amount not specified
Rabat (Malta)	422.00
Rabat (Gozo)	Amount not specified
Safi	Amount not specified
San Ġiljan	192.00
San Pawl il-Bahar	Amount not specified
Santa Luċija	Amount not specified
Sliema	Amount not specified
Swieqi	480.00
Ta' Xbiex	Amount not specified
Tarxien	1,398.00
Xagħra	Amount not specified
Żebbuġ (Gozo)	Amount not specified
Żejtun	1,171.00
Żurrieq	Amount not specified

Appendix H – Amounts due to Local Councils from Water Services Corporation

Local Council	Amount Due
	€
Balzan	12,034
Dingli	8,854
Gharghur	10,517
Gudja	8,458
Hamrun	11,651
Isla	12,921
Kalkara	9,101
Marsa	9,278
Mosta	77,074
Msida	30,800
Pieta'	42,330
Rabat (Gozo)	83,584
San Ġwann	26,242
Tarxien	18,376
Valletta	8,157
Xagħra	13,650
Xewkija	10,832
Zebbuġ (Gozo)	2,404

* If no comment was made by LGAs relating to amounts due from WSC in the Management Letter, the amount is not included in the Appendix, thus the list may not be exhaustive.

Tourism Department Expenditure

Background

Following the re-assignment of ministerial portfolios after the general election held in March 2008, the Department of Tourism was incorporated within the Corporate Services Directorate of the Office of the Prime Minister (OPM).

The original recurrent budget for the Tourism Department for 2009 stood at €3,558,000. However, during the year the Ministry of Finance, the Economy and Investment (MFEI) revised this budget downwards to €3,118,000. The actual recurrent expenditure for 2009 amounted to €3,007,319.

A further €1,345,000 was allocated to the Department's Capital Vote.

Audit Scope and Methodology

The audit mainly focused on the Operational and Maintenance Expenses incurred from the recurrent budget as well as on transactions from Capital account '7066 – Implementation of Master Plan for Tourism'. The objective of the audit was to ensure that expenditure incurred in Financial Year 2009 is accurate, complete and free from material misstatement and procured in compliance with the General Financial Regulations 1966, Public Contracts Regulations and other relevant Circulars.

Most of the observations and respective recommendations in this Report focus on inaccuracies encountered while conducting audit testing. These were based on the outcomes of various meetings held with stakeholders, reviews of documentation obtained and other general observations noted by the examiners during the audit.

During 2009, the actual expenditure incurred for Operational and Maintenance Expenses stood at €367,908. The transactions falling within the audit sample were based on a materiality level of amounts over €500, accounted for under the selected Line Items. A total of 119 transactions, collectively amounting to €296,086, were verified, i.e. a testing level of 80%. Out of the amount of €281,658 actually paid from Capital account '7066 – Implementation of Master Plan for Tourism', a further sixteen transactions, totalling €279,063, i.e. 99% of transactions' value, were reviewed.

Key Issues

Substantial Annual Payments to store Outdated Oil Dispersant

The amount of €18,586 is being paid annually by the Department for the hiring services of two storage tanks and the storage space of 627 drums of outdated oil dispersant that was donated by the Dutch Government way back in 1991.

Payments of Long Outstanding Invoices from Funds Allocated for 2009

On forty-four instances, invoices dated prior December 2008, totalling to €302,125.68 were paid by the Tourism Department from the 2009 budget. On two occasions, the payment of the invoice was left pending for a period of over two years.

Control Issues

Procurement

Expired Contracts

The provision of beach cleaning machinery totalling €378,775, was being sought under an expired contract between the periods November 2006 and January 2008, and October 2008 and August 2009 respectively. Furthermore, it transpired that the hire of machinery during the period January to December 2007 was carried out upon the direct instructions of the then Minister responsible for the Beach Cleaning Section (BCS).

No Basis for the Certification of Invoices relating to ‘Grab Crane’

- a) The total amount of €7,421 was paid in 2009 for the hire of a ‘grab crane’ in 2008, despite that no quotations were sought in this respect.
- b) An invoice amounting to €407.61, covering the provision of cleaning services rendered by seven workers, was still certified correct by the head of BCS despite that it lacked to illustrate the number of hours worked and the applicable rate per hour.

Source Documents not provided

A copy of the original tender document, the notification letter informing the contractor that the Department was extending the tender for a further period, as well as the related bank guarantee supporting the tender awarded in 2008 for beach cleaning services, were not made available to the National Audit Office (NAO) upon request.

The original tender document and the related bank guarantee were only provided by the Department following the receipt of NAO’s Management Letter.

Double Payments

At least up to June 2010, the Department had not yet recouped the double payment made in 2007, totalling €13,355.55, with respect to the four same invoices for which the Malta Tourism Authority (MTA) had also advanced the amount of €14,474.45 to the supplier.

Shortcomings with respect to the Hull Damage Repairs on the ‘MV Ambjent’ Vessel

When the oil combating/port cleaning vessel ‘MV Ambjent’ developed a leak in the hull, a quotation for the amount

of €7,019.82 for repairs, in addition to a storage rent of €25.96 per day, was submitted by a service provider. The following shortcomings were noted:

- Notwithstanding the daily rental charges incurred for the storage of the vessel, the Department took one month to request a direct order from MFEI, which was subsequently granted for a maximum cost of €9,000 to cover the repairs and daily rent.
- Whilst carrying the repair works, the service provider informed the Department that more repairs were needed to be carried out *vis-à-vis* damages which were not envisaged beforehand. Despite that the service provider neither quoted nor provided an estimate for the extra costs involved, senior Management responsible for the Tourism Department, without informing MFEI, gave approval for the extra works required.
- In order not to lose the committed funds of €9,000, the Department approved the payment of €9,016.38 as invoiced by the service provider, although works on the vessel were not entirely complete. Upon verification of the invoice, NAO noted that the Department was charged the amount of €413 with respect to repairs that were not included in the submitted quotation.
- An additional invoice for a further amount of €4,145.25 relating to the same repair was submitted by the supplier. However, while the respective Letter of Acceptance was only raised by the Department two months after the receipt of the invoice, MFEI covering approval to pay the supplier for the supplementary amount was only sought two days after NAO requested a copy of the direct order approval.

Misinterpreted Quotation results in an Overpayment

The Department misinterpreted the labour charges as quoted by another service provider for repairing ‘MV Ambjent’. This resulted in an overpayment of €322.20.

Lack of Segregation of Duties

Thirty-three Payment Vouchers (PVs) out of the 135 selected for audit testing (i.e. 24%) were endorsed by the same officer who had formerly approved the relative Goods and Services Purchase Order (GSPO), thus implying lack of segregation of duties.

Invoices issued prior to the Goods and Services Purchase Order

Out of the 135 transactions selected for audit purposes, fifty instances (i.e. 37%) were encountered whereby the receipt of sales invoice issued by the supplier preceded the GSPO.

Postings to an Incorrect Line Item

Twelve PVs in the audit sample amounting to €141,255.30 were posted to the wrong Line Item.

Fixed and Mobile Telephone

Excessive Expenditure on Fixed and Mobile Phone Bills

Telephone bills paid by the Department at times were considered to be excessive:

- An officer entitled to free telephone facilities incurred a total expenditure of €6,376.26 on such services. The mobile phone bills amounted to €4,302.40 whilst the residence's fixed line bills totalled to €2,073.86, out of which 88% of the total consumption was in respect of mobile calls.
- Three out of four public officers entitled to the use of a mobile phone at Government expense exceeded the annual ceiling stipulated by standing regulations, without providing specific reasons to justify such expenditure.
- In addition to €600 worth of mobile cards procured for six officers employed with BCS, a total of €1,110.55 was incurred on mobile calls made from the workshop's fixed telephone line, between 1 December 2008 and 31 May 2009, until the section was transferred to the Ministry of Resources and Rural Affairs (MRRA).

Mobile Phones Bills not issued on an Itemised Basis

The mobile phone bills presented for payment by public officers entitled to such perk are not being raised on an itemised basis. Hence, details of expenses not eligible for reimbursement, such as international calls, are not being given.

Rental Charges paid for Unrequired Fixed Telephone Lines

The Department was paying a bi-monthly charge of €544.86 for two fixed telephone lines which, according

to the same Department, such lines had not been utilised and had been disconnected for the past year and a half. However, a copy of the 'Disconnecting of Telephone Lines' application form or similar supporting documentation, indicating that the service was no longer required, were not traced. Moreover, payment for such service was still being authorised. During the Financial Year 2009, the Department paid approximately €3,200 in this regard which does not include the rental charge of €642.93 with respect to the period October – November 2009, since as stated by the Department, this invoice was never received.

Rent

Unawareness of Properties actually falling under the Ministry's responsibility

Upon the receipt of an Estate Management report from the Government Property Division (GPD), the Department noted that it was being charged rent on properties that have not been utilised by it for a number of years, but which were not formally reported vacated.

Underestimated 'Rent' Vote

The budget allocated under the 'Rent-Government Property' Vote was always being underestimated. Whilst the budget allocated for 2009 amounted to €65,600, the Estate Management report submitted by GPD, indicated that the total annual rent for the properties occupied by the Tourism Department totals €284,521.31.

Inaccurate Data submitted by Government Property Division

Correspondence exchanged between GPD and the Ministry of Tourism revealed that the latter owed GPD the sum of €5,777,784.84 with respect to rent still due on the premises occupied or administered by the Ministry. However, it was noted that GPD did not account for payments effected by the Department throughout the years. In fact GPD requested the Department to forward any records of Transfer Vouchers that were submitted in the past, so that they can be in a position to continue updating their accounts which are currently incorrect.

Request for Rent Payment lacking Details

Every year Government Departments are being requested by the Ministry responsible for Finance to transfer the funds allocated under the 'Rent' Vote to GPD, against which neither an invoice nor a breakdown from GPD is being submitted in this respect.

Expenditure on behalf of other Entities

Expenses incurred by the Malta Tourism Authority borne by the Tourism Department

It was observed that, occasionally, the Department's funds were being utilised to pay for expenses incurred by MTA:

- An invoice addressed to MTA for the amount of €3,155.46 for field work related to the 'Notte Bianca' 2007 was paid in 2009 by the Tourism Department, notwithstanding that it was MTA that had engaged the consultants.
- In 2009, the Department issued a payment of €1,549.03 in favour of a supplier in connection with a ferry charter service used after 'Baglioni Concert' in 2007. As stated by senior Management in an e-mail, "the charter was used to carry MTA's VIPs who were invited to attend the concert. These included members of the trade, corporate guests and Board members".

No Evidence to validate Payments for Expenses incurred by other Entities

- The invoice for the ferry charter mentioned in the observation above indicated that the charter was availed of in 2007. However, no documents, indicating further details such as the purpose and/or for whom the service was provided, supported the payment except for a hand-written note on the invoice indicating the person requesting the charter after 'Baglioni Concert'.

It was only after requesting further details from higher authority that NAO was given some additional information as indicated in the preceding observation.

- Transport services totalling to €604.70 were reimbursed through a Multi-Payment to the Malta Council for Culture and Arts with respect to the organization of the 'Choir Festival' in 2006, which was handled exclusively by the Secretariat with no involvement of the Department. However, no evidence was traced that approval was sought from the latter prior to this procurement.

Other Issues

Financial Assistance to Third Parties not supported by Agreement

The Department forwarded the amount of €7,000 in support

of the 'Ulyssse 2009', a Mediterranean voyage organised by a foreign Embassy in Malta. However, this was only supported by the respective Ambassador's request, for financial assistance from MTA in this endeavour, submitted five weeks subsequent to the event. Through correspondence requesting virement from the Hospitality account to Travel to cover this expenditure, it was noted that indirectly the Permanent Secretary approved this payment. However, a binding agreement between the two parties was not in place.

No Official Transfer Date of the Beach Cleaning Section

Upon inquiring on the official transfer date of the BCS, from the Department of Tourism to the Cleaning Services Division within MRRA, NAO officers were only referred to the date when the remaining funds on the Beach Cleaning Recurrent Allocation were transferred to MRRA.

Compliance Issues

Non-Compliance with VAT Legislation

a) Tax Invoices incorrectly issued in lieu of Fiscal Receipts

In the exercise of its functions, the Department accepted tax invoices, instead of fiscal receipts, amounting to €222,887.20. These were raised by three suppliers in the audit sample who provided services which fell outside the scope of the Department's operating activities, as registered with the Value Added Tax (VAT) Division.

Following the submission of NAO's Report, the Department requested the respective suppliers to forward the related fiscal receipts.

b) Non-Submission of Fiscal Receipts

Eight other suppliers selected in the audit sample who were not exempt from issuing VAT receipts, did not provide the Department with a fiscal receipt against payments made to them for services rendered. Two of these suppliers were not reported to the VAT Division in the quarterly report.

Shortcomings in the Hire of Self-Drive Vehicles

The tender document submitted by the contractor, who subsequently was awarded the tender for the hire of self-drive cars without air-condition, was not complete as stipulated by the specifications and conditions regulating the tender. Furthermore, the contractor did not furnish the Department with a bank guarantee.

Procurement of Official Car

Approval was granted by Finance to exceed the maximum amount stipulated in MFC Circular No. 5/98 by €4,395 upon the purchase of an official car at a retail price of €43,995. However, after one month from placing the order the supplier offered an upgraded model at the same price. This offer was taken by the Department since they were not going to incur additional costs.

Lack of Full Compliance with Relative Provisions of Standing Regulations

Upon the review of a sample of sixteen out of the thirty-eight official visits overseas, taken up by the Department during 2009, it was noted that travelling provisions as laid down in the Public Service Management Code (PSMC) were not fully abided with.

Delays in refunding Unused Balances of Advanced Money for Contingency

Officers travelling abroad were taking long to effect refunds of unused balances upon their return to Malta. At times more than three months elapsed prior to the settlement of such advances.

Approval from Ministry of Finance, the Economy and Investment for the Subsistence Granted not evidenced

No written approval from MFEI was available, to support the payment of a daily subsistence allowance of €187 and €261 advanced to two officers who travelled to Azerbaijan and Kazakhstan respectively. Due to the infrequent travel to the foregoing countries, relevant rates are not covered by the related Circulars.

Lack of Documentation supporting Travelling Arrangements handled by Malta Tourism Authority

- The Department, through two Multi-Payments, paid the total amount of €799.34 to MTA for procuring on its behalf the air tickets with respect to two official visits in January and November 2009 respectively. Since documentation in the Department's files in connection with these travelling costs was limited to the invoice issued by MTA, it could not be ascertained that at least three quotations were sought by the latter in this regard and that the cheapest flight was procured.
- The Department accounted for accommodation

expenses in relation to an official visit in early November 2009. However by mid-February 2010, the Department was still unaware whether hotel expenses were to be borne by itself or by MTA, who had handled accommodation arrangements. No further correspondence was traced in this respect at time of audit, i.e. March 2010.

Required Direct Order Approvals not traced

Despite that the Department was made aware that a direct order approval was to be sought, with respect to the participation at a European Seminar which was organized by a private entity, MFEI approval was not traced.

Meals sponsored by the Host not deducted from Subsistence Allowance

Two instances have been encountered whereby meals sponsored by the entity organising the event had not been deducted from the subsistence allowance.

Various shortcomings noted in the Departmental Inventory Records

From an analysis of the inventory records it was noted that these do not comply with the provisions of MF Circular No. 14/99, rendering such information unreliable, while also risking loss of control over Government Property. The following shortcomings were also noted:

- A number of fixed tangible assets were not included in the Departmental Inventory Database.
- Physical location of assets, as disclosed in the Room Inventory Lists, differed from that as per Departmental Inventory Database.
- Details in the Heritage Assets Catalogue were not complete.
- Transferred Heritage Assets were still included in the Departmental Inventory Database.

Shortcomings noted during on Site Inspection carried out by National Audit Office Officials

Whilst carrying out a physical audit inspection on the inventory items situated in rooms/sections within Auberge D'Italie, it was noted that:

- the inventory items were not physically marked with an Asset Identification Number as required in terms of MF Circular No. 14/99;

- inventory records were not amended accordingly upon the transfer of items from one room to another; and
- a number of assets found on site were not included in the inventory records.

Acknowledgements of Transfer of Inventory Items not traced

Tools and equipment held with respect to the beach cleaning activities were still featuring in the Department's inventory database as at 31 December 2009, despite that the BCS was transferred to MRRA around mid-2009.

Lack of Effective Control

The officer in charge of inventory of the Tourism Department carries out her duties from the Corporate Services Directorate located within OPM. However, due to lack of liaison by off-site officers, it is difficult to monitor and exert effective control over all the tangible assets, sited in various other premises, but which also fall under her responsibility.

Statutory Returns not submitted to National Audit Office

In breach of standing regulations, timely and complete information in connection with expenses related to property which is rented out by the Department, on the use of official and rented cars, as well as in respect of inventory records and changes thereto, is not reaching NAO.

Recommendations

Key Issues

Substantial Annual Payments to store Outdated Oil Dispersant

It is of utmost importance that concrete action is taken without prolonging any further so that this outdated dispersant is properly disposed of without further delay.

Payments of Long Outstanding Invoices from Funds Allocated for 2009

It is to be emphasised that claims spilling over from one year to the next are kept to the absolute minimum, limited to that which is unavoidable. Furthermore, the Department is to ensure that no commitments are entered into before it is ascertained that sufficient funds are available.

Control Issues

Procurement

Expired Contracts

Management is to emphasise compliance with Procurement Regulations in force. Moreover, any commitments not in line with standing regulations are not to be honoured.

No Basis for the Certification of Invoices relating to 'Grab Crane'

Controls are to be put in place for the proper checking of invoices, particularly the rates being charged by the service provider. Officers verifying and endorsing invoices are to be provided with all the information required for such review.

Source Documents not provided

Even though the BCS was transferred to another Ministry, the Tourism Department is to retain a copy of all documentation regarding the award of contracts, for future reference, especially those contracts whose payments were still being honoured by the Department.

Double Payments

Since both entities have separate funds allocated to them, a clear demarcation line is to be established beforehand as to who should bear a particular expenditure. Costs involving the two entities should be shared accordingly and billed by means of separate invoices. The Department is to do its utmost to recoup the overpaid amounts without undue delay.

Shortcomings with respect to the Hull Damage Repairs on the 'MV Ambjent' Vessel

Compliance with procurement rules and regulations is imperative.

The Department is to ensure 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 Department is to ensure that funds are committed on the same date or shortly after the exact cost becomes known.

Moreover, agreements are not to be entered into, and services should not commence, prior to appropriate MFEI approval where goods or services are procured by direct order.

Misinterpreted Quotation results in an Overpayment

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. It is to be made clear to all officers that when endorsing a document and/or certifying invoices, it is implied that one is assuming the responsibility that the data, including the amounts contained in that document, are correct. Unless adequate checks are carried out, no certification is to be endorsed, and no payments are to be effected. Moreover, more attention is to be paid whilst analysing the quotations obtained from suppliers to avoid errors and overpayments. This may also lead to the cheapest offers being disregarded.

Furthermore, the service provider is expected to formally inform the Department of any additional work required, if any, before carrying on with the task. This should then be approved accordingly by the Head of Department if such additional expense is deemed necessary.

Lack of Segregation of Duties

Lines of responsibility should be clearly identified and communicated to all employees. There should be a formal system for the authorisation and approval of procurement, certification of invoices and subsequent payments. Different levels of the procurement process comprising ordering, authorisation, recording and payment for goods and services, should be undertaken by different individuals, where this is possible.

Invoices Issued Prior to the Goods and Services Purchase Order

It is important that GSPOs are drawn up prior to the placing of orders with the supplier. This will also ensure that adequate authorisation from the right level of authority is sought for the procurement of goods and services.

Postings to an Incorrect Line Item

More diligence is to be exercised when allocating expenses to ensure that such expenditure is correctly reported under the pertinent Line Items, as this could affect future budgets.

Fixed and Mobile Telephone

Excessive Expenditure on Fixed and Mobile Phone Bills

To administer control over telephone facilities extended under whatever form of contract or authority, it is advisable that this is regulated by a ceiling as is already established in many cases. Moreover, the use of the most cost-efficient

means of telecommunication should be encouraged, for example, calling to a landline when this is available instead of to a mobile phone.

In exceptional circumstances, where the expenditure covered by Government established ceilings is exceeded, a statement is to be requested from the beneficiary, clearly indicating such justification for approval by the respective Permanent Secretary. Controls should also be established to ensure that in the future, action is taken immediately to recoup expenditure over the established ceilings, when this is not justified and duly approved.

Mobile Phones Bills not issued on an Itemised Basis

Mobile phone bills presented for payment are not to be paid unless they are itemised and the respective deductions relating to ineligible expenses effected.

Rental Charges paid for Unrequired Fixed Telephone Lines

Immediate action is to be taken so that the Department does not incur further expenses on a service which is no longer needed. The officer who was responsible to inform the service provider but did not perform his task accordingly is to be sanctioned.

Rent

Unawareness of Properties actually falling under the Ministry's responsibility

The Tourism Department is to abide with MF Circular No. 13/93 'Rent Payable to Land Department' which stipulates that upon vacating/taking over Government Property, departments should immediately report this event to GPD giving all relevant details, such as address, area and use of the premises being vacated/taken over.

Underestimated 'Rent' Vote

As stipulated in MF Circular No. 13/93, "*the provision voted under each Department should reflect the correct amount payable by that department because any verification which may be necessary should be carried out by that department with the Commissioner of Land before the request for funds is made*" to the Ministry of Finance.

Inaccurate Data submitted by Government Property Division

The Tourism Department is to liaise with GPD so that both Departments will update their records accordingly

and identify an accurate figure of rent due. Following this exercise the former is to ensure that GPD is immediately informed of any property occupied or administered by them or *vice versa*, so that the necessary adjustments in the records are made and duly reflected in the amount of rent payable.

Request for Rent Payment lacking Details

It may be more appropriate if a detailed request is submitted by GPD, rather than MFEI, requesting the Department to forward the funds available. GPD can easily issue a computerised report with all the properties listed for every Ministry/Department.

Expenditure on behalf of other Entities

Expenses incurred by the Malta Tourism Authority borne by the Tourism Department

Expenses are to be paid by the Entity/Department that is actually incurring them.

No Evidence to validate Payments for Expenses incurred by other Entities

Procurement controls should be instated. Commitments, which have not been authorised by the Department, are not to be honoured from departmental funds. Moreover, proper authority is to be obtained in writing prior to purchase, also clearly stating reason justifying the expenditure. This will ensure that expenses are authorised and warranted. Details of significant events are also to be filed when this is applicable.

Other issues

Financial Assistance to Third Parties not supported by Agreement

Deals entered into by the Department are to be covered by an agreement, also highlighting the rights and obligations of the parties concerned.

No Official Transfer Date of the Beach Cleaning Section

The Department is to ensure that all managerial and operational decisions are well documented and filed for future reference.

Compliance Issues

Non-Compliance with VAT Legislation

Heads of Departments are to ensure that all suppliers who have received payments, or part there-of, for goods and services provided, adhere to standing regulations, by being furnished with a fiscal receipt. In cases where the supplier lacks to adhere to VAT Regulations “*the department should immediately discontinue to purchase from such defaulter*”, until this situation is rectified. Moreover, quarterly returns highlighting those suppliers not complying accordingly, are to be duly filled and submitted to the VAT Division as outlined in MF Circular No. 5/2002 ‘Submission of fiscal receipts to Government Departments’.

Shortcomings in the Hire of Self-Drive Vehicles

The Department should reject bids of those suppliers who, when submitting their offer, fail to specify full details as requested in the tender document. Tenders should also not be awarded when the contractor fails to furnish the Department with a bank guarantee. 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.

Procurement of Official Car

When procuring official vehicles, adherence to standing regulations is solicited.

Lack of Full Compliance with Relative Provisions of Standing Regulations

The Department is to ensure that officers entrusted with the responsibility of official visits, adhere to the pertinent regulations so as to ascertain accountability of the expenditure incurred out of Public Funds.

Delays in refunding Unused Balances of Advanced Money for Contingency

The remaining balance of any unused contingency allowances, are to be forwarded to the Department without unnecessary delays. Officers who persistently fail to settle accounts within the stipulated deadlines are to be precluded from going abroad before they regularise their position.

Approval from Ministry of Finance, the Economy and Investment for the Subsistence Granted not evidenced

Prior to the advancement of subsistence allowances with respect to countries not listed in pertinent Circulars, written guidance is to be sought from MFEI.

Lack of Documentation supporting Travelling Arrangements handled by Malta Tourism Authority

Proper documentation to support expenditure is to be requested and filed for future reference. Moreover, for better control and management of funds, the Department is to be aware of all the expenses it will incur on official travelling. Such arrangements are to be in place well before the commencement of the visit.

Required Direct Order Approvals not traced

The Department is to ensure that direct order approvals are always granted by MFEI prior to the procurement of services, if the established thresholds are exceeded.

Meals sponsored by the Host not deducted from Subsistence Allowance

Subsistence allowance is to be calculated according to standing regulations and, where applicable, independent checking for meal deductions, when included for free in the programme, is to be carried out. Furthermore, the Department is to recoup any extra funds granted.

Various shortcomings noted in the Departmental Inventory Records

The officer responsible for inventory is to ensure that records are thoroughly checked to identify any incorrect entries and for any inconsistency with standing regulations so that these are amended accordingly. Moreover MF Circular No. 14/99 is to be adhered to so as to ensure that more effective control is maintained. In case of any difficulty, in maintaining an up-to-date tangible fixed asset register, guidance is to be sought from MFEI.

Shortcomings noted during on Site Inspection carried out by National Audit Office Officials

Full compliance with standing Inventory Control Regulations in line with related Circulars is recommended. Movements of inventory items from one location to another are to be reflected and updated in the official inventory records. Furthermore, 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.

Acknowledgements of Transfer of Inventory Items not traced

The Department is to fully adhere to stipulated procedures and is to report any changes in inventory items under their responsibility in due time.

Lack of Effective Control

Adequate liaising is to be carried out between off-site officers and the officer officially responsible for maintaining inventory records so as to ensure that inventory records are consistently updated with the actual movements.

Statutory Returns not submitted to National Audit Office

Management is to make sure that officers in charge of the respective tasks are aware of the statutory returns that are to be compiled and that accurate and timely feedback is regularly submitted to NAO.

Management Comments

Management concurred with a number of observations and most of the related recommendations have already been taken on board. In addition, the following comments and reservations were also submitted:

- In relation to the hire of machinery with respect to beach cleaning services, the Department stated that the Minister responsible at the time had instructed that the operations needed to be ongoing. This was also supported by a letter from the Minister himself. No tender could be issued at the time because the budget had long been exhausted and it was not possible to issue a tender without funds available.
- The hire of a ‘grab crane’ was used only on certain beaches on particular occasions and since the contractor had such machinery available it made sense to make use of the same supplier who, in addition, had the necessary experience and expertise in the beach cleaning operations.
- With respect to the misinterpretation of quotation, Management stated that the supplier was not overpaid since the original GSPO was only an estimate. The GSPO was subsequently amended upon being rechecked.

- Excessive mobile phone bills are being approved by the Permanent Secretary. since the programme only indicated lunch break times.
- Upon enquiring on the rental charges paid for unrequired fixed telephone lines, the CIO’s office informed the Department that these lines had been disconnected for the past year and a half. However, the service provider informed the Department that lines were still active and requested copy of evidence for the removal of service but no documents could be traced. Management now requested the supplier to terminate the indicated service, which was disconnected with effect from 15 March 2010. Besides that the issue with respect to the Hull Damage Repairs on the ‘MV Ambjent’ vessel was not properly addressed, Management commented that shipyards able to carry out repairs on such vessels are limited in number. Despite that every effort is made to obtain broken down quotations, none of the shipyards are willing to do this, as many times the extent of the damage, and hence the value of the work, can only be determined once works are commenced. Furthermore, on many occasions hidden defects come to light and it makes sense that these are repaired even though not quoted for, as it would be more costly to ignore and repair on another occasion.
- The Department considers that the current internal control is more than adequate as the procurement/ payment process involves two to three different officials with a Principal Officer endorsing the GSPO. The Department contested the need for MFEI approval in connection with the participation to the European seminar which was organised by a private entity.
- It was argued that a better value for money was obtained at no extra cost to Government when procuring the official car. Despite that observations related to travel were fully upheld, the Department did not state whether the respective recommendations will be taken on board.
- With respect to travelling tickets procured by MTA on behalf of the Department, the former stated that it has a special agreement with Airmalta dated 22 March 2009, where prices for routes operated by the national airline are fixed. However, if the flight itinerary includes a route that is not operated by Airmalta, MTA reserves the right to make its own arrangements if it works out cheaper. The Management did not properly address the following issues:
 - Excessive expenditure on mobile calls and mobile phone bills not issued on an itemised basis.
 - Shortcomings in the hire of self-drive vehicles.
 - Underestimated ‘Rent’ Vote.
- The Department argued that meals sponsored by the host were not deducted from subsistence allowance

Office of the Prime Minister Inventory

Background

The audit covered Inventory Management within the Office of the Prime Minister (OPM) Cost Centres Nos. 4 - 11 for the year ended 31 December 2009.

Audit Scope and Methodology

The objectives of the audit were to ensure that OPM is in compliance with the Inventory Control Regulations as set out in MF Circular No. 14/99, verify that adequate controls exist over inventory items and identify any risks arising from the current procedures.

An introductory meeting was held with OPM officials with the aim of obtaining an overview of Inventory Management and to analyse the risks and controls within the system. Issues raised during this meeting were documented and confirmed by the auditee. The following tests were performed:

- Fifteen Inventory Databases were submitted and analysed in order to ensure compliance with the requirements set out in the Circular.
- An analysis of Departmental Accounting System (DAS) reports revealed that the total number of transactions in Operational and Maintenance Expenditure accounts for the Cost Centres audited amounted to 7,438. With a Confidence Level of 90% and a Confidence Interval of 10%, a sample of sixty-eight out of 7,438 transactions was selected for testing.
- The transactions were traced to their respective Payment Vouchers (PVs) and invoices. When the

expenditure related to purchase of inventory items or was linked to a previously purchased asset, the Inventory Databases were checked to establish whether the relative assets were properly recorded.

- Physical checking was performed within each section of the respective Cost Centres.
- Lists of Government owned vehicles and Government Property occupied by OPM were analysed.

Key Issues

Physical Marking on Inventory Items

As stated by MF Circular No. 14/99, “*Each item shall be physically marked with a consecutive identification number.*”

None of the inventory items were physically tagged at Defence Section, Information Management Unit (IMU), Staff Development Organisation (SDO), Centre for Development, Research and Training (CDRT), EU Secretariat, Planning and Priorities Co-ordination Directorate (PPCD) and EU Affairs. This caused a limitation of scope on the physical stocktaking exercise as the planned testing could not be performed.

Lack of Awareness of the Provisions of MF Circular No. 14/99

Officers in charge of inventory were not familiar with the provisions of MF Circular No. 14/99. They were never provided with any sort of training and generally inherited

the task with little or no instructions. In particular, the Officers in charge of inventory at IMU and EU Affairs were not aware of the above mentioned Circular.

Control Issues

Opportunities for improvement were identified in the following areas:

Lack of Accuracy and Completeness in the Inventory Databases

Twenty-five out of sixty-eight (36.76%) PVs related to the purchase of Tangible Fixed Assets, of which seven (28%) were not traced to the Inventory Databases. Although the remaining eighteen PVs (72%) were traced, the recording of inventory items was entirely satisfactory in only eight instances (32%).

Another two PVs related to the purchase of non-inventory items which were linked to previously purchased assets. This Office was unable to trace these assets to the Inventory Databases.

Inadequate Details for Sites/Rooms

All IMU assets were listed as located in room number sixteen in the Inventory Database. However, IMU officers could not identify this room or the numbers of the other rooms assigned to the unit.

With regards to the Cabinet Office and EU Affairs, inconsistencies were noted between sites/rooms as documented on the Inventory Database and communications sent to the National Audit Office (NAO).

Shortcomings encountered during Physical Testing

Shortcomings encountered during physical testing, which may indicate a lack of effective and efficient administration of inventory items, are listed hereunder:

a) Inconsistencies in Location of Assets

A number of inventory items were found in a different location to that indicated in the Inventory Databases or room inventory lists.

b) Items not found in Inventory Records

A number of inventory items selected could not be

traced to the Inventory Databases or room inventory lists.

c) Physical Markings Inconsistencies

Some items were found to be physically marked with either an incorrect or incomplete Asset Identification Number or with the same identification number of another asset. Inconsistencies were also noted between the Asset Identification Numbers physically marked on the items, those on the Inventory Database and/or those on room inventory lists.

d) Room Inventory Lists Weaknesses

Testing of room inventory lists revealed various weaknesses in particular, details entered on the Inventory Database which differed to those included on the room inventory lists. In some instances the room inventory lists did not include the brand and/or serial number of assets, had incomplete Asset Identification Numbers and were not updated to include some new items acquired during 2009.

Compliance Issues

Analysis of Inventory Databases

The following issues indicate non-compliance with MF Circular No. 14/99:

a) Information Left Blank and other Errors

A number of fields within the Inventory Databases were left blank, or in the case of asset cost, a zero value was given in some instances. Information within other fields was noted to be inconsistent with the requirements of MF Circular No. 14/99.

b) Consumables included in Inventory Databases

As stipulated in MF Circular No. 14/99, “....a distinction must be made between tangible fixed assets and consumables. Consumables may include semi-durable items that have a life time of less than three years and have a value of less than fifty Maltese lira (Lm50)¹”

A number of consumables with a value less than €116.47 were noted within the Inventory Databases. Some items individually costing less than €116.47 but, forming part of a set, were entered in a particular Inventory Database separately and not according to the procedure outlined in the Circular for a ‘set of items’.

¹ Equivalent to €116.47.

c) Inconsistencies in Site Codes

The site codes used in the Inventory Databases for the respective Cost Centres did not tally with the list of site codes provided by OPM.

d) Vehicles Shortcomings

Discrepancies were noted between the list of vehicles provided by OPM and the Inventory Databases. Although the list indicated that a total of forty-two vehicles were being used during 2009, seventeen of the listed vehicles were not traced to the Inventory Databases.

Shortcomings related to Room Inventory Lists

In a number of instances, room lists were not available, not hung, not dated, unsigned and/or not as per Circular. Unless room inventory lists are adequately raised and maintained, an important inventory control tool would not be functional.

Backups not stored Off-Site and Information not submitted to Director Corporate Services

Upon enquiry, NAO was informed that soft copy backups of the consolidated Inventory Database are taken and kept as at June and December but no backups are stored off-site, which increases exposure to loss of data. It was also confirmed that an electronic copy is not being forwarded to Director Corporate Services (DCS).

Lack of Information submitted to the National Audit Office

- A certified hard copy of the Inventory Database was not submitted to NAO as directed in the Circular. Soft copies of all databases were requested and sent as at 31 December 2009, with the exception of PPCD and DCS Registry, which were dated as at March and July 2010 respectively.
- NAO was duly notified of items added to inventory every six months. However such information was not entirely in accordance with the Circular.
- A copy of the Permanent Secretary's authority to write-off obsolete inventory items was not sent to NAO.

Inadequate recording of Transferred and Obsolete Inventory

On 9 November 2009 the Permanent Secretary approved the disposal of unserviceable items following a Board of Survey. It was also established that various computer equipment was transferred internally to IMU and subsequently collected.

Enquiries with Treasury confirmed that written off and transferred assets should not be deleted from the Inventory Database “.....but the relative row should be copied underneath and a negative (-) sign is to be put in front of both the 'quantity' and the 'value' of the asset”.

No negative values were entered in any of the Inventory Databases to record asset movements resulting in incomplete databases and lack of audit trail.

Recommendations

Key Issues

Physical Marking on Inventory Items

This important control procedure should be adhered to, and items should be physically marked with a permanent identification number, as far as it is practicable.

Lack of Awareness of the Provisions of MF Circular No. 14/99

Management is to ensure that officers entrusted with the upkeep of inventory records are aware of the Circular and receive the necessary training to ensure adequate and harmonised accounting.

Control Issues

Lack of Accuracy and Completeness in the Inventory Databases

It is imperative that all assets are recorded accurately within the Inventory Databases. The information should provide, amongst others, the full identification of the item in accordance with MF Circular No. 14/99. Serial numbers should also be recorded when these are available.

Inadequate Details for Sites/Rooms

All sites/rooms should be adequately identified and marked appropriately according to established room plans. This would then be reflected in the Inventory Databases and respective room inventory lists.

Shortcomings encountered during Physical Testing

All assets are to be included in the Inventory Databases and duly allocated with a unique identification number as per MF Circular No. 14/99.

Officers in charge are to ensure that information, including brand and/or serial number, entered into the Inventory Databases, is accurate and complete. The Asset Identification Number and description entered on the databases should match information on the room inventory list.

Regular physical checks should be performed to ensure that the databases are adequately updated and any movements in inventory items appropriately reflected.

Compliance Issues

Analysis of Inventory Databases

OPM should rectify the shortcomings outlined to ensure that the Inventory Databases are complete, reliable and in compliance with MF Circular No. 14/99. Site codes are to be adequately established in accordance with the Circular.

Shortcomings related to Room Inventory Lists

Attention is drawn to MF Circular No. 14/99, which states that *“A list of the items of inventory in respect of each*

room, section, stores, outstation or district office is to be generated by the Officer in charge inventory The room inventory list shall be hung in the room containing the items.”

Backups not stored Off-Site and Information not submitted to Director Corporate Services

It is recommended that formal backup procedures are set up and adhered to. Ideally, a back up of the Inventory Database should be stored off-site. OPM should ensure compliance with the provisions of MF Circular No. 14/99.

Lack of Information submitted to the National Audit Office

OPM should ensure that the required information as per MF Circular No. 14/99 is submitted timely.

Inadequate recording of Transferred and Obsolete Inventory

It is emphasised that OPM should comply with Treasury’s instructions regarding written off or transferred items. A reference to the authority for such writing off or transfer should also be inserted in the comments column in the Inventory Databases and the relevant documentation appropriately filed.

Management Comments

Management concurred with all issues and has or will soon be taking remedial action to implement NAO’s recommendations.



Ministry of Foreign Affairs

Ministry of Foreign Affairs

Recurrent Expenditure

Background

The Ministry of Foreign Affairs' (MFA's) initial budget allocation for 2009, in respect of Operational and Maintenance Expenses, and Programmes and Initiatives, amounted to €8,878,000. This covered the Head Office, as well as the thirty Embassies falling under MFA's Vote.

The amounts allocated to Head Office were as follows: Operational and Maintenance expenses – €4,416,400, Hosting of International Conferences – €120,000 and Green Leaders' Environmental Initiatives – €5,000¹ (the latter two items falling under Programmes and Initiatives). By end 2009, the original budget line with respect to these items was in aggregate increased by €811,745, i.e. almost 18%, thus resulting in a revised budget line of €5,353,145. Travel, Contractual Services, Utilities and Equipment were the main contributors for this increase in allocation. On the other hand, decreases in the original budget line were mainly registered for Improvements to Property and Green Leaders' Environmental Initiative.

Audit Scope and Methodology

The scope of the audit was to ensure that expenditure incurred by MFA during 2009 was appropriately recorded and processed according to the General Financial Regulations (GFRs), 1966 and other pertinent Regulations and Circulars.

The audit work performed covered a sample of transactions charged to various accounts falling under Operational and Maintenance Expenses, as well as those charged to the Hosting of International Conferences account under Programmes and Initiatives. The audit sample, selected

according to materiality, was made up of a total of ninety-six transactions, collectively amounting to €345,750.54. Testing on Payment Vouchers (PVs) chosen in the audit sample included ensuring compliance with procurement regulations, verifying the mathematical accuracy of invoices and checking whether MFA was invariably issued with a fiscal receipt (where applicable).

This report focuses on inaccuracies in effecting 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 public funds.

Key Issues

Procurement Regulations and other Standing Instructions not adhered to

Audit testing revealed the following shortcomings in the procurement of services by MFA:

- Direct order covering approval was obtained for the printing of 2,600 magazines costing €10,920. Quotations relating to this expenditure, as well as the original request forwarded to the Ministry of Finance, the Economy and Investment (MFEI) for approval, were not made available for audit purposes. Furthermore, the practice to seek direct order approvals instead of issuing departmental tenders prevailed even during 2010, whereby MFEI approval was sought and obtained for the issue of 2,000 copies of another magazine, at a total cost of €20,291.19.

¹ Although according to the Financial Estimates for 2009, a further two items (Assistance to REMPEC and Overseas Development Aid) were allocated to the Head Office, in actual fact, these were charged to other Cost Centres.

- MFA paid €18,172 in 2009 and a further €3,304 in 2010² for media monitoring and reporting services. No departmental tender was issued since MFA iterated that the service was urgently required. MFEI direct order approval was not sought in this respect.
- Similarly, MFEI approval was also not sought prior to placing a direct order with the hotel hosting the Honorary Consuls Meeting, which cost MFA €14,157.88. Although requested by the National Audit Office (NAO), the Ministry failed to explain why quotations and direct order approval were not obtained.
- MFA purchased National and European Union (EU) flags from a supplier other than that indicated in the period contract regulating such purchasing. Payments issued to this supplier totalled €18,124.02 for the year under review. It is unclear how this supplier was engaged since no quotations or direct order approval was made available for audit purposes.
- Only one quotation, that from the supplier selected to provide the service, was sought by MFA prior to obtaining MFEI approval to place a direct order with the hotel hosting the Ambassador's New Year's Greetings Lunch. Payments in this respect amounted to €7,800.25.

Furthermore, assurance cannot be obtained that the most favourable offers were obtained for the above-mentioned purchases.

Control Issues

Opportunities for improvement were identified in the following areas:

Expenditure and Procurement Issues

Quotations not evidenced

Quotations were not evidenced for twenty-five³ out of the ninety-six PVs selected for audit testing, while on another six instances, only the chosen quotation was attached to the respective PV.

Invoices issued prior to Goods and Services Purchase Order or Letter of Acceptance

Out of the audit sample, forty-five invoices collectively amounting to €171,265.27 were issued prior to the Goods and Services Purchase Order (GSPO) or Letter of Acceptance (L/A). The majority of these invoices related to hospitality and advertising expenditure.

Invoices not certified correct

Audit testing further revealed eleven invoices, six of which related to hospitality expenditure, which were paid, notwithstanding that they were not certified as correct. Collectively, these amounted to €20,959.72.

Amounts charged by Service Providers not verifiable

- Between June 2008 and December 2009, MFA paid €1,652 monthly, in aggregate amounting to €31,388, for the provision of media monitoring and reporting services. However, neither an agreement with the service provider, nor any other supporting documentation, was made available substantiating this monthly charge.
- MFA paid €14,157.88 for expenses in connection with the Honorary Consuls Meeting held in March 2009 in a local five-star hotel. This amount included charges relating to two lunches, each covering additional persons to those indicated on the respective guest list. Thus, it could not be ascertained that MFA was correctly invoiced. MFA were further billed for 'other charges' amounting to €256.18. However, no explanation was provided regarding the nature of such expenses.

Transposition Errors resulting in Overpayments

MFA was charged different rates for the same advert featuring on a local newspaper on two consecutive dates. Both adverts bore the same Value Added Tax (VAT) element, thus implying that one of the charges was incorrect, possibly due to a transposition error. This resulted in an overpayment of €90. A similar error also led to the overpayment of €45.23, with respect to a clothing allowance, to an officer posted in Brussels.

² Payments in 2010 related to invoices issued in November and December 2009.

³ The individual cost of these purchases ranged from €900 to €7,800.

Hospitality

Inadequate Permanent Secretary's Approval for Hospitality Expenditure

Testing on the audit sample revealed that the required MFA's Permanent Secretary's approval was not evidenced for the settlement of two PVs relating to hospitality and accommodation, in total amounting to €4,738.24. Furthermore, on eight instances, the Permanent Secretary's covering approval was granted subsequent to the occurrence of the particular event and the receipt of the respective invoice from the supplier.

Lack of Information on Hospitality Expenditure

MFA paid for food and beverages, costing €1,263.50, consumed at a five-star hotel on 12 March 2009. No information was available as to the occasion for which such hospitality was provided, thus hindering verifications to ensure that this expenditure was legitimate.

Lunches enjoyed by 'Unofficial Guests'

Besides the Honorary Consuls Meeting, audit testing revealed a further three instances where MFA paid for lunches and meals enjoyed by persons not included in the guest list approved by MFA's Permanent Secretary. Neither were names of the respective persons indicated, nor was such expenditure relating to these bills evidenced as approved by the Permanent Secretary.

Fiscal Defaulters

Defaulters not reported to the VAT Division

Out of the audit sample of ninety-six transactions, twelve payments, collectively amounting to €66,373.53, were not supported by a fiscal receipt. However, none of these defaulters was reported in the return forwarded to the VAT Division on a quarterly basis.

Business with persistent VAT Defaulters not discontinued

Five defaulters were consecutively included in more than one quarterly list of VAT defaulters compiled by MFA for the year under review. Out of these five suppliers, one featured in all four returns covering the year 2009.

Transport

Established Procedure for booking Hired Chauffeur-driven Services by-passed

Instances were brought to NAO's attention where, instead of notifying the officer in charge of transport within the same Ministry of the dates and times when hired chauffeur-driven services were required, and the necessary arrangements made accordingly, the respective officers booked transport directly with the service provider.

Use of Chauffeur-driven Vehicles by Officers at the Ministry of Foreign Affairs

Apart from chauffeur-driven services utilised by Protocol staff during delegations/visits by foreign dignitaries, this service was also hired for local airport transfers and was even conceded to officers attending meetings held locally and during office hours.

The use of hired chauffeur-driven vehicles for airport transfers was also not efficiently planned since separate vehicles were being provided for officers travelling together or at the same time, again even during office hours, notwithstanding a number of general use vehicles at the Ministry's disposition.

Chauffeur-driven Services not covered by Agreement

The conditions of the contract for the hire of chauffeur-driven services mention only the provision of cars, while no reference is made to the hire of other vehicles. On various occasions, chauffeur-driven minibuses and mini-coaches were utilised to transport dignitaries. These were provided by the same company which was awarded the tender for the provision of chauffeur-driven cars, without MFA seeking quotations from other suppliers. Furthermore, the rates charged by the service provider, for the hire of chauffeur-driven minibuses and mini-coaches, were not formally agreed upon and documented.

Shortcomings in the Contract for Chauffeur-driven Services

The agreement for the hire of chauffeur-driven services failed to specify whether:

- a) the indicated rate per hour is the minimum charge, even though the trip takes less than one hour;
- b) trips of over one hour are charged pro-rata; and
- c) the duration of the trip covers from pick-up to drop-off point or the charge commences from when the chauffeur leaves base and ends upon return.

Incorrect Payment effected

According to correspondence exchanged within MFA, the transport expense incurred by a foreign Ambassador during one of his visits to Malta was expected to be borne by the same Ambassador, who was to settle payment directly with the service provider. However, MFA were still invoiced and paid for transport utilised during this visit, which totalled €670.76 (VAT included). It is unclear whether the company was in fact paid twice for the service provided or whether reimbursement was made to MFA by relative Ambassador.

Transport Vouchers lacking Details and adequate certification

- The transport vouchers for chauffeur-driven services utilised by MFA during 2009 failed to indicate the name of the person making use of the chauffeur-driven vehicles, as well as the pick-up and drop-off destinations. The absence of such information hinders the identification of any cases of double-payments.
- Out of the audit sample, three transport vouchers failed to indicate the trip duration of the chauffeur-driven services. Notwithstanding, these vouchers were still endorsed by the respective officers and the amounts as invoiced by the service provider paid in full.
- All vouchers for transport utilised by Ambassadors to attend the New Year's Greetings were only endorsed a month later. Instances were also encountered where the transport voucher was certified correct by an officer other than the one making use of the service.

Lack of supporting Documentation

Disbursement of transport expenses for local airport transfers, when officers travelled abroad on official Government business, could not be validated due to lack of documentation supporting this expenditure.

Missing Agreement covering Lease of Self-driven Vehicle

A total of €1,022.78 was paid with respect to the hire of a vehicle during July and August 2009. However, no agreement supporting this payment could be traced at MFA.

Travel

Incorrect Subsistence Allowance and Unnecessary Travel Advances

- The subsistence allowance granted to officers travelling abroad was calculated incorrectly in various instances, sometimes leading to officers being advanced more public funds than they were entitled to. Whilst some of these errors were neutralised in the officers' statement of expenses, others resulted in understated amounts being reimbursed to MFA.
- The audit also revealed instances where hotel advances were granted to officers even though such expense was borne by the country/organisation hosting the visit. Unnecessary hotel advances could lead to loss on exchange rate, as was the case for the State Visit to Australia, whereby MFA lost over €250 due to the exchange rate difference since the hotel bills were settled by credit card and only a negligible amount was paid in cash.

Shortcomings in the Statement of Expenses

None of the eleven statements of expenses falling in the audit sample were compiled according to the format prescribed in the Public Service Management Code (PSMC). Furthermore, most of the statements reviewed failed to indicate how and by whom the expenditure relating to hotel accommodation was paid for.

Uniforms

Accuracy of Payment for Summer Uniforms not determined

Accuracy of payment for twenty-four grey and greyish blue (summer) uniforms, purchased during 2009 for messengers and security guards, could not be ascertained since the invoice from the supplier did not separately disclose the quantity of each type of uniform. Moreover, unreliable information provided by MFA did not help in establishing the number and type of uniforms ordered and to ensure the officers' entitlement.

Inadequate Records for Uniform Issues

The records relating to issues of uniforms during 2008 and 2009, made available for audit purposes, were insufficient, since no reference was made to the items/quantities purchased and who was actually entitled to such items. This lack of information hindered audit testing to

ensure that the uniforms were purchased according to the Ministry's requirements

Flags

No Stock Record for Flags

During 2009, over 200 flags were purchased for a total cost exceeding €18,000⁴. However, although the movement of flags is recorded, no record is kept for flags in store. This shortcoming was also noted during NAO's Compliance Audit for the year ended 2003.

Unclaimed Deposits not cashed

Testing carried out revealed four uncashed cheques for a total value of €470.52, payable to MFA. These deposits originated from third parties, which amount they are required to leave when flags are loaned from MFA. Since deposits are refunded once the flags are returned, these uncashed cheques could imply that flags were not returned at all to MFA. However, no explanation was obtained as to why, in the instances identified, the deposit money was not claimed or cheques were not cashed. A similar shortcoming was already brought to MFA's attention in NAO's Compliance Audit Report for the year ended 31 December 2003.

Petty Cash

Shortcomings in managing Petty Cash

Most of NAO's recommendations on petty cash following the Compliance Audit for the year ended 2006, were taken on board by MFA. However, some shortcomings were still noted while conducting audit testing, including petty cash vouchers not certified correct and signatures of the certifying officer recorded in pencil.

Expenditure charged to Petty Cash

On 17 December, a batch of seven fiscal receipts was charged to the Petty Cash Book as 'cleaning material'. The majority of items bought were VAT exempt, while their value ranged from €1.00 to €7.90. The total of these receipts, which were not certified by a senior officer, amounted to €79.67, the exact amount remaining from the petty cash float at the end of the year.

Spirits, Beverages and other Consumables

Lack of Stock Records

- No stock record of spirits and beverages was maintained by MFA during 2009. Only a list of items in stock, compiled manually, was forwarded to NAO. Furthermore, as indicated on the same list, a number of beverages held in stock were past their 'best before' date.
- Although a stock record for cleaning materials and consumables was kept by MFA, this was inadequate. The sole entries recorded on the manual ledger were those relating to issues for stock items, while purchases were not included.

Compliance Issues

Uniforms

Frequency of Uniforms Issues not in accordance with pertinent Circulars

During 2009, MFA purchased a winter uniform and two pullovers for each of the twenty-four messengers employed with the Ministry. Information obtained confirmed that messengers receive a full winter uniform every year and two pullovers every three years.

However, according to the provisions established by MPO Circular No. 38/96, in addition to the pair of trousers entitled on an annual basis, messengers are only entitled to one winter jacket every three years, whilst pullovers are not to be issued in the same year as the jacket.

Return of 'Uniforms Requirements' not evidenced

The returns covering Summer 2009 and Winter 2009/2010 uniforms requirements, which in terms of Contracts Circular No. 39/2008 were to reach the Contracts Division by 5 January 2009, were not sent by MFA. Information on uniforms requirements was limited to a list indicating the names of messengers/security guards and at times the uniform sizes, attached to the initial requisition forms raised for the purchase of each uniform item.

Labels on Uniforms not according to Specifications

According to the Contracts Circulars relating to issues of uniforms in force during 2009, all uniform items were

⁴ This figure includes the cost of office, desk, as well as car flags, for use both in Malta and in the Embassies.

to bear the letters ‘GM’, while both summer and winter uniforms were to further indicate the contractor’s name and the year of manufacture. However, the only label attached to the uniforms was that indicating the manufacturer’s name.

Flags

Period Contract for the purchase of Flags dishonoured

During 2009, MFA purchased a minimum of 130 National and forty-eight EU flags, costing €5,972 and €2,469 respectively, from a supplier other than the one indicated in the respective period contract regulating the purchase of similar flags. The prices charged by the supplier were more than double those indicated in the period contract while, in most cases, the dimensions of flags purchased from this supplier varied slightly from those established in the period contract.

Rent

Subletting of Information Management Unit Office

In the year under review, MFA paid a total of €30,000 to the Malta Tourism Authority (MTA) for the rental of a property in Valletta. However, the latter is not the owner of this property, but it leases these offices from a third party. This subletting to MFA is in breach of the rental agreement between MTA and the third party. Furthermore, no rental agreement is in place between MTA and MFA. Correspondence between MFA and the Office of the Prime Minister (OPM) further indicates that the third party was not informed of the change in tenants.

Recommendations

Key Issues

Procurement Regulations and other Standing Instructions not adhered to

The Public Contracts Regulations are to be strictly adhered to when procuring goods and services. Purchases with an estimated value between €2,500 and €6,000 should solicit the obtaining of quotations or the issue of a departmental tender. On the other hand, goods and services exceeding €6,000 but not €120,000 may only be procured after a departmental call for tenders.

Although direct contracts may be approved, these are to be resorted to only in exceptional circumstances and not used *in lieu* of issuing tenders. When procuring directly from the open market, MFEI approval is to be sought prior to purchasing the respective goods/services. In such cases, quotations are still to be sought, unless only one supplier offers the particular good/service. The requests for direct order approval are to also indicate the reasons justifying this approach.

Control Issues

Expenditure and Procurement Issues

Quotations not evidenced

To ensure that the best market prices are obtained, purchases of lesser values than €2,500, particularly in cases of hospitality expenditure, are also to be covered by quotations. Furthermore, all quotations sought prior to purchasing are to be attached to the respective PV for future reference.

Invoices issued prior to Goods and Services Purchase Order or Letter of Acceptance

Invoices are not to be accepted for payment unless these are preceded by a GSPO or L/A, approved at the right level of authority.

Invoices not certified correct

Billing is not to be accepted at face value. All invoices are to be duly certified correct by an independent officer prior to being forwarded for payment.

Amounts charged by Service Providers not verifiable

- While formal agreements are to be in place, where applicable, all invoices are to include the necessary information to enable thorough checking before authorising payments.
- Unless assurance is obtained that the bills reflect the service actually provided and that all charges are justifiable, disbursement of public funds is not to be approved.

Transposition Errors resulting in Overpayments

All invoices are to be verified for accuracy and completeness before these are paid. Furthermore, overpayments are to be recouped.

Hospitality

Inadequate Permanent Secretary's Approval for Hospitality Expenditure

MFA is to ensure that authority for disbursement of public funds in connection with Government hospitality is sought from the respective Permanent Secretary, who is also to endorse each request before the expenditure is incurred, as required by the relevant provisions of the PSMC.

Lack of Information on Hospitality Expenditure

Invoices relating to hospitality expenditure are to clearly indicate the event/occasion to which the expenses relate. Furthermore, no payments are to be effected unless the expenditure is approved beforehand by the right level of authority.

Lunches enjoyed by 'Unofficial Guests'

Expenditure relating to hospitality is to be incurred only when absolutely necessary, and as long as it is in line with standing regulations. The names of all officers enjoying hospitality, including accompanying employees whose attendance is deemed essential, are to be included in the guests' lists requiring the Permanent Secretary's approval. The officers' designation and the reasons justifying their presence are also to be recorded.

Fiscal Defaulters

Defaulters not reported to the VAT Division

MFA is to ensure that it is invariably issued with a fiscal receipt by all suppliers. Defaulters are to be reported to the VAT authorities as per standing regulations.

Business with persistent VAT Defaulters not discontinued

Until the matter is resolved, MFA is to discontinue business with suppliers who repeatedly fail to issue fiscal receipts.

Transport

Established Procedure for booking Hired Chauffeur-driven Services by-passed

The procedure in place for booking chauffeur-driven transport is to be adhered to by all officers within MFA.

Use of Chauffeur-driven Vehicles by Officers at the Ministry of Foreign Affairs

Whenever possible, general use vehicles pertaining to the Ministry are to be used to transport MFA officers. If this is not feasible, other alternatives are to be considered. Furthermore, car pooling when two or more officers are travelling together or at the same time is recommended.

Chauffeur-driven Services not covered by Agreement

The hire of chauffeur-driven services from the selected contractor is to be limited to that identified in the prevailing agreement between the former and MFA. In the event that vehicles, other than those mentioned in the contract are required, the necessary quotations are to be sought or a tender issued and the best offer selected. Applicable rates are to be formalised and agreed upon by both parties.

Shortcomings in the Contract for Chauffeur-driven Services

The agreement for the hire of chauffeur-driven services is to clearly indicate whether a minimum charge applies, and when rates are to be applied proportionately, and if the duration of the trip includes also the time taken by the chauffeur to travel from base to pick-up/drop-off locations.

Incorrect Payment effected

Once MFA confirms that the expense was actually incurred by the Ambassador, the extra amount paid to the service provider is to be recouped.

Transport Vouchers lacking Details and adequate certification

- All transport vouchers are to accurately indicate the name of the travelling officer, the pick-up and drop-off destinations, as well as the vehicle registration number.
- Officers making use of chauffeur-driven services are to ensure that the duration of the trip is correctly filled in prior to endorsing the transport voucher.
- Transport vouchers are to be endorsed by the officer enjoying the chauffeur-driven service. In case of foreign dignitaries, the vouchers are to be timely certified correct by the officer in charge of the delegation.

Lack of supporting Documentation

All hired chauffeur-driven services are to be supported by the necessary documentation confirming the dates and the purpose of hire, as well as the number of vehicles required.

Missing Agreement covering Lease of Self-driven Vehicle

The lease of the self-driven vehicle in question is to be covered by a valid contract, which is to be adequately filed for future reference.

Travel

Incorrect Subsistence Allowance and Unnecessary Travel Advances

- More attention is to be placed when computing subsistence allowances. Amounts advanced to officers travelling abroad on official business are to be accurate and in compliance with the relevant sections of the PSMC.
- No funds are to be advanced for accommodation if such expense is intended to be settled by the Ministry's credit card or the host country/organisation commits to bear the hotel expenses itself.

Shortcomings in the Statement of Expenses

Statements of expenses are to be compiled by all officers travelling abroad using the form prescribed by the PSMC. Information presented in these forms is to be accurate, while each statement is to be duly signed and dated.

Uniforms

Accuracy of Payment for Summer Uniforms not determined

Initial Requisition Forms raised for the purchase of uniforms are to clearly indicate the number of each type of uniform required. Furthermore, MFA is to review payments issued to this supplier, compute the exact overpayment and claim the amount as credit from the next purchase.

Inadequate Records for Uniform Issues

A list of all officers entitled to receive uniforms is to be compiled. MFA is also to maintain a database for uniform

items, which is to include the sizes of all items required by each officer and quantities purchased. Ideally, each officer is to personally endorse uniform items provided to him/her.

Flags

No Stock Record for Flags

MFA is to take stock of all flags in hand and those on loan. Furthermore, a record is to be maintained of all flags purchased, any issues thereof, as well as write-offs due to wear and tear.

Unclaimed Deposits not cashed

MFA is to ensure that all flags loaned are returned within the stipulated period, established according to each individual case. Conditions applicable in the event that third parties fail to return the flags to the Ministry are to be enforced without exception.

Petty Cash

Shortcomings in managing Petty Cash

All petty cash vouchers are to be certified correct by an officer independent of the petty cashier. The signature is to be evidenced in ink so as to reduce the risk of being erased or manipulated.

Expenditure charged to Petty Cash

MFA is to ensure that the petty cash float is not utilised for disbursement of a personal nature. The purchasing of goods for officers' personal consumption is to be strictly prohibited. Furthermore, any remaining cash float as at year end is to be returned to Treasury and not expensed on unnecessary items.

Spirits, Beverages and other Consumables

Lack of Stock Records

Whilst adherence to Treasury Circular No. 6/04 is solicited, for control purposes MFA is to maintain a record of all beverages, cleaning materials and consumables purchased. Issues thereof are to be duly documented and endorsed by a responsible officer. Furthermore, random checks are to be carried out to confirm the physical presence of items which according to the records are still in stock and *vice versa*.

Compliance Issues

Uniforms

Frequency of Uniforms Issues not in accordance with pertinent Circulars

Issues of uniforms are to be effected as per MPO Circular No. 38/96.

Return of ‘Uniforms Requirements’ not evidenced

The return, as per relevant Contracts Circular, is to be duly compiled and timely submitted to the Contracts Division.

Labels on Uniforms not according to Specifications

MFA is to ensure that all items of uniforms purchased meet the specifications required by the respective period contracts. Any shortcomings are to be forwarded to the Contracts Division for necessary corrective action.

Flags

Period Contract for the purchase of Flags dishonoured

National and EU flags are to be purchased from the supplier officially awarded the period contract.

Rent

Subletting of Information Management Unit Office

Whilst seeking legal advice is highly recommended, if MFA has the intention to keep on using these premises,

it is to regularise its position and enter into a direct rental agreement with the owner of the property.

Management Comments

Management concurred with the majority of the observations and commented that the audit exercise provided the Ministry with useful guidelines to emulate. Most of the recommendations made by NAO have been accepted and action has already been taken to comply accordingly.

However, MFA remarked that:

- the amounts spent on meals enjoyed by ‘unofficial guests’ are trivial;
- punctuality for airport and business meetings can only be guaranteed if the services of hired chauffeur-driven cars are available; and
- combining transport when two or more officers are travelling together or at the same time may not always be feasible given the extra costs which the simultaneous pick-up of officers entails, since sometimes the service is needed several hours ahead of their scheduled flight.

Management maintained that the petty cash entry of €79.67 at year end truly related to expenditure on cleaning materials and that the purchases were made in good faith. Still, officers were directed to abide by the Financial Regulations.

Management also claimed that OPM had instructed MFA officers to purchase flags outside the period contract, in order that these are up to standard for state and official visits. However, correspondence between OPM and MFA forwarded to NAO did not support this claim.

Control by the Ministry on the operations of Maltese Missions Abroad

Background

The Ministry of Foreign Affairs (MFA) is responsible, amongst other things, for providing consular services to protect the welfare and interests of Maltese citizens residing or travelling overseas. This largely occurs through a network of thirty missions. Around ninety-two Malta Based Officers (MBOs) and 153 Locally Engaged Personnel (LEPs) were employed with Maltese Missions abroad as at December 2009. In addition to Financial, Procurement and other regulations, operations at foreign Missions are governed by the 'Conditions of Service for Officers Serving Overseas' (CSOSO).

Every month Missions submit to the Head Office (HO) within MFA, the accounts indicating the revenue generated and expenditure incurred. Eight officers from HO, referred to as Desk Officers, perform checks on these records and input the appropriate information into the Departmental Accounting System (DAS).

The audit focused on control by HO, mainly *vis-à-vis* two Missions, the one in Tripoli and the one in Beijing.

Tripoli

The Mission in Tripoli is a medium-sized Embassy operating from Government owned property, with three MBOs and seventeen LEPs as at December 2009, divided between the Embassy and the Consulate compounds.

All money received by the Consulate for consular services is in Libyan Dinars (LDs) and operating expenses by the Malta Embassy in Tripoli (MET) are generally paid for in cash in this currency. Revenue from consular services amounted to the equivalent of €497,784 in 2009. The Mission has two bank accounts in Libya, one in LDs,

servicing as the resident account, while the other account is in Euro (€). The Mission has another Euro account held with a local commercial Bank in Malta, from which MBOs' salaries are paid. Euro and LDs cash balances are also held by the Mission.

Beijing

The Embassy in Beijing is a relatively small Mission with two MBOs and five LEPs as at 31 December 2009. The LEPs are provided by the Diplomatic Services Bureau (DSB). The contract that governs the relationship between the Mission and its LEPs is the contract between the Embassy and the DSB.

Payment for consular services is received in US Dollars (USD), Euro and Chinese Renminbi Yuan (RMB), while the bulk of the day-to-day running expenditure is effected in cash RMB. The Maltese Embassy in Beijing (MEB) operates three bank accounts in the respective currencies i.e. USD, Euro and RMB.

Revenue arising from consular services during the year under review comprised €21,715.96, RMB727,124.36 and USD8,566.61 which, translated at the latest exchange rates applied by the Mission at the end of 2009, would in aggregate amount to a total of €99,647.94.

Audit Scope and Methodology

The main objective of the audit was to identify the controls exercised by HO over the Missions and to assess the effectiveness of the internal controls. The exercise also aimed to determine whether Mission operations reflect sound business practices, whereby the embedded internal controls enable the same Missions to pursue their objectives.

A questionnaire was distributed to all the eight Desk Officers. This was carried out to determine whether these officers are in possession of all the necessary information enabling them to carry out proper verifications and exercise the expected controls.

Two Missions were selected as audit sample, namely Beijing and Tripoli, for detailed testing. The review focused on five main areas, i.e. compliance with regulations and operating procedures, communication between MFA (Desk Officer) and the respective Mission, expenditure and revenue, imprest requests for funds, as well as the upkeep and reliability of records.

The monthly accounts submitted by the two Missions in question were reviewed. Testing was carried out to assess reliability of records and to ensure compliance with standing regulations, policies and procedures.

Desk Officers processing the accounts of the Missions in the audit sample were contacted and/or interviewed during the course of the audit. Most of the conclusions and respective recommendations in this Report were based on examination of documentation obtained as well as representations made by these officers.

Limitation on Scope of Audit

Since MFA's approved official rates to be charged by the Missions for consular services could not be traced, revenue testing was based on the rates quoted by the Missions on their websites and the rates stipulated in the revenue reports submitted to HO by the same Missions with the monthly accounts.

In addition, correctness of invoices could not be ascertained as these were in Arabic and Chinese respectively. Thus, reliance was only placed on the details provided in the Payment Vouchers (PVs) and translations attached thereto, if any.

Key Issues

Weak Control Environment at Head Office

The various shortcomings encountered during the audit imply that internal controls expected to be exercised by HO were lacking.

One could also note lack of proper training provided to Desk Officers within HO, as well as to MBOs. Furthermore, the former were very often relying on what the Missions reported without any supporting documents or information.

Lack of Training and Standard Operating Procedures

There is no formal training programme for MBOs who are posted overseas. Most of these officers have little, if any, hands-on experience in administrative and financial duties, even though very often they are expected to be responsible for these areas once posted in a Mission. Proper guidance with respect to the administrative duties that are to be carried out by MBOs, and the upkeep of financial records, is sometimes lacking.

As a result, records submitted to HO by the Missions under review had numerous shortcomings. They were also in different formats, and there was no consistency whatsoever between one set of records and another.

Insufficient guidelines were also noted for Desk Officers with regards to the performance of their duties. Some of these officers are doing things the way they 'have been told' without any recourse to manuals or official instructions. Other matters are dealt with through experience or simply the way they deem best. Moreover, when responsibilities are changed, i.e. Desk Officers are no longer responsible for the same Missions, new approaches or considerations may start being used. The lack of guidance and training provided to the same Desk Officers was evidenced in various circumstances as indicated hereunder:

- Desk Officers had no copies of LEPs' engagement contracts of the Missions under their responsibility, thus the basis on which amounts paid to LEPs were being verified, could not be determined. Furthermore, Desk Officers considered their role as 'vetting' the accounts. They also verbally stated that in certain cases, such as LEPs' salaries and rent, they only query any discrepancies which may arise when amounts are compared from month to month.
- Desk Officers were relying on the figures and amounts reported by Missions in the monthly accounts. Apart from the fees indicated in the monthly report, they had no record indicating the fees that should be charged by the Mission for consular services not covered by standing legislation, and those charged in currencies other than the Euro, which is the currency indicated in standing regulations.
- Revenue reported by the Missions in the monthly accounts was not substantiated by any other source documentation.

Outdated and Ineffective Manual

The CSOSO stipulates MBOs' entitlements, however, as highlighted in previous years' reports, this document is outdated as it does not incorporate the full benefits currently being enjoyed by high ranking diplomats. Furthermore, though Office Circulars are distributed from time to time, since they are issued sporadically and not incorporated into the CSOSO, they tend to go by unnoticed and thus become ineffective.

Control Issues

Discrepancies between Departmental Accounting System and Manual Records

An increase in revenue generated from Visa fees in Tripoli gave rise to an excess of the Mission's DAS Imprest Warrant. As a result, the amount of €169,144.28 generated from Visa fees between September and December 2009 could not be recorded in the system. This resulted in discrepancies between DAS and manual records. Furthermore, below-the-line control account '9782 - Cash/Bank Tripoli', already in use in previous year/s, presumably in similar circumstances, was reactivated during 2009 and showed a balance of €131,130.40. In addition, further adjustments were still required in order to reconcile year-end DAS balance with the manual records.

Substantial Amounts of Cash held by the Mission in Tripoli

The significant amount of LDs cash-in-hand and at bank held by the Mission in Tripoli is of concern to this Office. This situation has been prevailing at least since 2008, but no concrete action was taken. It was noted that these monies are not easily exchanged into Euro, and due to monetary restrictions on currency flows, the monies collected from Visas cannot be sent to Malta.

Salaries of Locally Engaged Personnel and Malta Based Officers not paid in Libyan Dinars

The eight LEPs employed within the Embassy compound were receiving a substantial part of their salary in Euro even though according to the employment contracts only the salary of one LEP was payable in this currency. From an Office Circular dated 13 January 2009, issued to all Euro-based Salary LEPs and MBOs working with MET, it was communicated that the LDs portion of cash salaries will be increased from 25% to 50%. However, this only lasted till March and as from April 2009, the amount paid in LDs was negligible, not even 1%. This decision did not help to mitigate the problem of the large amount of cash held by the Mission.

Furthermore, while the new policy came into effect in April 2009, queries related to this change were only raised by the Desk Officer in December 2009. Notwithstanding that a proper explanation was not submitted by MET, no further comments were raised by HO. In addition, correspondence traced was mostly between the Desk Officer and the Administrative Assistant (AA) at MET with no involvement of senior management.

No Evidence of Cash Counts

No evidence was traced at HO indicating that cash counts are being carried out by the two Missions under review.

Unsubstantiated Currency Conversions

No source documentation was traced at HO substantiating the currency conversions effected by the Mission in Beijing, while only three transactions out of twenty-six, effected by MET during the year were substantiated by official documentary evidence.

Both Desk Officers responsible for the Missions under review were relying on the amounts reported in the Cash Book for such transactions and neither of them requested any documentation substantiating the amounts reported in respect of cash currency conversions.

Revenue

Completeness of Consular Revenue Unwarranted

Records submitted by both Missions for consular revenue collected were in the form of Excel sheets and details were inputted manually. Completeness and correctness of records could not be ascertained due to the following:

- Amounts included in the above mentioned records were not supported by source documentation. Furthermore, no reconciliation was being carried out between MFA and the other entities involved in the provision of consular services, namely the Central Visa Unit (CVU), Passports Office, the Inland Revenue Division and the Citizenship and Expatriates Office.
- Both Missions issued a number of Visas for which no fee was applied. None of the Missions indicated the reason for the free Visa in the records submitted to HO. As a result, it could not be confirmed that 'gratis' Visas were issued in line with the provisions of Legal Notice (LN) 434/2007.
- In the records submitted by the Beijing Mission, the receipt number was only indicated in some of those

records showing the revenue generated in RMB. No receipt number was included in the other documents showing the revenue generated in USD and Euro. Furthermore, in the case of passports issued, the records did not indicate the type of passport, notwithstanding that various rates are applicable for different types of passports. Consequently, verification with counterfoil records was hindered.

- In certain instances, MET indicated particular Visas which were 'cancelled/spoilt'. No substantiating documentation was traced at HO, neither from the Mission nor from CVU. No such cases were noted in the case of MEB, however since records by this Mission only showed the value as '0', any Visas cancelled could not be identified from those issued for free.

Lack of Supporting Documentation covering Sponsorships and Refunds

No evidence of receipts was traced substantiating sponsors received by MET in 2009, and funds refunded to the Mission by staff in Beijing. As a result, correctness and completeness of amounts reported by both Missions could not be ascertained.

Lack of Segregation of Duties

In a number of instances, accounting records at MET were prepared and checked by the same LEP. Checking, if any, was only performed by the same officer and records were subsequently endorsed by the Ambassador. On the other hand, all accounting issues at MEB were dealt with by the same MBO (Counsellor/First Secretary). Both the revenue reports and the Cash Book were at times endorsed only by this MBO preparing them.

NAO could not determine whether adequate internal controls were in place at the Missions to ensure proper safeguarding of cash, especially in Tripoli where large amounts of cash were being handled.

Foreign Exchange Rate Fluctuations

Both Missions under review operate in currencies other than the Euro, namely LDs and RMB respectively. For the translation of the Missions' accounts into Euro, two totally different methods were being adopted.

At MET, the revenue generated in a particular month was translated applying the middle rate published by the Central Bank of Libya. On receipt of the accounts, the Desk Officer at HO retranslated all balances, applying the exchange rate

used by MET the previous month. Significant unrealised foreign exchange differences were being accounted for in unrelated accounts, namely, account '3060 – Contractual Services' and/or account '3410 – Incidental Expenses', under the Mission's Cost Centre, thus totally distorting the original budget figures.

On the other hand, the records submitted by MEB showed amounts collected in their original currency, i.e. USD, Euro and RMB respectively. To convert the balance of these different currencies into Euro, HO was taking the exchange rate used, if any, in that particular month by the bank for the conversion of that specific currency, when the Mission sells Euro to the bank to buy RMB. As a result:

- though the foregoing rate was used by HO for the recording of Personal Emoluments in DAS, the Mission was using a different rate for the calculation and recording of salaries in their account, giving rise to discrepancies between DAS records and those prepared by the Mission. Furthermore, the basis of the exchange rates applied by MEB was not known as no supporting documentation was submitted. Thus, correctness of the five separate exchange rates applied by the Mission in 2009, and accuracy of payments effected, could not be ascertained;
- in cases when the Mission bought RMB on more than one instance in a particular month, HO arbitrarily recorded the revenue collected during that month applying the latest rate of exchange used by the bank for the Mission's transaction when buying and selling currency; and
- all revenue collected by MEB in USD in 2009 was translated by HO using the two exchange rates indicated in the January 2009 opening balance, as per manual records prepared by the Desk Officer, notwithstanding that none of these rates was used by the Mission in that same year.

Other Consular Service Fees

Visa Fees not Reviewed

The fees for Visas issued by the Mission in Tripoli as well as that in Beijing, were not reviewed in line with the Visa Code Act, and remained fixed throughout 2009, irrespective of the exchange rate fluctuations. Moreover, the Visa fee of LD95 (excluding the Administration fee) set by MET did not ever recoup the cost (€60) of the Visa in 2009.

No Basis for Consular Fees Charged

The checking carried out by Desk Officers on revenue collected, was limited to the calculation of fees reported in the monthly accounts submitted by the Mission, which fees were accepted at face value.

The administration fee charged by both Missions is neither covered by subsidiary legislation nor by official instructions from HO. Similarly, the basis of certain standing fees applied by both Missions, such as those charged for Legalisations, Authentications, and Translations (other than for passports), could not be determined as they were not covered by LN or any other standing regulation.

In addition, no queries were raised by the Desk Officers about the issues listed hereunder.

Tripoli

Visa fee for nationals with whom Malta has a 'Visa Facilitation Agreement' is not included in the applicable LN. However, MET applied a fee of LD55.50 and an administration charge of LD6.50 to issue such Visa.

Similar to the Visa issue, prices for other consular services were also not reviewed to reflect the changes in exchange rate.

Beijing

Although MEB are acknowledging an administration charge of €6 for each Visa application, the Mission was taking this fee from the total cost of €60 stipulated in LN434/2007. No similar verifications have been made by the examiners for charges stipulated in USD and RMB, (and LD in Tripoli) due to foreign exchange currency conversions. However, similar occurrences cannot be ruled out.

At times, Visas issued in Euro were also issued for different fees ranging from €44 to €90, the basis of which was not specified. On the other hand, rates for Visas payable in RMB was set at RMB576 for each Visa, while the rate for Visas payable in USD appears to have been set at \$78.30. The basis of these rates could also not be identified. In addition, Visa fees charged in USD also varied considerably, however no documentation was submitted to HO with the monthly accounts justifying the fees applied.

No official basis was identified for courier fees, presumably to deliver Visa documents. The courier charges reported in the accounts varied from €0.50 to €39 per Visa. The batch of invoices for courier charges attached to the respective payment in the monthly accounts could not be tallied to the courier fees charged as recorded in the revenue reports.

Different Fees charged by the same Mission during 2009

During 2009, both Missions under review changed prices applied to some of the consular services offered. No queries were raised by the respective Desk Officers, even though the prices charged differed from those established by the same Mission or through subsidiary legislation.

Locally Engaged Personnel***Tripoli******Staff Turnover***

Due to considerable staff turnover in 2009, during the second half of the same year, the majority of clerks working within the Visa Section at the Consulate were newly recruited.

Divergence from Rates stipulated in the Employment Contracts at Malta Embassy Tripoli

Some of the contracts of LEPs carrying out duties within the Embassy compound in Tripoli, date back to 1986 and have not been reviewed since. This created substantial discrepancies between amounts stipulated in the contracts and amounts paid. Updated documentation regarding the salaries of LEPs was only requested by the Desk Officer following queries during the audit. Furthermore, only the currency of one out of the eight contracts was stipulated in Euro, however, as indicated earlier on, during most of 2009, the salaries of the aforementioned LEPs were being paid in Euro, except for a small portion paid in LDs.

Beijing***Outdated Agreement***

The agreement between the Embassy and DSB, regulating the employment of LEPs, expired on 31 December 2000. The agreement included the possibility of being automatically renewed for a further year if neither party raises objection to the contract one month before its expiration. However, notwithstanding that the contract has now more than expired, no other agreements were traced, and it was indicated that the contract was never formally renewed.

No basis for 13th and 14th Salary Payments

In December 2009, LEPs received a payment reported as the "13th and 14th Month Allowance" in aggregate amounting to RMB41,126.51. This covered payment for

balance of Vacation Leave (VL) which was unavailed of, and payment of a bonus, which according to the expired agreement had to be equal to “one month’s service charge”. It transpired that:

- the basis used in the computation for both the unutilised VL payment as well as the bonus could not be established. The monthly service charge forming the basis of the computations differed from the actual amounts being paid, while VL entitlement used in the computation differed from that specified in the agreement; and
- the old agreement stipulated that “*in principle annual leave shall be used annually*”. However, according to workings submitted by the Embassy, all employees had at least eleven days of unavailed VL for which they were paid. No queries were raised by HO as to why LEPs were not availing themselves of the VL entitlement. Furthermore, no evidence was submitted to HO of the LEPs’ actual number of VL outstanding.

Shortcomings related to Overtime Payments to Locally Engaged Personnel at Malta Embassy Beijing

During 2009, payments for overtime work carried out by LEPs in Beijing were directly issued to the employee concerned, notwithstanding that the expired contract stipulated that the overtime service charge shall be paid to DSB.

In the same year, the driver was paid RMB5,190 covering 259.5 hours of overtime performed over nine months. On a couple of occasions this employee worked overtime for seventeen hours at a stretch, in one instance even exceeding eighteen hours in one day. No explanations were requested by the Desk Officer, at least as to the nature of the event for which the driver was required to perform such long hours of overtime. Moreover, most of the claims for overtime were not endorsed by any officer certifying their correctness.

Malta Based Officers

Divergence by the Embassy in Tripoli from Internal Office Circular on Salary deposited in Malta

In contrast to the terms stipulated in an Internal Office Circular, MBOs posted at MET were receiving most of their global emoluments, if not all, in Malta, not just the Malta salary.

Shortcomings in connection with the Payment of Global Emoluments in Beijing

Though global emoluments are expressed in the posting details in the currency of the country of post, MBOs in Beijing have received part of this amount in Euro. A copy of the required approval from the Permanent Secretary, to receive the emoluments in a currency other than that stipulated in the posting details, was not available at HO.

Medical Claims

Non-Compliance with the Provisions of the established Guidelines

In aggregate, an MBO at MEB was paid a total of RMB32,186.66 covering medical expenses in 2009. Though a number of claims were related to the same condition, each claim was dealt with on an individual basis, rather than treated as an extended treatment in line with the provisions of the CSOSO. In addition, a claim amounting to RMB8,032.50 equivalent to €843.45 was not endorsed by the Permanent Secretary, despite that the stipulated threshold was exceeded.

Lack of Substantiating Agreements

Office Equipment - Tripoli

In December 2009, two payments amounting to LD2,160 and LD1,625 respectively were issued, covering maintenance, labour charges, as well as replacement of hardware, for the Consulate’s computers, printers and photocopiers. Though it appears that there was a fixed minimum charge of LD95 per hour, and part thereof, no agreement was traced at HO confirming the rates charged, thus correctness of amounts paid could not be warranted. Furthermore, one of the technical service reports submitted with the invoice supporting the foregoing payment, indicated that the call was a ‘false call’ and all computers were functioning fine. Both the invoice, as well as the PV, were endorsed by the same officer.

Garage Rent - Beijing

Correctness of the quarterly rent of RMB1,600 being paid by the Mission for each of the two garages could not be warranted, as the rent agreements traced at HO do not cover the garages. A copy of the contract was submitted by the Mission following the audit. However, it transpired that this contract expired in 2004.

Travel

Home Leave - Beijing

In 2000, the Ministry of Finance approved a request entitling all MBOs in Beijing and another Embassy abroad to the allotment of Home Leave every twelve months, i.e. an entitlement of two Home Leave periods during a normal three year tour of duty, rather than a one time Home Leave as stipulated in the CSOSO. The request was approved on condition that the MBO remains unaccompanied by his/her family. However, it transpired that:

- the Ambassador posted in Beijing, was accompanied by his family during the term of his posting. Notwithstanding this, during this period, the Ambassador travelled to Malta for Home Leave together with his family at least three times, i.e. in 2007, 2008 and 2009. Moreover, during 2008 and 2009, the entire Ambassador's family travelled in Business Class, notwithstanding that the CSOSO clearly stipulates that for Home Leave "*all air travel is at economy class*". No indication of the class of travel was provided for the family's travel in 2007 in the documents reviewed;
- in the three instances mentioned above, reimbursement to the Ambassador covering the purchase of air tickets for his family and himself was only supported by provisional reservation forms. Moreover, the only instance where MFA Form 5, requesting advance money to cover air travel, was endorsed by the Permanent Secretary was in 2009;
- a PV raised in July 2009 covered a refund to the Ambassador's spouse in respect of air tickets for herself and their son in connection with Home Leave in 2009. Two provisional bookings were attached to the PV, one indicated the price of €2,467.04 if booking was issued on 30 June 2009, while the other one showed that if booking was issued on 01 July 2009 the cost would be €5,668.51, i.e., more than double the price. In actual fact the higher amount was refunded to the Ambassador's wife, but it could not be ascertained on which date the ticket was issued, due to lack of evidence. Furthermore, since the provisional bookings were neither supported by an invoice or respective receipts, nor by the actual air tickets, it could not be established whether the amount refunded reflects the actual amount paid;
- there was no evidence that quotations were being sought to ensure that the most economic rates were being obtained; and
- no VL records were traced at HO indicating the leave availed of by MBOs and LEPs. Consequently,

it also could not be ascertained that the Home Leave availed of by the Ambassador was "*within the normal vacation leave entitlement*" in line with the provisions of the CSOSO.

In addition to air tickets, a total of RMB4,500 covering three PVs was paid on behalf of the Ambassador in Beijing between July and August 2008, as a charge for change of date in respect of the return air tickets of the home visit by the Ambassador. Moreover, during the same Home Leave, i.e. 2008, the Ambassador availed himself of a flight with a stop over in Brussels, incurring another expense of €1,908.41 on the air ticket. In addition to this, both him and his spouse received subsistence allowance amounting to a total of RMB5,176.42 in connection with the one night stop, notwithstanding that NAO found no evidence that this was on 'official' business.

Other Travel - Beijing

In addition to Home Leave air tickets, which in 2009 amounted to €9,513.98, the Ambassador was also refunded a total of RMB39,619.94 as well as €8,676.29 covering air travel, subsistence and contingency payments related to seven official visits undertaken during the same period. Other amounts paid, also relating to the Ambassador's official travel, amounted to RMB35,593.95. It transpired that:

- only four out of the seven official visits were covered by a formal programme or agenda supporting the visit. Thus, due to lack of documentation, it could not be ascertained that hotel expenses claimed and refunded to the Ambassador were actually paid by him;
- in all the four visits which were covered by a formal programme, enabling re-computation of the amounts paid, the subsistence allowance granted to the Ambassador was found overstated. Correctness of amounts paid in connection with the other three visits could not be warranted due to lack of documentation;
- in two instances, which were not covered by any formal agenda, the actual rate of the subsistence allowance paid, differed from the rates issued by Ministry of Finance, the Economy and Investment (MFEI);
- the amount of €230 was paid to the Ambassador as contingency money in connection with a visit to Japan. In support of this payment, the Ambassador provided a receipt covering a meal for two, notwithstanding that similar expenses are covered by the *per diem* subsistence allowance;

- a payment amounting to €3,504.82 was issued to MEB Ambassador, covering the tickets fare for the Ambassador's official visit, to attend the Malta-China Joint Commission held in Malta. As in other cases, no copy of the flight ticket was submitted with the accounts, and the payment was substantiated only by a provisional booking. No evidence of other quotations was traced. In addition, while the Official Session was to be held between the 22 and 24 June 2009, the Ambassador was in Malta between the 14 and 28 June. There was no indication whether the days, before and after the official visit, were also part of this visit or considered as VL. This could not be confirmed from HO either as no VL records were traced; and
- the exchange rate applied to convert the amounts from Hong Kong currency to RMB in relation to a visit to Hong Kong was not substantiated. Thus, correctness of the amounts paid could not be ascertained.

VAT Records

Shortcomings in connection with Claim of Refunds

Out of the four Value Added Tax (VAT) refunds received by MEB in 2009, only one was supported by the actual claim presented by the Mission. However, the actual amount refunded could not be reconciled with the figure indicated in the claim.

The amount refunded covered Mission expenses as well as personal expenditure of the MBOs. Only 46% of the total amount refunded in 2009 was credited to the Mission's account. Since refunds granted were not supported by the actual applications, indicating clearly the amounts claimed on behalf of the Mission and those of a personal nature, correctness of the VAT refunds paid to the MBOs and those credited to the Mission account could not be verified. In addition, without any indication as to what purchases/services are refundable and what is being claimed, it could not be ascertained that all applicable refunds are being claimed and duly refunded.

Unreliable VAT Register and Discrepancies with official accounting records at Beijing Mission

No extract of the VAT register was traced in respect of May and December 2009 at HO, while on the other hand, those traced for the other months were not reliable. Both the opening/closing balances, as well as movements of amounts claimed and received, were not being reflected correctly from month to month.

The accounting entries of monies refunded to MBOs, and the Embassy share in the manual VAT register, were not constant in 2009. Up to July, only the net amount of VAT refunded attributable to the Mission was being recorded. In October, the full amount refunded, including the share payable to the MBOs was recorded, and subsequently the amount refunded to the latter was shown under the VAT payments side.

The VAT element of payments eligible for refund was not being reported under the VAT payments account in DAS for the subsequent offset when the actual refund was received.

Shortcomings at the Mission in Beijing

Forged Money

When the new First Secretary took over, in mid-2009 he drew up a statement which was submitted to HO with the monthly accounts referred to as "*Cash Payments to Ambassador*". This statement included also an amount referred to as "*fake money reimbursement*". It transpired that the clerks were not using the machine to verify the funds received and thus ended with counterfeit money. It was further explained that the Ambassador forked out the money on behalf of the two clerks and the other MBO, and was subsequently refunded.

The above issues were only noted because the amounts were included in the statement by the new MBO, as no other entries were recorded in the Cash Book and no relevant documentation was traced. It could also not be ascertained that the 'fake money' episode was the only case.

Transport

Fuel

Invoices and payments for fuel acquired by MEB were only indicating the number of litres being paid for and the cost per litre. There was no indication of the vehicles receiving the fuel.

Other Matters

Overstated Amount reported in the Cash Book

A PV raised in December 2009 by the Mission in Beijing amounted to RMB9,705 and was recorded accordingly in the Cash Book. However, the corresponding invoice totalled RMB6,705. This error was not detected, neither by staff at the Mission nor by the Desk Officer. Both the Cash Book and the PV were overstated by RMB3,000 but it could not be ascertained whether the supplier was actually overpaid.

Lack of Translation of Invoices and Other Documents supporting Payments

In both Missions, adequate translation supporting payments was very often lacking. Notwithstanding that one of the LEPs is employed at MET as a translator, no translation was traced at HO of important documentation, such as insurance agreements.

Recommendations

Key Issues

Weak Control Environment at Head Office

An effective control environment is one where competent people are aware of their responsibilities and the limits to their authority. Furthermore, the control environment is greatly influenced by the extent to which individuals recognise that they will be held accountable. Management is responsible to ensure that the appropriate control activities, incorporating effective policies and procedures, are in place. Such controls should also include procedures for immediately reporting identified weaknesses, or significant control failings, to the appropriate levels, thus ensuring timely remedial action.

Lack of Training and Standard Operating Procedures

Written formal procedures, as well as training for both Desk Officers and MBOs, are vital for the smooth and efficient running of operations. Investment in proper training is necessary to ensure that all staff possess adequate knowledge and competence to carry out their tasks as efficiently and effectively as possible.

Management may consider drawing up another document, separate from the CSOSO, dealing solely with operating procedures, covering both the MBOs' and the Desk Officers' expected performance. All MBOs posted in the various Missions need to be well briefed on matters such as the Financial and Procurement Regulations, and other standing regulations prior to their departure for the posting.

In order for this to be a success, this document needs to be drawn up following a process of consultation involving all major stakeholders, and all officers involved are to be encouraged to contribute to its development.

Outdated and Ineffective Manual

As already suggested in previous reports, an in-depth review of the CSOSO is recommended. All benefits currently

enjoyed by the officers are to be identified and included there-in, after ensuring that all perks and entitlements are backed by the necessary approval and justification.

Once such an exercise is carried out, the CSOSO has to be reviewed and updated on a regular basis to reflect any changes that may be applicable from time to time.

Control Issues

Discrepancies between Departmental Accounting System and Manual Records

Prompt action is to be taken to ensure that the new system, namely the Embassies' and Missions' Cash Management System (ECMS), will cater for the particular situation indicated under this title, should it arise again in the future.

In the meantime, any discrepancies identified by the Desk Officers during the monthly reconciliation are to be communicated to the Missions for the necessary actions to be taken in a timely manner.

Substantial Amounts of Cash held by the Mission in Tripoli

The situation of substantial cash held by the Mission could be partly mitigated by paying LEPs in LDs, as stipulated in their contracts, thus reducing the cash-in-hand balance.

Furthermore, Desk Officer should keep an eye on the level of cash-in-hand in the respective Mission and draw the latter's attention when deposits are not being drawn up on a regular basis.

Salaries of Locally Engaged Personnel and Malta Based Officers not paid in Libyan Dinars

LEPs are to be paid in the currency stipulated in their contracts. No changes to the established policies are to be allowed without the prior approval of HO.

Any policy changes, reflected either through Internal Office Circulars or otherwise, and appropriately endorsed by the Ambassador, are to be submitted to HO. In addition, issues identified during the vetting of accounts which are not of a general nature, such as the change in policy mentioned above, which had negative implications due to the Embassy's high level of cash in hand, are to be dealt with by Management rather than the Desk Officers.

No Evidence of Cash Counts

A return endorsed by the Ambassador, and the officer who carried out the verification, is to be submitted to HO with

the monthly accounts, indicating the date when the cash count was carried out and the actual amount found.

Unsubstantiated Currency Conversions

All conversions reported in the Cash Book are to be invariably supported by official source documentation, enabling verification by Desk Officers and other third parties, of the amounts involved.

Revenue

Completeness of Consular Revenue Unwarranted

Desk Officers are to ensure that records submitted by the Missions include all relevant information, enabling a reconciliation to be carried out. In addition, more collaboration is recommended between MFA and the other entities involved in the provision of consular services. Desk Officers are to obtain details of documents processed by these entities for the Missions under their remit, and carry out a reconciliation on a regular basis. Thus, any shortcomings are detected at an early stage and the necessary action taken in a timely manner.

It is also recommended that since Visas constitute the principal source of revenue, Visa records submitted by the Missions are corroborated by reports generated from the Visa Management System (VMS). In addition, Visas issued '*gratis*' and those that are 'cancelled/spoilt' are to be recorded in a separate list endorsed by the Head of Mission (HOM). A copy of the foregoing list is to be submitted to HO with the monthly accounts.

Furthermore, approval from the Permanent Secretary at MFA must be sought for Visa fees to be reduced or waived.

Lack of Supporting Documentation covering Sponsorships and Refunds

Receipts are to be invariably issued in respect of all income received. Respective receipt numbers are to be included in the revenue records and copies of the receipts covering refunds, sponsorships and donations are to be submitted to HO together with the monthly accounts.

Lack of Segregation of Duties

As far as possible, duties are to be segregated in a way that no employee or group of employees is in a position to perpetrate and conceal errors or irregularities in the normal course of their duties. Heads of Mission have the responsibility of establishing and maintaining the proper environment of internal controls.

Foreign Exchange Rate Fluctuations

To enhance uniformity, reliability and consistency in the records submitted by the different Missions, MFA with the collaboration of MFEI, is to issue official guidance to all Missions and Desk Officers regarding the uniform treatment of exchange rates.

Other Consular Services Fees

Visa Fees not Reviewed

Where tariffs are below those specifically stipulated by law, immediate action is to be taken to comply accordingly. In addition, these are to be reviewed on a regular basis, reflecting the changes in exchange rate, and communicated to HO.

No Basis for Consular Fees Charged

HO is to set clear and detailed comprehensive guidelines as regards applicable fees for consular services, where such fees are not regulated by standing legislation. Where fees have already been established by law, each Mission has to ensure that amounts due are fully recovered.

Different Fees charged by the same Mission during 2009

Any changes in the set fees are to be communicated in writing to the Director Financial Management (DFM), and forwarded to the Desk Officers following the former's approval. Any divergence from these established prices is to be queried by the Desk Officer in a timely manner.

Locally Engaged Personnel

Tripoli

Staff Turnover

The recruitment process needs to be enhanced whilst appropriate training is to be provided to these officers to ensure that the highest level of efficiency is achieved.

Divergence from Rates stipulated in the Employment Contracts at Malta Embassy Tripoli

MET is to ensure that LEPs' contracts are kept up to date and that payments to the same LEPs are effected in terms of their employment contracts.

Beijing

Outdated Agreement

It is recommended that the contract with DSB be formally renewed, reflecting updated entitlements.

No basis for 13th and 14th Salary Payments

MEB is to confirm entitlement of LEPs, and updated documentation reflecting such entitlement is to be submitted to HO. On the other hand, Desk Officers are to ensure that they are in possession of all relevant documentation enabling them to carry out the appropriate checks. Monthly accounts are not to be processed unless all payments are clearly explained and duly supported with official authorised documentation.

Shortcomings related to Overtime Payments to Locally Engaged Personnel at Malta Embassy Beijing

Desk Officers are to be kept abreast with any changes in the applicable agreements and other related issues. Any divergences from such agreements are to be highlighted and referred immediately to Management for any action deemed necessary.

In addition, HO should seek justification for any overtime payments deemed excessive.

Malta Based Officers

Divergence by the Embassy in Tripoli from Internal Office Circular on Salary deposited in Malta

MBOs are to comply with prescribed policies. Immediate action is to be taken by HO in cases of non-compliance. Any divergence from standard policies and procedures, due to the country of post's currency restrictions, is to be approved in writing from HO, which approval is to be filed by the Desk Officers for future reference.

Shortcomings in connection with the Payment of Global Emoluments in Beijing

Desk Officers are recommended to obtain a copy of the Permanent Secretary's approval, if any, in connection with emoluments received in different currency.

Medical Claims

Non-Compliance with the Provisions of the established Guidelines

Full compliance with the relevant provisions of the CSOSO is to be ascertained prior to effecting payment.

Lack of Substantiating Agreements

Desk Officers are encouraged to seek a copy of all agreements, supported by a proper translation where necessary, covering the Missions under their remit. Accepting payments without having access to such documentation should not be tolerated.

Travel

Home Leave - Beijing

All parties concerned, particularly the Desk Officers who vet the accounts, are to be aware of what MBOs are entitled to. Any divergence is to be immediately referred to Management in order to be properly addressed.

The shortcomings under this observation are to be investigated, requesting any refunds if deemed necessary.

Other Travel - Beijing

Desk Officers need to be aware of standing regulations and policies in order to be able to detect irregularities and inconsistencies. They are also to ensure that each payment is substantiated by adequate documentation, especially relative invoices, enabling audit trail and verification by themselves and by third parties.

Any payments in breach of such regulations are to be highlighted to Management in writing for the necessary action, and a copy of the correspondence is to be filed accordingly.

VAT Records

Shortcomings in connection with Claim of Refunds

HO is to establish what VAT is refundable in each country where Malta is represented by the respective Mission. It is also to be confirmed whether such refunds apply to the Mission only or cover also purchases effected by MBOs. In addition, copies of VAT claims are to be submitted to HO with the respective accounts. This claim is to indicate clearly those invoices that are presented on behalf of the Mission and those reflecting purchases of a personal

nature, provided that the latter are eligible for refund. Moreover, records thereof are to enable full audit trail. Invoices covering Mission expenses are to be referenced to the actual payment, indicating the month in which the expense was incurred, and possibly even to the PV.

Unreliable VAT Register and Discrepancies with official accounting records at Beijing Mission

A proper register is to be maintained of VAT refund applications whereby track is kept of successful applications. The refundable VAT element of eligible expenses is to be debited to the VAT Payments Account and set off when the respective credit is received. Any payments/refunds not related to Mission expenses are not to be included.

Once the manual VAT register is properly set up, regular reconciliations are to be carried out between the manual record and DAS records to ensure that there are no discrepancies between the two sets.

Shortcomings at the Mission in Beijing

Forged Money

The Mission is to ensure that all policies are strictly adhered to and disciplinary action taken in cases of non-compliance.

Transport

Fuel

PVs covering payment for fuel are to indicate which vehicles have been refuelled. The amount, in litres, as well as in monetary terms, given to each vehicle is also to be indicated.

Other Matters

Overstated Amount reported in the Cash Book

A monthly cash count is to be carried out. A record indicating the amount held as per cash count is to be drawn up by Mission staff and reconciled to the amount in the Cash Book. Both records are to be submitted to HO and any discrepancies explained.

Lack of Translation of Invoices and Other Documents supporting Payments

All invoices are to be accompanied by a translated document supporting the items/services being acquired. Invoices are also to be certified correct and endorsed by an MBO according to the established procurement levels.

Management Comments

Management concurred with most of the recommendations and will be taking them into consideration for eventual implementation. It was further indicated that the CSOSO is being revised to incorporate Internal Circulars as well as updates issued from time to time by the Ministry.

By the time of publication of this Report, a substantial amount of MET's cash-in-hand balance was deposited in the bank. Management is also addressing in earnest the problem of convertibility of Dinar into Euro and the repatriation of funds to Malta.

MET Ambassador also stated that in future, at the end of each month, the Consulate will submit to HO a list of the Visas issued '*gratis*', indicating the reason for the free Visa, in addition to the Visas that were cancelled or spoilt.

Management will also try to recoup amounts reflecting the non-compliance with Finance's instructions regarding Home Leave as well as any over-payments made.

The following comments were also received:

With reference to internal controls, MEB's Ambassador reiterated that "*the smallness of Missions like Beijing where you only have two MBOs including the Ambassador that can actually be given authority, makes effective internal control procedures difficult to implement, e.g. segregation of duties. When this is the case it is normal for auditors to place a degree of reliance on management representation*".

With reference to the cash counts, Ambassadors of the two Missions under review indicated that regular cash counts are invariably carried out at the respective Missions.

Both Ambassadors also highlighted that '*gratis*' Visas are granted under the authority of the Ambassador and all cancelled Visas are sent to CVU with the reconciliation sheet.

MEB's Ambassador made reservations in respect of segregation of duties, stating that the recommendation, which is correct in theory, is difficult to implement in practise due to the nature and size of the Mission.

With regards to travel, MEB Ambassador argued that "*quotations from three sources were always requested and the most economic ones selected for the relevant class. However, the documents were not forwarded to HO but retained at the Mission*". With reference to the change of dates, the Ambassador replied that this was a special situation, based on family-related circumstances, and the Permanent Secretary was kept fully informed. The same Ambassador also stated that the fake-money episode was a one-off occasion and all fake money was replenished to the Mission's cash box.



Ministry for Gozo

Gozitan Students Accommodation Subsidy

Background

In June 1996, the Office of the Prime Minister (OPM) confirmed that an accommodation allowance of €35 (Lm15) per month was to be given to all Gozitan students following full-time University courses in Malta. In October 2005, it was made public through a Press Release that the allowance was to be increased to a monthly total of €116.47 (Lm50).

Gozitan University students also receive a travel allowance of €0.47 for every day they travel to Malta. This allowance was introduced in November 2004 by the Ministry of Finance to make up for the increase from €0.70 (Lm0.30) to €1.16 (Lm0.50) in ferry tickets.

An application for the accommodation subsidy is to be filled in, certified by the Head of Department, Dean of Faculty and/or Registrar within the University of Malta (UOM), and sent to the Department of Corporate Services (DCS) within the Ministry for Gozo (MGOZ). One of the requirements for this accommodation allowance entitlement is that students would have attended secondary or post-secondary education in Gozo as evidence that applicants are in fact Gozitan students. Their School Leaving Certificate is to be sent together with the application.

In addition, a Declaration of Attendance form is to be filled in every quarter by the student, indicating the number of days that the student attended University in Malta, in order for the travel allowance to be claimed.

Audit Scope and Methodology

The main scope of the audit was to ascertain that the accommodation and travel allowances given to Gozitan

students attending a University course in Malta were paid out in accordance with standing regulations, policies and procedures, thus ensuring efficient administration of public funds.

A database of all students being paid the accommodation and travel allowances was obtained from MGOZ. A sample of 107 applications was then selected from a total of 655 UOM students (16%) with a 90% Confidence Level and 7.28% Confidence Interval. Payments to students included in the database were verified with the actual payments issued to the students as per Departmental Accounting System (DAS) records. Tests were also carried out to ensure correctness of amounts paid. For the same sample of applications, written assurance was requested from UOM Registrar Department that the students selected for further audit testing completed the scholastic year.

Key Issues

Limitation of Scope

In the absence of full source documentation, including applicable official legislation, information on the payments made was obtained from the respective application forms. However, testing was limited since correctness and validity of allowances paid could not be ascertained.

Also, it could not be ensured that only eligible students were receiving this subsidy. This was due to the lack of evidence substantiating the residency claimed by the applicant in the application of a given period, and confirming that the applicant is ordinarily resident in Gozo.

Lack of Official Documentation

When official documentation was requested from MGOZ to identify the source from where the accommodation allowance emerges, only documentation for €35 (Lm15) allowance, extracted from the agreed Minutes of a Cabinet Meeting in June 1996 (OPM 195/95), was provided.

During the course of the audit, it was noted that the total allowance was €116.47 (Lm50) per month. Thus, there was a difference of €81.53 (Lm35) supported merely by a Press Release issued in 2005.

Discrepancies between Actual Amounts paid as per Departmental Accounting System Nominal Ledger and Amounts reported by Ministry for Gozo

A reconciliation, between the DAS, showing total allowances paid of €708,266, and respective information maintained by MGOZ recording a total of €693,437, resulted in a discrepancy of €14,829. Due to the lack of details on DAS transactions (example respective ID Card Number), National Audit Office (NAO) examiners had to go through all individual payments to analyse the variance and the following observations were noted:

- a) In the majority of cases, MGOZ list was not fully updated with all the payments made to students. In certain instances, although payment was actually effected, some students had one of their quarters not marked as having been paid, resulting in an understated figure of €12,423 on the documentation provided by MGOZ compared to the DAS Nominal Ledger.
- b) The amount of €2,096 was paid in arrears in 2009 in respect of the previous scholastic year. However, they were not indicated accordingly in DAS records.
- c) A student was paid the amount of €1,056 but the respective name and course details were not found in any records made available to NAO officials. Another student was recorded as having been paid for an extra quarter in June 2009 in MGOZ database. This resulted in an overstatement of €349 when compared to the DAS records.
- d) Apart from the differences mentioned above, there were twenty-six other variances amounting to a net difference of €380 which both individually and in total were deemed immaterial to warrant further testing. However, in twenty-three out of the twenty-six cases, the amount actually paid as per DAS Nominal Ledger was higher than the amount recorded as per MGOZ list.

Travel Allowances

Apart from the accommodation allowance, Gozitan students are being granted a daily travel allowance of €0.47 for every day they cross over to Malta.

Students terminating Course Half Way throughout the Year

There was no communication between UOM and MGOZ when students terminated the course half way throughout the year. The UOM's Registrar Department verbally informed NAO that it is the responsibility of the students to inform MGOZ about them dropping out of the course. Upon signing the accommodation subsidy application form, students bind themselves to comply with this requirement.

Control Issues

Transport Allowance claimed not supported with Attendance Records

The amount of daily transport allowance paid to students is subject to the students' attendance at UOM. When filling in the forms, students list down the number of days they attended University in a particular three-month period, and countersign the form. This form is not then certified by any officer, i.e. the Head of Department or Dean of Faculty, and very little verification is carried out by MGOZ to confirm the accuracy of information included therein.

Subsidy to University Students terminating Studies before end of Scholastic Year not discontinued

One out of the three students in the audit sample who terminated studies before the end of the scholastic year, was granted a one-year suspension between February 2009 and January 2010. However, she was still paid a full year accommodation subsidy of €1,048 at least for scholastic year 2008/2009, i.e. the period under review.

Recommendations

Key Issues

Lack of Official Documentation

MGOZ should be aware that a Press Release is not sufficient as official documentation. Moreover, before any allowances are paid to students, these must be duly approved by Government and backed up by proper documentation.

Discrepancies between Actual Amounts paid as per Departmental Accounting System Nominal Ledger and Amounts reported by Ministry for Gozo

Rather than recording the student only by the name, a unique reference number such as his or her ID card number is also to be used, thus enabling reconciliation.

MGOZ is also to ensure that the records kept are fully up to date, reliable and complete, reflecting all payments made to students. Regular reconciliation between DAS Nominal Ledger and the Ministry's own records is recommended in order to make sure that amounts reconcile. This will also enable officers to detect any discrepancies and take the necessary action in a timely manner.

Travel Allowances

One may consider reviewing the regime of current allowances given to Gozitan students. Ideally, a fixed allowance is given to such students. It is then up to the latter to decide whether they want to find suitable accommodation in Malta or whether they want to commute on a daily basis. If on the other hand, one decides to grant a daily travel allowance, the respective claims are to be supported by adequate travel chits.

Students terminating Course Half Way throughout the Year

MGOZ is to request UOM to notify the Ministry in cases where Gozitan students drop out of the courses being followed. Checks could also be carried out to ensure that students are still enrolled in the course. This could be achieved by means of reviewing attendance sheets signed by students during the course lectures. In addition, the application form is to be certified by an authorised person even at the end of the scholastic year, confirming that the student completed the full year. Payments forwarded to students dropping out of the course are to be recouped.

Control Issues

Transport Allowance claimed not supported with Attendance Records

MGOZ may inform both UOM and students that officers endorsing the Declaration of Attendance can be asked to

provide evidence of the days claimed. In addition, MGOZ may adopt a system wherein, prior to issuing the payment run, a number of applications are selected randomly and days claimed verified with the respective Faculties.

Subsidy to University Students terminating Studies before end of Scholastic Year not discontinued

Better communication is expected between the UOM and MGOZ. MGOZ may formally request UOM to inform the Ministry in writing when a Gozitan student terminates his studies half way throughout the year so that the respective financial assistance is timely discontinued. This can also be performed retrospectively so that overpaid allowances are recouped.

Management Comments

Management upheld most of the observations and will be implementing a number of recommendations.

While it was stated that the allowance is not only for accommodation, but meant to alleviate the financial burden borne by Gozitan students, the reservations hereunder were also expressed:

- The Press Release of 2005 was issued jointly by the Hon. Minister for Education, Hon. Minister for Gozo and the then Parliamentary Secretary Ministry for Finance. According to MGOZ, this implies that the allowance was duly approved by Government.
- The list provided by MGOZ is not an official document but merely an excel sheet compiled by an officer in charge of subsidies for quick reference purposes. In contradiction to NAO's recommendation, the officer has now been instructed not to retain any unauthorised lists any longer.
- Lecturers at UOM are not required to keep a record of attendance.

Gozitan Students/Workers Subsidy Scheme

Background

Gozitan students following full-time courses at the Malta College for Arts, Science and Technology (MCAST), and the Institute of Tourism Studies (ITS)¹ in Malta, as well as Government employees working in Malta, (including individuals employed with Government funded or Government owned institutions and organisations) are paid a travel allowance of €1.26 for every day of attendance at college/workplace in Malta in order to neutralise part of their additional expenses. Applications for this subsidy are submitted by students/workers on a quarterly basis after having been certified by the Officer in Charge of Personnel or the Head of School as applicable.

In addition to the aforementioned allowance, full-time Gozitan students attending courses at the MCAST, and the ITS, and who have followed their secondary or post-secondary education in Gozo, are eligible to apply for an additional monthly accommodation allowance of €81.53. For this financial assistance, students have to fill in a separate application form and send it to the Department of Corporate Services (DCS) within the Ministry for Gozo (MGOZ), together with a copy of their secondary or post-secondary school leaving certificate, by not later than October of the claimed scholastic year. Quarterly payments will then be issued during the scholastic period, unless students terminate the course and duly inform MGOZ accordingly.

Audit Scope and Methodology

The main objective of the audit was to determine whether sound internal controls were in place, providing reasonable

assurance about the entitlement of students and workers receiving the subsidy, as well as the correctness of the amounts paid. The audit was also carried out to ensure efficient administration of public funds, and compliance with standing regulations, policies and standard operating procedures.

The exercise entailed a review of applicable documentation confirming authority and accuracy of the rates being paid, as well as examination of records held by MGOZ, namely the application forms and spreadsheets being maintained. Internal operating procedures were also assessed.

Key Issues

Limitation of Scope

In the absence of evidence substantiating the residency claimed by the applicant, and providing adequate proof that the individual is ordinarily resident in Gozo, it could not be ascertained that only eligible students/workers were receiving this subsidy.

In addition, due to incomplete records maintained on a separate spreadsheet, which the Ministry compiled in-house with the intention to make quick reference thereto, payments recorded could not be reconciled to the Departmental Accounting System's (DAS) figures.

Overstated Days claimed resulting in Overpayments to the Majority of Beneficiaries

- Twenty-nine out of thirty-three workers sampled were paid between them a net total of 1,406 days

¹ Students following courses at the University of Malta are granted a similar allowance but paid out of a different account. Thus, students referred to in this report cover only those attending MCAST and ITS.

more than the days actually worked, for a total of €1,771.56 extra in travel allowance. Out of these, seven officers were on average paid for 132 days in excess of the days actually worked during the period under review.

- The subsidy paid to an officer in the audit sample could not be verified. Being an academic member of the University of Malta this employee is not required to sign a formal attendance sheet. Details as to the number of days worked by this officer during the period under review were also not provided by the University, hindering audit testing.
- None of the six MCAST students in the audit sample were accurately paid. Two were underpaid while the other four were paid for days in excess of those to which they attended College, resulting in a net total of thirteen days more paid.

Difference in the Rates paid to Malta College of Arts, Science and Technology/Institute of Tourism Studies Students and those attending University not explained

- Students following MCAST/ITS courses are entitled to a monthly accommodation allowance of €81.53. On the other hand, students following University courses are also receiving €34.94 per month allowance approved to Gozitan University students in 1996, in addition to the accommodation allowance, aggregately totalling €116.47 per month.
- It was further observed that, as indicated above, Gozitan MCAST/ITS students as well as workers receive transport allowance at the rate of €1.26 daily as against a lower rate of €0.47c received by Gozitan University students.

Control Issues

Lack of Control over Attendance

- Both the travel and the accommodation allowance are paid subject to the students' and workers' attendance at Colleges and their place of work respectively. Notwithstanding this, reliance is placed on the certification of the application forms submitted by the applicants. Very little testing is carried out by MGOZ to confirm the accuracy of information included therein.
- For the fixed monthly allowance of €81.53, forming part of the accommodation allowance received by MCAST and ITS students, the onus is placed on the

beneficiaries to inform MGOZ in case they drop out of the course. Out of a sample of thirteen MCAST students, selected to confirm that they completed the scholastic year, one student stopped attending the College on 3 April 2009. However, he still received the full payment covering period April-June 2009.

- The number of days attended college/worked claimed in the applications for the daily travel allowance is not supported by any evidence. Moreover, correctness of the number of days claimed is not questioned by MGOZ, as such responsibility is shifted on the officer certifying the claim, i.e. Officer in charge of Personnel or Head of School/College, as applicable. During a meeting held with MGOZ representatives, NAO officers were informed that only where days claimed seemed excessive was any action taken by MGOZ to confirm correctness of the reported number of days. However, as indicated further down in this report, cases were identified where incorrect payments were effected due to overstated days claimed.

Eligibility Criteria to qualify for the Subsidy not adequately defined

- In the absence of clear eligibility criteria, all an applicant has to do to receive the subsidy is download the application form from the Department's website and send it duly filled in to MGOZ within the stipulated timeframe. Apart from the correctness of the number of days claimed as indicated in the foregoing form, the Officer in charge of Personnel or Head of School also has to certify that the claimant is ordinarily resident in Gozo. However, this is neither substantiated by a copy of the claimant's ID card nor supported by the ferry tickets.
- MGOZ does not carry out any verifications to confirm that an applicant is in fact ordinarily resident in Gozo, notwithstanding that this expenditure is being disbursed from the Ministry for Gozo's Vote. Applications which raised doubts on the residency claimed by the applicants were noted during the audit. For example:
 - i) in one instance, it was verbally confirmed by the Department concerned, that an employee receiving the travel subsidy is a resident in a village in Malta; and
 - ii) another officer included in the audit sample was receiving the travel subsidy. However, it was confirmed to NAO that this individual is not employed with the Government sector but is employed with a private company who provides a service to Mater Dei Hospital.

Administrative Errors by Ministry for Gozo resulting in Overpayments

- Four students out of a total of 118 were collectively overpaid the amount of €110.82. In three cases this was due to transposition errors, while in the other case the student was paid twice for the same quarter.
- Similarly, five workers out of a sample of thirty-three were overpaid for a total of 122 days between them amounting to €153.72. In two of the cases, two applications were submitted for the same period while in the other three an incorrect number of days worked was recorded, without being detected.

Discrepancies between Actual Amounts paid as per Departmental Accounting System Records and Amounts reported in the Spreadsheet provided by Ministry for Gozo

- An attempt to reconcile the subsidy paid as per DAS records amounting to €284,565 with the totals shown in the spreadsheet provided by MGOZ, proved futile due to insufficient information in the manual records. This was coupled with the fact that, at times, the Commitment raised in DAS covered a number of students/workers receiving subsidy, occasionally even relating to various periods.
- From a sample of amounts reviewed, other limitations hindered reconciliation of the foregoing figures. These included understated or different amounts reported in the spreadsheet provided, and amounts not traced in the spreadsheet, or students/workers not traced at all. Another student featured in the spreadsheet as having received the amount of €68.04. However, this amount could not be traced in DAS records.
- The shortcomings encountered during the audit imply that MGOZ is not carrying out a reconciliation between the two sets of records.

Recommendations

Key Issues

Overstated Days claimed resulting in Overpayments to the Majority of Beneficiaries

Random checks are to be carried out and days claimed verified with the respective Departments. Penalties could be imposed where it is found that the claimant's request is overstated.

Difference in the Rates paid to Malta College of Arts, Science and Technology/Institute of Tourism Studies Students and those attending University not explained

The aim of the allowances is to make up for the additional financial burden which Gozitan students have to face in having to incur travel and accommodation expenses. Since Gozitan students following courses at MCAST/ITS colleges are likely to face the same additional expenses as those attending Malta University, MGOZ may consider taking appropriate action and submit a request to treat all Gozitan students, attending courses in Malta, in a fair and equal manner without any discrimination.

Control Issues

Lack of Control over Attendance

MGOZ may seek regular confirmation of attendance from the respective Colleges and Departments to ensure that payments are stopped immediately if students terminate the course before the end of the scholastic year.

Moreover, MGOZ may inform the entities concerned that officers certifying claims, both for students and workers, may be asked to provide evidence of the days being certified. In addition, MGOZ may adopt a system wherein every quarter a number of applications will be selected randomly and days claimed are verified with the respective Organisation.

Eligibility Criteria to qualify for the Subsidy not adequately defined

A proper definition of the eligibility criteria is solicited, especially given the fact that a number of Maltese residents have a second dwelling in Gozo. Besides proof from a copy of ID Card of each applicant, the claimant could be informed to retain all ferry tickets for a period of say one year, since MGOZ reserves the right to ask for such evidence to confirm eligibility of an applicant. This will help to partly mitigate the above risk thus serving as a deterrent to fraudsters.

Administrative Errors by Ministry for Gozo resulting in Overpayments

Adequate verification of applications is to be performed before certifying the number of days claimed. This is to be followed by regular reconciliation of amounts paid to those as per application. This will enhance the chances of identifying errors and correcting them within the same financial period.

Discrepancies between Actual Amounts paid as per Departmental Accounting System Records and Amounts reported in the Spreadsheet provided by Ministry for Gozo

Regular reconciliation is to be carried out between DAS records and the records kept by MGOZ. This will enable the Ministry to detect any discrepancies and take the necessary corrective action in a timely manner.

Management Comments

Management accepted and adopted a number of recommendations including the introduction of random checks of applications. Action has also been taken to recoup certain amounts overpaid. In addition, correspondence has initiated between MGOZ and MCAST/ITS so that the

Ministry will be informed immediately of students who terminate their course part way through the academic year.

However, Management contended that spreadsheets kept by the Ministry are unofficial and only used for ease of reference. MGOZ stated that only records emanating from DAS are, in their opinion, to be considered as official documents. NAO believes that this approach will weaken the potential internal controls if independent records, enabling reconciliation of amounts paid, are not maintained.

MGOZ also reiterated that it is the officers certifying the information on the application who are to ensure that the details submitted are correct.

Housing Schemes Subsidy

Background

In consonance with previous years, Line Item 7132 – Housing Schemes (Subsidy) under the Capital Vote for the Ministry for Gozo has featured in the Financial Estimates with an estimated annual expenditure of €35,000 for 2009. Notwithstanding this budget, the actual expenditure met out of this account in 2008 and 2009 amounted to €68,539 and €320,544 respectively.

Audit Scope and Methodology

The main scope of the audit was to ascertain that subsidy payments are being issued in line with applicable laws and criteria regulating the payment of the same subsidy. Another objective was to ensure that robust internal controls, incorporating effective systems and procedures, are in place in order to ensure benefit payments' accuracy and to enable a complete audit trail of payments.

This exercise entailed a detailed analysis of the payments charged to the account under review. Files and documentation related to such expenditure were also identified and reviewed.

Key Issues

Limitation of Scope

Due to the limitations highlighted below, and the fact that from the initial analysis of the payments it resulted that the nature of such expenditure was not related to the payment of the Housing Subsidy, the scope of the audit, that is, to ensure that subsidy payments were in line with established relevant laws and regulations, could not be achieved.

Unrelated Expenditure under the Housing Schemes Subsidy Account

€304,944 or 95% of the total payments charged to this account were not related to the Housing Schemes Subsidy, as the name implies, but covered expenses related to the finishing works of a new Adult Training Centre (ATC) in Victoria Gozo.

The remaining petty payments covered maintenance work at Government-owned private residences at *Taċ-Ċawla* Housing Estate and other trivial expenses. Similar expenditure was also erroneously posted in this account in the previous financial year.

Capital Expenditure to finish Property under the Responsibility of the Housing Authority

Though the expenditure to finish the new ATC referred to above was incurred from the Ministry's Capital Vote, this property is not even owned by Central Government but is under the possession of the Housing Authority.

Latest communication between the Authority and MGOZ, dated July 2006, revealed that the property, which was still in shell form, will be leased *tale quale* to the Ministry for a period of twenty years, for a yearly rental of €4,658 (Lm2,000), increased by 5% every five years. Subsequently, a draft lease agreement was drawn up and approved by MFEI in June 2007. However, at least up to end January 2010, this was not signed by the parties involved, despite the fact that MGOZ started making use of the premises during 2009.

MFEI's approval of the draft agreement referred to above stated that *'This Ministry approves the agreement and*

the arrangements ensuing between the Department of Customer Services and the Housing Authority, provided that no funds which are not available in the Financial Estimates are required owing to this commitment’.

This condition was interpreted by NAO as covering both expenses to finish the property, as well as the annual rental charge.

However, upon enquiry by this Office, the foregoing condition in the approval was later interpreted by MFEI as referring to the annual rent, payable out of the Ministry for Gozo’s Recurrent Vote, notwithstanding the fact that this agreement had further financial implications, mainly that to finish the premises.

Approved Virements to the wrong Line Item

During 2009, MFEI approved a total of six virements to an aggregate amount of €285,835 in order to increase the budget allocation of the (Capital Vote) Line Item under review to €320,835.

These virements were approved notwithstanding the fact that the Ministry for Gozo’s intention was to use these additional funds for a purpose different than that meant for the account under review, being completely unrelated to any Housing Subsidy.

Recommendations

Key Issues

Unrelated Expenditure under the Housing Schemes Subsidy Account

Funds are to be provided under the correct Line Item and expenditure thereof properly recorded. In the absence of the proper Line Item, MGOZ is encouraged to liaise with MFEI and set up an account with a suitable description.

Capital Expenditure to finish Property under the Responsibility of the Housing Authority

MGOZ’s position vis-à-vis the expenditure that has been incurred to finish the ATC is to be rectified. Once the

ownership of the property falls under the responsibility of the Housing Authority, the latter is expected to finish the premises from its own funds, especially given the fact that MGOZ will eventually be expected to disburse rent payments for the use of the same premises.

Approved Virements to the wrong Line Item

Expenditure is to be realistically budgeted for, keeping in view previous actual disbursements. Actual payments are also to be posted in the proper account. As stipulated in Treasury Circular No. 7/2007, *“The Accounting Officer shall be responsible to verify that the incidence of charge is correct.....”*.

Management Comments

Management upheld all the observations. However, neither MGOZ nor MFEI indicated whether the respective recommendations will be taken on board. In particular, it was not stated whether any action will be taken to formalise the lease agreement with the Housing Authority.

MGOZ replied that no information is available in their files as to how the account in question came to be utilised for the finishing works on the new ATC.

Response received from MFEI maintained that the provision of funds for the project of the new ATC featured under Line Item 7132 - Housing Schemes - for purposes of continuation, following a request from MGOZ dated 17 April 2007 informing MFEI that the ATC falls under the foregoing Line Item.

According to MFEI, ATC’s funding requirements had to be catered for in such a way since the 2007 Financial Estimates had already been published at the time, and there was no specific budget line item, featuring under the Ministry for Gozo Capital Vote, which could be utilised for the purpose of funding this project.

**Ministry for Infrastructure,
Transport and Communications**

EU Cohesion Fund 2007-2013 Malta South Sewage Treatment Infrastructure Project

Background

The Programme Implementation Directorate within the Ministry of Infrastructure, Transport and Communications (MITC) is responsible for the management and processing of all payments related to a major infrastructural project, entitled Malta South Sewage Treatment Infrastructure (MSSTI). The beneficiary responsible for the implementation of this project, the Water Services Corporation (WSC), has the mandate to treat all sewage before discharge in line with the European Union (EU) Urban Wastewater Directive.

The MSSTI project is expected to be co-funded by the EU Commission under Articles 39 to 41 of the Council Regulation (EC) No. 1083/2006 regulating the Cohesion Fund Policy 2007-2013 for major projects. Up to the date of this review, the formal co-funding application for this project has not yet been submitted to the EU Commission.

The Treasury Division within the Ministry of Finance, the Economy and Investment is responsible for making the necessary payments to the service/supplies/works provider on behalf of the beneficiary, including both the EU Commission and the Malta co-financing shares of the contractor's invoice. The WSC is aiming for an EU co-financing rate of 85% of the eligible project expenses (budgeted at €67.8 million) under the Cohesion Fund. The remaining 15% will be met by the WSC, by effecting payments directly to the Treasury Division. Ineligible expenditure is to be funded from local sources including the Value Added Tax (VAT) element.

All bills for payments have to be certified, as to quality and quantity, by the appointed WSC Project Leader and Independent Supervisor before being forwarded to the Treasury Division for processing. During 2009, there were four major ongoing contracts relating to the MSSTI project.

Audit Scope and Methodology

The scope of this audit was to verify that, during 2009, related funds earmarked for the MSSTI project were appropriately disbursed out of Capital Vote IV of the MITC in accordance with associated conditions laid down in the respective contracts.

A meeting was held with responsible officials at the Directorate to obtain information regarding procedures and systems in place with respect to the payments effected in relation to the MSSTI project during 2009. Minutes of meeting were referred back to the officials concerned for their comments.

Copies of the four major contracts assigned on this project, together with other related documentation, were obtained. The financial conditions of the contracts were examined to verify that the contractors were paid as specified in the contracts. In order to arrive at the final total cost of these contracts, an exercise incorporating the variations/addenda, which followed the original contracts, was carried out by NAO. This was compared with the related information forwarded by the Directorate.

There were forty-three Commitment Vouchers (CV) amounting to €19,334,470.79 recorded under Capital Vote IV within the Departmental Accounting System (DAS) under 'Nominal Ledger (N/L) Transactions Listing' report for the year 2009, representing the 85% share expected to be financed by the EU Commission. An additional forty-two CV, totaling €4,075,721.42, represented the 18% VAT component on the total amount of invoices paid to the contractors. Copies of these CV together with the related documentation were obtained for examination.

The DAS 'N/L Transactions Listing' reports were compared against the DAS 'Funds Status – Payments

and Receipts' Reports and the Project Invoices Report forwarded by the Directorate. The latter report was issued from the Structural Funds Database (SFD), in use across all Ministries, allowing stakeholders concerned with EU funding to record and process their respective EU co-funded project payments.

In order to verify the correctness and completeness of the CV, an expenditure checklist was compiled.

Control Issue

Opportunity for improvement was identified in the following area:

Missing Authorisations on Commitment Vouchers

Out of forty-two CV relating to the 18% VAT element examined, the signature of the Permanent Secretary/ Director Corporate Services (PS/DCS) or Accounting Officer was missing from seven CV, representing 16.67% of the CV examined, with an aggregate monetary value of €330,086.85. This suggests that payments might be effected without the necessary covering approvals in the absence of proper verification by the Treasury Division when compiling their checklist as part of the Invoice Status Certificate (ISC)¹.

Compliance Issues

'Checklist – Confirmation - LM' (Line Ministry) Section of the Invoice Status Certificate not duly signed and completed

The checklist relating to one CV was not completed and signed by the Directorate, indicating that the listed checks on the ISC were not executed, thus being non-compliant with established national procedures for EU funded projects.

Commitment Voucher relating to another project incorrectly posted under the Malta South Sewage Treatment Infrastructure Item

While checking the relative CV against the 'N/L Transactions Listing' and the 'Funds Status – Payments and Receipts' DAS reports, it was noted that, although a CV amounting to €288,342.32 did not relate to the MSSTI project, it was erroneously issued under the MSSTI Item,

thereby distorting the actual expenditure of two projects and their respective comparative budgeted amounts. MITC were informed by the Treasury Division that the relevant Transfer and Adjustment would be issued in due course.

Recommendations

Control Issue

Missing Authorisations on Commitment Vouchers

It is imperative that all CV are signed by the PS/DCS to ensure that proper authorisation for the payment is duly obtained.

Compliance Issues

'Checklist – Confirmation - LM' (Line Ministry) Section of the Invoice Status Certificate not duly signed and completed

The Directorate should ensure that the 'Checklist – Confirmation - LM' Section is invariably completed and duly signed.

Commitment Voucher relating to another project incorrectly posted under the Malta South Sewage Treatment Infrastructure Item

Expenditure is to be allocated to the proper project/account number in order to ensure that the accounts are fairly presented and the cost of the projects could be properly identified.

Conclusion

The National Audit Office feels it pertinent to point out that no irregularities were encountered following testing:

- of the cost of contracts after taking in consideration the variations/addenda issued after the original contracts;
- that the Bill of Quantity (BOQ), contractor's invoice and the ISC were properly certified by the Project Leader and Independent Supervisor;
- that the retention money had been deducted from the contractors' invoices and was properly computed; and

¹ The Invoice Status Certificate is issued by the Water Services Corporation (beneficiary) through the Structural Funds Database as part of the necessary documents that are submitted to the Directorate on behalf of contractors. Besides invoice details, it includes three checklists that are to be completed and signed by the Project Leader on behalf of the beneficiary, the Directorate and the Treasury Division respectively before payment is executed. The Directorate's checklist is to be signed following completion of the checklist filled in by the beneficiary.

- that payments made to contractors were issued according to the established ratios.

Management Comments

Management concurred with the majority of findings and has instructed personnel to ensure compliance regarding the proper allocation of projects and completion of the 'Checklist – Confirmation - LM' Section of the ISC.

With regards to the missing authorisations on CV, Management commented that notwithstanding the Ministry's practice of having the CV signed by the PS or DCS, through an email received by the Treasury Division on 6 May 2010, it was indicated that *"The DAS*

Commitment can be signed by the accounting officer who actually raised it." MITC further stated that the 'Manual of Procedures for Projects Implementation – Cohesion Policy 2007-2013' requires CV to be signed by the Accounting Officer and not necessarily by the PS or DCS.

MITC also commented that, as informed by Treasury in the above-mentioned communication, *"The signatures on the ISC and invoices are more important for payment"* than those on the CV, since it is unlikely for payments to be made without reference to the ISC. Obviously, Management agrees that this does not mean that CV should not be signed, but by way of formal control, they should be signed by the Accounting Officer and not necessarily by the PS or DCS.

Motor Hearses Association

Background

On 16 July 2008, an agreement was signed between Government, the Malta Transport Authority (ADT), and the Motor Hearses Association (MHA) wherein Government bound itself to pay the sum of €230,000 as support to MHA members to face the challenges brought about by the liberalisation process of the hearses sector.

On 15 May 2009, the then ADT Chairman forwarded the amount agreed to and informed MHA of their obligation to submit quarterly accounts to ADT, detailing how these funds were utilised. MHA were also informed that these accounts were to be subsequently published and eventually presented to Parliament.

Audit Scope

On 15 April 2010, the National Audit Office (NAO) requested the MHA accounts for 2009 from Transport Malta (TM) - the new entity of which the former ADT now forms part - in view of the fact that the audit process was about to commence. NAO's intention was to carry out a financial and compliance audit on the 2009 accounts.

This request was forwarded on the basis of ADT's letter dated 15 May 2009.

Limitation of Scope

On 23 April 2010, TM informed NAO that MHA failed to submit any accounts as requested by letter dated 15 May 2009. The only record that TM had to this regard is a subsequent meeting held between TM and MHA, but no further developments were recorded. TM also informed NAO that, following NAO's request, they will be in

touch with the Association and will request the necessary documentation.

On 27 April 2010, TM sent a letter reminder to MHA, making reference to letter dated 15 May 2009, and in particular to the agreement reached between ADT and MHA whereby the latter was bound to give an account, on a quarterly basis, of the public funds made available by Government to the said MHA.

Particular emphasis was made to the fact that MHA failed to submit these accounts so far. TM through this letter, established the 15 May 2010 as a deadline for MHA to submit the 2009 accounts.

Extension of Deadline

On 14 May 2010, MHA requested an extension of the deadline up to end May 2010. TM approved an extension up to 21 May 2010, on the condition that no further extensions will be authorised.

Due to the limitation of scope of audit, NAO was not in a position to accomplish its audit task. Hereunder is a sequence of events that occurred:

The National Audit Office informs Permanent Secretary, Ministry for Infrastructure, Transport and Communications about all the events so far with respect to the Motor Hearses Association's case

On 5 May 2010, NAO officially informed the Ministry for Infrastructure, Transport and Communications Permanent Secretary about all the events so far, in particular:

- NAO's audit and request to TM to provide a copy of MHA accounts;
- correspondence between NAO and TM;
- TM's reply to NAO regarding the fact that the Association failed to submit any accounts so far; and
- TM's intention to request the Association to submit accounts.

The Permanent Secretary Ministry for Infrastructure, Transport and Communications informs Transport Malta Chairman about the National Audit Office's requests and for immediate action to be taken

Immediately on the same day of NAO's letter, the MITC Permanent Secretary informed TM Chairman that NAO has brought to his attention the fact that certain documents, requested by NAO to enable the conduct of the audit, were not submitted. The Permanent Secretary requested TM to take the necessary action, in particular to urge MHA to comply with the requirements of letter dated 15 May 2009, and subsequently to forward the pertinent documents to NAO.

Transport Malta replies to Permanent Secretary informing him that immediate steps were taken

On 13 May 2010, TM replied to MITC Permanent Secretary and informed him that immediate steps were taken with MHA for the submission of the required information. TM referred also to the extended deadline requested by MHA and that request has been granted subject to new deadline being respected. TM also remarked that failure to abide by the extended deadline will lead TM to seek legal advice on further action to be taken.

Transport Malta updates Permanent Secretary Ministry for Infrastructure, Transport and Communications of all the events

On 24 May 2010, TM referred to letter dated 13 May 2010 and informed MITC Permanent Secretary that a letter was received by MHA dated 21 May 2010.

The letter also referred to the fact that MHA's legal representative made reference to an Agreement dated 16 July 2008, details of which are provided hereunder, reached between the Government of Malta, ADT and MHA. TM requested Permanent Secretary's approval to forward a copy of this agreement to NAO.

The following are the pertinent clauses agreed upon as detailed in the Agreement between MHA and ADT dated 16 July 2008:

- Association stops any industrial actions and starts to operate again by providing its services with immediate effect.
- Association resigns from being a member of the Transport Federation with immediate effect.
- MITC binds itself to assist the Association with an amount of €230,000 to help the Association face the challenges of the liberalisation process.
- Association declares that it agrees with the liberalisation market of the hearses.
- The Authority binds itself that for a ten year period it will not allow any hearses which are considered as "second hand" to register in Malta.
- All parties agree that there are no disagreements between them and so they unconditionally retire any legal and other action, whether by the Association or by any of its members, which they might have against each other.

The Motor Hearses Association's Legal Representative reply to Transport Malta's request dated 27 April 2010

On 21 May 2010, MHA, through their legal representative, replied to letter dated 27 April 2010 by stating that in their opinion the 16 July 2008 Agreement was fully honoured on their part.

In addition, this letter referred to the fact that during the meeting held on that day, all members of the Association were witnesses to the fact that it was agreed that an amount of €23,293.73 (Lm10,000) was to be issued to each member. Subsequently, the President of the Association was informed by MITC Minister that the members of the Association would lose the money if they did not accept the agreement reached.

The legal representative emphasised that the Association has honoured its obligations and used the funds to pay certain debts, purchased new hearses cars, new uniforms for drivers and other items, which were deemed necessary to keep the Association competitive in respect of the changes brought about by the liberalisation process.

Permanent Secretary Ministry for Infrastructure, Transport and Communications informs Transport Malta that Motor Hearses Association still has to honour its obligations and Transport Malta's subsequent communication with the Motor Hearses Association

On 25 May 2010, MITC Permanent Secretary informed TM that, in his opinion, though MHA legal representative explained how the €230,000 were allocated, the information submitted was not enough and did not fully comply with the Government Regulations regulating public funds utilisation.

The Permanent Secretary made also reference to the letter sent by the then ADT Chairman dated 15 May 2009, whereby he mentions the fact that the MHA was informed that since the funds were public funds, then MHA had to be accountable how the funds were utilised.

The Ministry mentioned the fact that the accounts could be published and eventually presented in Parliament. All this necessitated the preparation and submission of detailed accounts by the Association. The letter concludes by remarking that the Association needs to fulfil all its obligations without any further delay.

On 25 May 2010, TM wrote back to MHA on the lines of the Permanent Secretary's advice. TM concluded the letter by making it very clear to the Association that it has to honour its obligations (as set up by letter dated 27 April 2010) and submit detailed accounts of how the €230,000 were utilised. This submission had to be done with immediate effect. The Association, through its legal representative, was also informed that failure to comply with the above request, would result in the Authority taking all the necessary actions against the Association.

The Motor Hearses Association sends an itemised list of funds utilised to Transport Malta

On 1 June 2010, MHA replied to TM's letter dated 25 May 2010 by sending an itemised list of funds utilised so far. This email was subsequently forwarded to NAO on 8 June 2010.

The National Audit Office requests for more supporting documentation from Transport Malta

On 9 June 2010, NAO acknowledged receipt of email but requested further documentation from TM in particular:

- detailed supporting evidence with regards to the use of the funds to settle part of the loans by two of the MHA members;

- explanation and supporting data for the funds which were not utilised; and
- explanation about the fact that MHA President has utilised part of the funds himself.

Transport Malta's reply to the National Audit Office re documentation sent by the Motor Hearses Association and the National Audit Office's reply

On 9 June 2010, TM informed NAO that no other details were available other than those provided by MHA in their letter dated 1 June 2010. TM is of the opinion that the information provided by MHA is not enough and needs to be substantiated further.

On the same day, NAO replied to TM that the information submitted by MHA was not enough and did not represent a proper set of accounts that the Association was supposed to submit on a quarterly basis. Through this communication, NAO suggested to TM that it should continue insisting with MHA to obtain the requested documentation and information/explanations and refer back to NAO once MHA submitted all requested information.

Transport Malta's request for further documentation to Motor Hearses Association's Legal Representative dated 23 June 2010

MHA, through their legal representative, were informed that the statement submitted was not sufficient and not in compliance with what the Association was expected to prepare and submit for eventual verification. Apart from the explanations, TM also requested the Association to submit:

- documents, including receipts, relating to purchases of vehicles mentioned in the statement;
- documents, including receipts, relating to payments of loans as indicated in the statement; and
- a clear explanation of the remaining balance of €69,565 since the statement reports an expense of €160,435.

TM granted one week's time, from the letter's date, for submission of the above information.

Transport Malta updates Permanent Secretary Ministry for Infrastructure, Transport and Communications of development re the Motor Hearses Association case

On 27 July 2010, TM informed the MITC Permanent Secretary that MHA never replied to the letter dated 23 June 2010, sent by TM. In this regard, TM has instituted

legal proceedings and a legal letter was filed in Court on 16 July 2010.

Transport Malta informs the Ministry for Infrastructure, Transport and Communications and the National Audit Office about the Motor Hearses Association reply to the Legal Letter

On 5 October 2010, TM informed MITC, copying in NAO, regarding a letter filed by MHA in Court as a reply to the Judicial letter sent on 16 July 2010 by TM. TM also remarked that MHA did submit more detailed accounts on 2 August 2010 which are still being reviewed.

Concluding Remark

No further developments were reported to NAO up to 7 October 2010.



**Ministry of Education, Culture,
Youth and Sport**

Public Broadcasting Services Limited

Revenue from Malta Eurosong and Eurovision Song Contest 2009

Background

The Public Broadcasting Services Limited (PBS) is a private limited liability company incorporated on 27 September 1991 under the Commercial Partnerships Ordinance, 1962. PBS is Malta's public broadcasting company, responsible for the TVM channel, as well as the *Radju Malta*, *Radju Maltin Biss* and Magic Radio stations. The major shareholder of the company is the Government of Malta, holding 1,879,999 ordinary shares out of the issued share capital of 1,880,000 shares.

The Malta Eurosong, which replaced The Malta Song for Europe, was under the PBS' remit in 2009. A grant amounting to €45,000 is forwarded annually to PBS by the Ministry responsible for Education, to cover expenses relating to this festival. The Malta Eurosong determines the song which will represent our country at the Eurovision Song Contest.

Malta Eurosong 2009

A total of 182 entries were submitted to PBS for the Malta Eurosong 2009, with these being narrowed down to fifty-six by a panel of judges. The fifty-six songs took part in eight heats, which were featured on a series of television programmes broadcasted between November 2008 and January 2009. Only fifteen out of these fifty-six entries qualified for the final after being selected by another panel, while a further five songs were chosen through televoting.

The final twenty songs competed in the Malta Eurosong 2009 which was held on 7 February at the Malta Fairs and

Conventions Centre in Ta' Qali. After the first performance, an international panel selected three songs, which were performed again at the super final, held on the same night for the final vote by the public.

In order to select the winner of the Malta Eurosong, three premium-rated numbers were created and each number was assigned to one of these three songs. The general public was invited to select their preference by sending a Short Message Service (SMS) to any one of these numbers. Only SMSs received during the televoting time-window were considered as valid. The song receiving the largest number of votes won the contest.

Revenue¹ generated from the Malta Eurosong amounted to €212,502.67², while expenses totalled €164,066.37. This resulted in a net profit of €48,436.30 for PBS.

Eurovision Song Contest 2009

The 2009 edition of the Eurovision Song Contest was held in Moscow, Russia. The two semi-finals of this event took place on 12 and 14 May 2009, while the final was aired on 16 May. The winning song of the Malta Eurosong took part in the first session of the semi-finals and also qualified for the final show.

Although revenue generated from advertising, sponsorships and other sundry income relating to the Eurovision Song Contest amounted to €86,257.53², this was not enough to meet PBS' expenses in this regard, thus leading to a net loss of €132,366.37.

¹ This includes the Government grant of €45,000.

² The quoted figures were obtained from PBS. No verification was carried out by the National Audit Office (NAO) to ensure that the revenue, as well as the declared profit or loss, is correct.

Audit Scope and Methodology

The scope of the audit was to ensure that revenue generated by PBS as regards the Malta Eurosong and Eurovision Song Contest was appropriately recorded and processed in accordance with the company's approved rates and guidelines.

An analysis of income earned from these two events was obtained from PBS. Testing was carried out on the related sponsorships, revenue generated from adverts aired during the Eurovision Song Contest and televoting, as well as sundry revenue. The selection of transactions falling within the audit sample was based on materiality. Although a total of forty-one transactions, collectively amounting to €232,562.41 were chosen for testing, not all were verified due to limitations posed. On the other hand, audit testing revealed no shortcomings relating to the Eurovision Song Contest sponsorships and sundry revenue.

This Report focuses on inaccuracies in recording revenue, identified while conducting audit testing, as well as on any inefficiencies that were noted in the management processes in use.

Key Issues

Limitation on Scope of Audit

PBS issued advertising packages and premium rates applicable for publicity during the Malta Eurosong and the Eurovision Song Contest. However, the rates actually used for invoicing clients differed from the established benchmarks. As stated by PBS officers, various conditions influenced the rates charged including, slotting availability, the client's reputation with PBS, the contracts in place with production houses, etc. This, together with undocumented last-minute changes made, posed limitations on audit testing.

In fact, while limited verification was performed on invoices issued by PBS for adverts aired during the Eurovision Song Contest, no testing was carried out on income from Malta Eurosong advertising, since the same principles were applied in both cases. Consequently, it could not be ensured that PBS obtained the best possible rates for adverts. Amounts charged to the clients also could not be validated.

Control Issues

Opportunities for improvement were identified in the following areas:

Advertising

Advertising and Sponsorship Agreements not signed

- a) Although advertising agreements are entered into between PBS and each client promoting his product during the Eurovision Song Contest, to confirm the booking of adverts made by the latter, none of the contracts falling within the audit sample was signed by either party. PBS iterated that the nature of the business in which the company operates very often results in last minute confirmation of bookings. Thus, the signing of agreements, which would be considered just as a formality, is overlooked.
- b) The agreement with one of the main Malta Eurosong sponsors was neither signed nor dated. It also failed to indicate the persons representing both parties.

Lack of Documentation covering changes to booked Advertising

Testing carried out on income from advertising during the Eurovision Song Contest revealed instances where the documentation available was not sufficient to explain deviations from the clients' booking orders. For instance a booking order submitted by a client included two thirty-second spots to be aired on 11 and 13 April. However, the relative sales invoice confirms that the adverts, aired on 11 and 13 May, were of twenty seconds each. Documentation attached to the sales invoice failed to explain the difference in the duration of the spots.

When queried on the above, PBS officers claimed that very often, changes were being carried out at the last minute and were done over the phone (i.e. verbally). However, in NAO's opinion, this should not have precluded them from at least informally noting amendments on the respective contracts.

Client overcharged for Adverts

Another client booked two twenty-second adverts to be aired on 12 and 14 May and was charged for both adverts. However, PBS erroneously utilised the rates applicable for thirty-second spots when issuing the invoice, resulting in the client being overcharged by 40% when compared to the Eurovision rate card³. No credit notes were issued to the latter in this respect.

³ This rate card was issued by PBS and includes the benchmark prices to be charged for adverts aired during the Eurovision Song Contest.

Advertising Option chosen by Client not clear

Following various advertising options offered to a client promoting his product during the Eurovision Song Contest, the latter booked sixty spots at peak time. However, this confirmation failed to indicate at what time of the day the adverts were to be aired and the duration of each spot. Thus, the exact advertising option, ultimately chosen by the client, could not be arrived at.

Televoting**Income generated from SMSs invalid for Televoting**

PBS billed two⁴ mobile telecommunications service providers for a total of 24,431⁵ SMSs received on the three premium-rated numbers allocated for determining the winner of the Malta Eurosong. However, out of these SMSs, only 18,432 (i.e. 75%) were received during the televoting session on the night of the event and therefore considered as valid. Consequently, revenue amounting to €1,739.71⁶ was generated from invalid SMSs.

Lack of Documentation supporting number of SMSs received

At the end of the Malta Eurosong's televoting session, the two mobile telecommunications service providers referred to above, sent an email to PBS indicating the total number of SMSs (votes) received. However, no reports or relevant documentation, generated from each of the service provider's system, were eventually forwarded to PBS, supporting the figures quoted in these emails.

Recommendations**Key Issues****Limitation on Scope of Audit**

PBS is expected to maximise income earned from advertising. However, this should not be done at the expense of customer loyalty. As much as possible, rates charged are to follow the established benchmarks. In case of divergence, the reasons leading to such deviations are to be duly recorded.

Control Issues**Advertising****Advertising and Sponsorship Agreements not signed**

All contracts entered into are to be dated and signed by all parties. This issue had already started being addressed by PBS since, as from October 2009, each contract is being emailed to the client. The contract includes a clause which stipulates that in case of failure of reply by the latter, it is assumed that the client is concurring to all the conditions and information included therein.

Lack of Documentation covering changes to booked Advertising

Any variations from the original agreement are to be duly recorded and the respective contracts amended accordingly.

This recommendation seems to have already been taken on board by PBS during the course of the audit.

Client overcharged for Adverts

Since clients are forwarded a copy of the prevailing rate card, they are aware of the cost of advertising on the national television station and should be charged accordingly. PBS is to place more attention when issuing invoices, so as to avoid the occurrence of errors similar to the ones reported overleaf.

Advertising Option chosen by Client not clear

Advertising options chosen by clients are to be clear and well documented to enable verifications against invoices. Furthermore, as also mentioned previously, any changes made to the original agreements are to be agreed upon by both the client and PBS.

Televoting**Income generated from SMSs invalid for Televoting**

PBS, in collaboration with the mobile telecommunications service providers, may consider enabling disconnection of the respective SMS numbers allocated for a specific event/

⁴ Since the audit sample was based on materiality, only the invoices issued to those service providers receiving the largest amount of SMSs were verified.

⁵ The number of SMSs billed was based on the information submitted to PBS by the service providers at the end of the televoting session.

⁶ Each SMS cost €0.58 (VAT included) and the revenue was shared equally between PBS and each service provider. The quoted figure is only PBS' portion of the revenue earned from these SMSs.

programme as soon as the televoting session is closed. This would ensure that the public is not charged for SMSs which are invalid.

Lack of Documentation supporting number of SMSs received

When entering into new agreements relating to income earned from televoting, PBS is also to consider requesting

itemised reports generated from the respective computerised systems recording SMSs, that are received from the service providers' end, to confirm the revenue due to PBS.

Management Comments

Management replied that the observations and respective recommendations are being discussed internally so that, wherever possible, they will be implemented.

Co-operatives Board

Financial Years 2006 - 2008

Background

As established by Article 3 of the Co-operative Societies Act, Cap. 442 of the Laws of Malta, the Co-operatives Board is a statutory body having a distinct legal personality. The functions of the Co-operatives Board are to:

- register, monitor and exercise supervision over co-operative societies and to ensure compliance with the provisions of the Act;
- support and assist the establishment of co-operative societies in all sections of the economy and society; and
- furnish information regarding co-operative principles, practices and management.

Audit Scope and Methodology

The aim of the audit was to ascertain that:

- the Financial Statements as prepared by the Co-operatives Board represent a true and fair view of the financial position of the Co-operatives Board as at 31 December 2006, 2007 and 2008, and of its operations for the years then ended; and
- adequate internal controls exist for the detection and prevention of material misstatements arising through fraud and/or error, and safeguarding of assets.

Key Issues

Inaccuracies and Incompleteness in the Financial Statements

During our audits for the three years respectively, various inaccuracies have been observed and audit adjustments have been proposed in order to rectify such inaccuracies and incompleteness in the Financial Statements.

SCOOPS Project Fund

From the commercial Bank Confirmation Letter, it was noted that the Co-operatives Board did not disclose in the Financial Statements income received in relation to the SCOOPS Project and deposited in a current account held in its name. The bank account is neither held under the name of the Ministry of Education, Culture, Youth and Sports. This was confirmed through an audit of bank accounts, published in the Auditor General's Annual Audit Report – Public Accounts 2008. In reply to NAO's 2005 Management Letter, the Board stated that *"it is not prudent to account for this amount in the financial statements ..."* On the other hand, Management of the above mentioned Ministry stated that *"since the SCOOPS Fund is being financed by the Cooperative Board, this bank account should be managed by such Board and reported in their books"*. Although the Board had agreed to consider the disclosure in the Financial Statements by way of note, no note in this respect was made in the Financial Statements under review.

It was noted that funds received upon the liquidation of Co-operatives Societies were deposited in the Co-operative Board's bank account 'Co-operative Society Liquidation A/C'. In terms of the Co-operatives Societies Act, Article 105 (4), any sum deposited in this account shall, after a period of five years, be transferred to the Central Co-operatives Fund (CCF). An inconsistency has been noted since these funds, which do not belong to the Board, are being disclosed in the Financial Statements, whereas funds in relation to the SCOOPS Project, which the Board states do not belong to the Co-operatives Board, are treated in a different manner. There is the risk that the Financial Statements do not show a true and fair view of the Co-operatives Board.

Incorrect Treatment of Third Party Funds

- Upon the liquidation of a Co-operative Society during 2007, an amount of €1,376.66 (Lm591) was transferred to the Co-operative Societies Liquidation bank account. In terms of the Co-operative Societies Act, such sum shall, after a period of five years, be transferred to the CCF. This amount was incorrectly treated as income in the Financial Statements rather than a long term creditor due within five years.
- During 2007 and 2008, two amounts of €5,747.64 (Lm2,467.46) and €4,600 respectively, were refunded from CCF to the Outlook Co-op through the Co-operatives Board as an intermediary. The Co-operatives Board incorrectly accounted for the receipt of funds as income and as an expense upon the transfer to Outlook Co-op. These funds should have been treated as a short term creditor.

There is the risk that the Financial Statements do not correctly reflect the amounts due as at the respective end of year.

Control Issues

Opportunities for improvement were identified in the following areas:

Fixed Assets

The total cost of fixed assets and the respective depreciation charge as per books of account are subject to inaccuracies and incompleteness in view of limitations observed and erroneous calculations and formulae, as further detailed below:

a) Fixed Assets Register not Maintained

- i. A Fixed Assets Valuation List is kept, on which depreciation workings were based as stated

by the Accountant. The following limitations were noted:

- Asset categories as per List do not match the asset categories as per Financial Statements.
- The list includes various consumables individually costing €116.47 (Lm50) or less.
- Not all assets in the List are depreciated. For the remaining depreciated assets, the depreciation charge assigned to most is not in accordance with the depreciation policy as per Financial Statements.

- ii. An Inventory Database in line with guidelines set in MF Circular No. 14/99 is maintained by the Co-operatives Board. Details of depreciation and remaining useful life are not required by this Circular and thus are not included.

However, NAO is of the opinion that the above mentioned List and Database cannot be considered to be a Fixed Asset Register in view of the noted limitations.

b) Incorrect Asset Category

During 2007, roof membrane works to the rented property of the Co-operatives Board amounted to €1,972.16 (Lm846.65), which costs were erroneously capitalised as 'Furniture, Fixtures and Fittings' at a depreciation rate of 10%. An audit adjustment was proposed to capitalise these costs to 'Improvements to Property' at a depreciation rate of 2%.

c) Incorrect Measurement of Fixed Asset

A motor vehicle was acquired during 2006 at a cost of €11,646.87 (Lm5,000), on which a registration tax refund of €2,918.50 (Lm1,252.91) was received. Audit adjustments were proposed to decrease the asset's cost with the refund received and reverse any depreciation thereon, as required in 'Malta Government Accounting Standard 12 – Property, Plant and Equipment'.

Registration Tax Refunded

During 2006, registration tax refunded, amounting to €2,918.50 (Lm1,252.91), was received from the Licensing and Testing Directorate (LTD). No verification or inquiries

were made by the Board regarding the correctness or completeness of the refund received. Only following our audit request did the Co-operatives Board request details of the refund to LTD.

Inaccuracy and Inconsistency in Presentation of Items in the Financial Statements

The Board was not accurate and consistent in the presentation and disclosure of ‘Petty Cash’ and ‘Bank Interest and Withholding Tax’ in the Financial Statements during the three years under review.

Contracts of Employment

Terms and conditions underlying employment would not be legally covered when contracts are expired or non-existent, as in the below mentioned instances:

- a) The contracts for the Board’s Project Officer/ Manager expired on 31 December 2004, following which, contracts were not re-negotiated and the Project Officer/Manager continued his appointment under the terms of expired contracts.
- b) No contract was prepared and signed for a casual clerk employed on a one year definite contract from 2 October 2006.

Taxation on Bank Interest Received

Only two out of the four bank accounts held with a commercial bank are being charged withholding tax on the interest earned. An inquiry was raised in order to ascertain whether a tax charge should be imposed on the untaxed interest earned. The Board inquired with the Permanent Secretary of the Ministry of Finance, the Economy and Investment (MFEI). However feedback is still awaited, at least up to end August 2010.

Documentation not Available

- a) There is the risk that the provisions of the VAT Act are not being followed due to the fact that:
 - a supplier did not present VAT receipts against payments made by the Board during 2007 and 2008, collectively amounting to €1,428.63 (Lm613.31); and
 - quarterly returns with details of defaulting suppliers, such as the above case, were not sent to the VAT Division as per MF Circular No. 5/2002.

- b) Expenditure could not be corroborated as supporting documentation was not available for:
 - a supplier invoice for Web Design services during 2007, amounting to €206.15 (Lm88.50); and
 - suppliers’ invoices for 2008 Utilities accruals, amounting to €343.96.

Incorrect Workings

A number of errors in the computation of accruals and prepayments were noted, which resulted in over or under accruals and prepayments in the Financial Statements.

Compliance Issues

Travel Arrangements

During 2007, one case was noted where hotel accommodation was booked from a source other than Air Malta, with no quotations obtained prior to booking, contrary to the relevant provision of the Public Service Management Code (PSMC).

Board Members’ Allowance

As in previous years’ audits, it was noted that, during 2006 and 2007, three of the Board Members were being paid a monthly allowance of €23.29 (Lm10), collectively amounting to €838.57 (Lm360) and €745.40 (Lm320) for each year respectively. Allowances were discontinued during 2008 upon the appointment of a new Chairman. There is the risk that the Co-operatives Societies Act, Cap. 442 of the Laws of Malta was contravened, which Act states that “*a member of the Board shall be paid such remuneration as the Minister may, with the concurrence of the Minister responsible for finance, from time to time determine*”.

Payment of Mobile Phone Bills

- Mobile phone bills for the Chairman and Manager are paid by the Co-operatives Board. A Board minute authorising these payments was only found for the former. With regards to the Manager, the Board agreed and authorised the purchase of a mobile phone for the use of work-related purposes. The Manager is of the opinion that although the minutes stated the purchase of a mobile phone rather than the use of a mobile phone, “*the authorization for payment*” is indirectly implied”.

- A list of the above mentioned mobile phone bills paid during the period 2006 to 2008 was requested to ensure that the €815.28 (Lm350) limit imposed by MF Circular No. 4/2002 was not exceeded. This information was not readily available but was prepared upon our request. In the absence of regular controls over these payments, there is the risk that the limit imposed by this Circular is overseen and exceeded.

Recommendations

Key Issues

Inaccuracies and Incompleteness in the Financial Statements

The Co-operatives Board is urged to update the books of account and Financial Statements with the proposed audit adjustments.

SCOOPS Project Fund

The Board should adopt consistent treatment for all bank accounts held under the Co-operatives Board's name. SCOOPS Project Fund should be disclosed in the Financial Statements. Otherwise, a letter in writing should be obtained from the Organisation responsible for such funds, confirming that such funds do not belong to the Co-operatives Board and can thus disassociate themselves from the funds and their responsibility.

Incorrect Treatment of Third Party Funds

The proposed accounting treatment should be adopted by the Board in recording such transactions, so as to ensure that the Financial Statements show a true and fair view.

Control Issues

Fixed Assets

A proper Fixed Asset Register is to be built and maintained by the Board in order to ensure control and prevention of misappropriation of assets, keep track of the correct value of assets, correct computation of depreciation and remaining useful life of the assets.

Consultation with relevant standards and regulations should be made when accounting for fixed assets upon initial recognition.

Registration Tax Refunded

Supporting documentation and workings should always be requested by the Board in order to strengthen controls over revenue received.

Inaccuracy and Inconsistency in Presentation of Items in the Financial Statements

Irrespective of the materiality of the amounts, the Board should disclose all amounts in the Financial Statements so as to reflect a true and fair view of its financial position.

We reiterate our recommendation that interest income received and the related withholding tax expense should be separately disclosed in the Statement of Financial Performance, apart from ensuring consistent presentation and disclosure in the Financial Statements.

Contracts of Employment

All new and existing employments within the Co-operatives Board should be covered by valid contracts of employment. Expired contracts of employment should be re-negotiated and renewed after expiration without unnecessary delays.

Taxation of Bank Interest Received

The Co-operatives Board should follow up on this matter in order to regularise the position of the bank accounts *vis-a-vis* withholding tax thereon.

Documentation not Available

It is to be ensured that VAT receipts are duly collected from suppliers and any defaulting suppliers should be reported to the VAT Division, as per MF Circular No. 5/2002.

Expenditure must be substantiated by appropriately filed documentation which should be retained for future reference.

Incorrect Workings

Due care should be taken to ensure that workings are computed and appropriately accounted for so as to ensure accuracy and completeness in the Financial Statements.

Compliance Issues

Travel Arrangements

The Board should obtain the necessary quotations as required by the PSMC, which quotations should be kept for audit purposes.

Board Members' Allowance

Any allowances paid to Board Members should be strictly in accordance with the Co-operative Societies Act. Unless allowances are paid as a refund against presentation of the relevant receipts, these should be taxable as fringe benefits.

Payment of Mobile Phone Bills

The Board should formally authorise the payment of the Manager's mobile phone bills for use of work related purposes.

A list of mobile phone expenditure paid must be kept and updated monthly, so as to ensure that the limit as imposed by MF Circular No. 4/2002 is invariably adhered to.

Management Comments

Management has accepted and implemented most of the recommendations put forward. In addition, the following comments were also submitted:

- *"... the Funds contributions of the 5% from Scoops Activities were only being administered by the Board of Co-operatives. In actual fact these funds belonged to the Kunsill Nazzjonali SCOOPS."*
- The Fixed Assets Valuation List is presently being revised and consumables costing individually €116.47 (Lm50) have now been struck off.

- The Board acknowledges that written supporting documentation for the registration tax refund was not sought. However, the Co-operatives Board was aware of the way the refund was to be calculated and hence that the amount was correct.
- The Co-operatives Board was well aware of the fact that the contracts had expired. Continuous efforts to renegotiate a new contract were being made but had failed for various technical reasons. Upon the inception of the new Board, negotiations recommenced and a new contract of employment was agreed and signed. NAO was not forwarded with a copy of this contract.
- There was a verbal agreement between the Co-operatives Board and the casual clerk. Today, all employees have a valid employment contract.
- To date the Board has not received any feedback from MFEI regarding the withholding tax and bank interest issue.
- The Co-operatives Board always endeavors to purchase flight tickets from Air Malta. With regards to the instance noted, all hotels in Brussels were overbooked in view of a conference, *"thus it was decided to book the cheapest possible hotel on arrival at the airport."*
- The Board will clearly authorise the payment of the Manager's mobile phone bill at the next Board Meeting.
- The Chairperson and the Manager are well aware of the €815.28 (Lm350) threshold imposed by MF Circular No. 4/2002. If the threshold were reached, *"the payment from the Board's funds would have been stopped or refunded if there was any overpayment."*



Ministry for Social Policy

Elderly and Community Care Inventory

Background

The Elderly and Community Care Department (ECCD) has under its responsibility the following premises:

- Saint Vincent de Paule Residence (SVPR)
- Eight Elderly Homes (all Government owned, three of which are managed by a private contractor)
- Sixteen Day Centres
- *Ċentru Hidma Soċjali*
- *Ċentru Servizz Anzjani*
- Night Shelter
- Telecare Centre

Audit Scope and Methodology

The objectives of the audit were to ensure that ECCD is in compliance with the Inventory Control Regulations as set out in MF Circular No. 14/99 – ‘Government Accrual Accounting: Revised Inventory Control Regulations’, including the Inventory Database maintenance and updating.

An overview of the procedures and controls in place was obtained by means of meetings with officials from ECCD and any risks were identified. Meeting minutes were sent to and confirmed by the auditee. The following tests were performed:

- The Inventory Database was analysed in order to ensure that ECCD is in compliance with the requirements set out in the relevant Circular.
- A departmental file with details of items disposed was scrutinised for any information of relevance to our audit.

- A sample of accounts from the Departmental Accounting System (DAS) was chosen. With a Confidence Level of 90% and a Confidence Interval of 11.48%, fifty out of 1,904 transactions were selected for testing. The sample was based on materiality, with a collective value of approximately €1.9 million. Transactions were traced to their respective Payment Vouchers (PVs) and invoices and it was ensured that items of an inventory nature were actually recorded in the Database.
- Two Elderly Homes, six Day Centres and SVPR were selected for physical stocktaking. Physical items were checked from list to floor and vice-versa.

Key Issues

Premises in Use by the Elderly and Community Care Department

Consultation with the Treasury Division with regards to Immovable Property communicated that *“Government property is owned by Government Property Division and no values are currently assigned to government premises. The Departments can therefore list the premises occupied without a value in the inventory, indicating that these are either rented from GPD or from third parties.”*

ECCD is being inconsistent in the procedure adopted *vis-à-vis* recording of immovable property, as a number of its premises were not listed in the Inventory Database as at December 2009. In addition, the premises listed in the Database did not indicate whether these were Government owned or rented from third parties.

‘Nil’ Valuation of Other Operational Assets

Testing of the Database revealed that 431 out of 20,861 (2%) inventory items in all asset classifications, excluding Buildings, are valued at ‘zero’ or have a blank price, leading to inaccurate and incomplete information within the Inventory Database.

The Officer in charge of SVPR inventory verbally stated that old acquisitions with ‘Nil’ value are those whose original invoice could not be traced upon the creation of the Database, whereas more recent acquisitions would be ‘Nil’ in view of documentation not available.

Completeness of Inventory Database

Testing of DAS transactions resulted in twenty-four out of fifty (48%) PVs being Tangible Fixed Assets as per MF Circular No. 14/99 definition. Thirteen or 54% of these twenty-four PVs, being additions to SVPR, could not be traced to the Inventory Database as at December 2009 since these were included in the Database to be submitted as at June 2010. There is the risk that the Database submitted as at December 2009 does not reflect the true position of inventory held by ECCD. The Officer in charge explained that this was due to the respective documentation not being timely sent from ECCD to SVPR. Since 2010, documentation is being transferred to the latter on a monthly basis.

Incorrect Practices for Recording Items Disposed of within the Database

Through inquiry and discussions, it was identified that disposals used to be completely deleted from the Inventory Database, rather than adjusting the value to ‘Nil’ with the date of disposal. Thus, no audit trail exists within the Database for those inventory items disposed of in preceding periods up to the first three quarters of the year under review.

Control Issues

Opportunities for improvement were identified in the following areas:

Lack of Human Resources

One on-site Officer at SVPR is in charge of the inventory at SVPR, whereas another Officer situated at ECCD, is responsible for all other locations falling under ECCD’s responsibility, including the overall administration and maintenance of the Inventory Database. The lack of human resources over Inventory Control leads to limitations and deficiencies within the current system.

Inadequate Backup Procedures

The Inventory Database is updated and overwritten with any movements in inventory every six months. The Database is not backed up prior to being overwritten, thus information at a specific point in time, and any further changes to that information, cannot be traced back. A copy of the Database was printed upon its original set up during 2003, following which backups are made in the form of print outs of details of additions, disposals and transfers made each year. This procedure raises the risk of loss of data.

Matters Noted during Physical Stocktaking**a) Items Not Physically Found**

Various items selected from the Inventory Database were not physically found in the site/room as listed in the Database. The majority of these items were either misplaced or moved to other rooms or sections within the premises, without adequately reflecting movements in the Database.

b) Items Not Found in the Inventory Database

Several items which were physically selected from the various sites/rooms within the premises, could not be traced to the Inventory Database. Upon observation and inquiry, it resulted that such items were either not included in the Database or could not be traced since these were not marked with an identification number.

c) Items Incorrectly Located

A number of inventory items tested were noted to have an incorrect location listed in the Database while other items were listed in the Database with no specific location.

d) Incorrect Details for Sites/Rooms

- Some sites/rooms as observed during the physical stocktaking were not found listed in the Database, while other sites/rooms were recorded in the Database under a different name than that physically marked in the actual location.
- No numbering or identification exists on entrance doors to various locations.

e) Transferred Items

Some inventory items which were not physically found were either lent to other locations/parties, transferred, obsolete or replaced, as stated by the officers in charge. In the majority of the cases, the Officer in charge of the Inventory Database was not informed of these movements. The Database was not updated to reflect such changes.

f) Room Inventory Lists

In the majority of the locations tested, Room Inventory Lists were not always updated or were not kept at all.

g) Donations

Items were noted which were:

- belongings of elderly people, left at the Homes following their passing away; or
- purchased by staff and/or elderly people to be used and shared among all staff and residents at the Homes/Day Centres.

Such items, declared as belongings of the Homes/Day Centres to be used by all staff and residents, were not included in the Database and marked as ‘donations/belonging to staff’.

Compliance Issues**Analysis of Inventory Database**

The following issues indicate non-compliance with MF Circular No. 14/99:

a) Information Left Blank and Other Errors

A number of fields within the Database Particulars were left blank and details within other fields were noted to be inconsistent with the requirements of MF Circular No. 14/99.

b) Consumables with a Value Below Established Limit Included in Database

As stated by MF Circular No. 14/99, “... a distinction must be made between tangible fixed

assets and consumables. Consumables may include semi-durable items that have a life time of less than three years and have a value of less than fifty Maltese lira (Lm50)¹ ...” A number of consumables with a value less than €116.47 were noted within the Database.

c) Positive Quantity with a Negative Price

As per Treasury Division’s advice, when items are disposed of, these are to be recorded in the Database as a negative quantity and value rather than completely deleting the original entry. It has been noted that the Database contains several fields with a positive quantity but with a negative value.

d) Inconsistencies in Site Codes

- A list of the Department’s premises with their respective site codes was compared to the Database. It resulted that the same site codes were used for more than one location or some premises had more than one site code.
- Following the physical stocktaking, it resulted that a number of inventory items within the Database were assigned an incorrect site code or section description, when compared to the list of premises.

Notification to Auditor General

MF Circular No. 14/99, states that “Every six months a list of items added to the Departmental inventory whether purchased or manufactured during the previous month shall be submitted as a soft copy preferably through e-mail, to the Auditor General.”

Since 2007 and including the year under review, ECCD have not been sending to National Audit Office (NAO) the information as required by the said Circular, but rather a summarised list every mid-year and end of year, including the code, asset classification details and the value, for each Asset Classification in total.

Identification Marks on Physical Items

As stated by MF Circular No. 14/99, “Each item shall be physically marked with a consecutive identification number.” Lack of control over inventory poses a greater risk of asset misplacement.

¹ Equivalent to €116.47

- Inventory items at Homes and Day Centres were never physically marked with an identification number, not even when the initial stocktaking was carried out during 2003 in order to build up the Database. The fact was confirmed by NAO during our physical stocktaking at the selected locations.
- At SVPR, the items were physically marked upon creation of the Database in 2003. However subsequently, not all additions were marked. The Officer in charge stated that it is difficult to keep up with all new additions in such a large residence.

Inconsistencies Noted in the Recognition of Tangible Fixed Assets

a) Aluminium Works

Whereas ‘aluminium works’ at SVPR have been included in the Database, ‘aluminium works’ at Safi Day Centre were not. Even though expenditure for SVPR (€69,081.16) was considerably higher than that incurred in Safi Day Centre (€885), an inconsistency in the treatment of Fixed Assets has been observed. This goes against the advice obtained from the Treasury Division.

b) Electrical and Mechanical Installations

Not all ‘electrical and mechanical installations’ expenditure was treated consistently as Tangible Fixed Assets by ECCD. Following consultation with the Treasury Division, reference was made to ‘Malta Government Accounting Standard (MGAS) 12 - Property, Plant and Equipment: Components of Cost’, which provides examples of directly attributable costs, including installation costs.

The Treasury Division further stated that “... *in the inventory template, the Department is to enter one value that should include all the ... components.*” listed in MGAS 12. The Department may not be aware of the treatment to be adopted for the recognition of certain Tangible Fixed Assets.

Recommendations

Key Issues

Premises in Use by the Elderly and Community Care Department

Consistent treatment should be adopted by ECCD for including all premises in the Database. It should be clearly

indicated whether premises occupied are Government owned, rented from Local Councils or third parties.

‘Nil’ Valuation of Other Operational Assets

All assets are to be adequately valued as portrayed by MF Circular No. 14/99. The Department should value assets either at original cost price (if known), or assign a Management valuation which should not exceed the replacement cost of the respective asset.

Completeness of Inventory Database

Responsible Officers are to ensure that all necessary documentation is to be made available in a timely manner in order for the Inventory Database to be continuously updated and complete.

Incorrect Practices for Recording Items Disposed of within the Database

As also advised by Treasury, any disposals made by ECCD should be recorded as an additional entry with a negative value in the Database rather than completely deleting the original entry. ECCD put in practice this procedure during the last quarter of 2009.

Control Issues

Lack of Human Resources

ECCD should consider appointing further officers in charge of inventory so that all locations can be managed more efficiently and effectively, thus enforcing Inventory Control.

Inadequate Backup Procedures

Formal backup procedures should be adopted by ECCD to ensure an adequate audit trail and minimise the risk of loss of data.

Matters Noted during Physical Stocktaking

- The Database should be adequately updated through regular physical checks and communication of movements in inventory items with the Officer in charge of the Database.
- All inventory items and sites/rooms should be adequately identified and Room Inventory Lists should always be updated to reflect latest movements.

- As advised by the Treasury Division with regards to donations, when Management decides to take ownership of assets left at the premises for use by other residents and staff, then the Department is assuming that such assets were donated and should be marked as ‘D’, as also advised by the relevant Circular. These assets may be valued at original cost when known, or assigned a Management valuation not exceeding the replacement cost. The ‘Date Asset Acquired’ should reflect the date when the valuation was provided and it should be indicated whether the asset was provided with a Management valuation.

Compliance Issues

Analysis of Inventory Database

ECCD should rectify any inconsistencies in order for the Database to be complete, reliable and in compliance with the requirements of the Circular.

Notification to Auditor General

ECCD should invariably ensure compliance with the provisions of MF Circular No. 14/99.

Identification Marks on Physical Items

It is being recommended to adhere to control procedures and physically mark items with a permanent identification number, as far as it is practicable to do so.

Inconsistencies Noted in the Recognition of Tangible Fixed Assets

Any uncertainties should be discussed and clarified with the Treasury Division so that consistent treatment can

be adopted on all Tangible Fixed Assets included in the Inventory Database.

Management Comments

Management has accepted and implemented most of the recommendations put forward by NAO. In addition, the following comments were also submitted:

- All items with ‘Nil Valuation’ have been given either a nominal value or an estimate based on assets with similar characteristics.
- *“The addition of further officers in the inventory section would enhance inventory control; at the moment, help has been provided with the temporary addition of an officer in this respect to bring forward any backlog; however, currently there still is the problem of human resources availability on a permanent basis.”*
- An appointment with Malta Information Technology Agency (MITA) has been set up for a backlog folder to be installed on the server. With regards to SVPR, MITA takes a backup of the server on a daily basis.
- A soft copy of Room Inventory Lists is being kept up-to-date in view of the large volume and frequency of item movements.
- In view of inconsistencies noted in the recognition of Tangible Fixed Assets, *“a thorough reconciliation exercise of items purchased through accounts and welfare committee during the previous years is underway.”*

Department of Social Security Information Technology Audit

Background

Social Security, which is aimed principally at reducing the financial hardships of sickness, disability, injury, old age and unemployment, constitutes one of the principal expenditure items incurred by the Maltese Government. Indeed, actual social benefit payments equate to about 27% of the actual Government Recurrent Expenditure as depicted in Table 1 below.

Malta's social welfare system is administered by the Department of Social Security (DSS). Contribution payments are collected by the Inland Revenue Division (IRD), but the funds are administered by the Social Security authorities.

Following the appointment of a new Minister and a reallocation of portfolios, with effect from 10 February 2010, DSS previously forming part of the Ministry of Social Policy, now falls under the Ministry of Education, Employment and the Family (MEEF).

This report, issued by the National Audit Office (NAO) Information Technology (IT) Audit Section, documents the current state of affairs of the IT systems presently in

use at DSS and lists the findings that resulted from the risk-based IT Audit carried out together with proposed recommendations thereto.

Audit Objectives

The scope of this audit was to analyse the risks, and the management thereof, related to IT presently in use by DSS and consequently identify any weaknesses and recommend improvements thereto. The IT Audit carried out focused mainly on a risk-based assessment exercise.

Therefore, the objectives of this report are to:

- document all the information collected during the numerous interviews held with various officials;
- summarise the documentation collected and elicit the area(s) of concern;
- record the findings, including the risks identified; and
- list the recommendations.

Table 1: Percentage of Recurrent Expenditure

	Total Recurrent Expenditure €	Social Security Benefits €	Percentage %
2006	2,016,193,804	543,852,987	26.97%
2007	2,075,688,330	572,304,963	27.57%
2008	2,313,131,000	624,831,088	27.01%
2009	2,396,444,000	661,836,552	27.62%

Source: Government of Malta Financial Reports

Methodology

Pre-audit desk research was carried out so as to collate background information about DSS from which audit objectives and scope were developed. An initial meeting was held with the Director General to highlight the scope and objectives of the IT Audit and to plan the practical arrangements. During the first part of the audit, the auditors obtained an understanding of the use of IT at DSS through meetings, visits to IT facilities and examination of documentation.

The understanding of the current situation was then analysed and compared to standard IT best practice. Follow-up queries and clarifications were subsequently made with both DSS IT staff as well as Malta Information Technology Agency (MITA) staff. The resulting information, analysis and findings together with recommendations were then drawn into an audit report which is being summarised below.

Information Technology at the Department of Social Security

In order to carry out its functions, DSS processes a massive amount of data and information. Thus, the way such extensive information is managed and processed directly affects the efficiency and effectiveness of the Department's operations. The security, reliability and availability of this information is also imperative to this Department especially in view of the fact that the Department needs to ascertain that the correct amount of benefit payments are issued in a timely manner without exception or fail. Moreover, most of the data held by this Department is classified in the Data Protection Act as sensitive data.

The main IT System used at DSS is the Social Assistance and Benefits System (SABS) which was originally deployed in

1995. MITA provides support to the Department on SABS which is continuously being enhanced by the former in order to cater for the latter's emerging needs.

Social Assistance and Benefits System

SABS is a fully integrated computer system that manages and controls an extremely large volume of benefit payments and other related data, mostly of a sensitive nature, for DSS. Table 2 below depicts the number of payments issued during 2008, 2009 and up to the end of August 2010.

SABS caters for the data entry, assessment, authorisation and payment of fifty-six different benefit types. These are essentially grouped as follows:

- Social Assistance
- Non-contributory Pensions
- Medical Assistance
- Short Term Benefits
- Children's Benefits
- Supplementary Assistance
- Private Schools Allowance
- Unemployment Assistance
- Disablement Assistance
- Retirement Pensions
- Widows Pensions
- Invalidity Pensions
- Energy Benefit
- Bonus

Additionally SABS provides integrated claim registration and administration, electronic reconciliation of cashed cheques, automated credit transfers (ACRT), multiple payments on a single cheque and detailed payment advice to beneficiaries.

Furthermore, SABS has the facility to issue payments in advance, record and calculate overpayments, administer cheques, record movement of files and pay arrears.

Table 2: Number of Transactions per Payment Type

	2008	2009	Up to 31/08/2010
Cheque	770,888	777,885	413,761
Orders to pay	2,304	2,518	1,750
Automated Credit Transfer	982,227	1,125,961	691,490
Energy Benefit Vouchers	119,302	112,311	52,135
Total	1,876,729	2,020,684	1,159,136

Source: DSS

DSS is responsible for the reconciliation of payments that are issued through SABS. Whilst the ACRT payments are automatically reconciled, the cheque payments are reconciled through processes set within SABS triggered when the Central Bank of Malta (CBM) forwards the cashed cheques information in batches. These batches are processed within SABS to identify the cheques which have been cashed.

MITA has a dedicated team composed of eight persons that is responsible for the ongoing development and support which is needed by DSS in connection with the SABS.

The SABS is hosted on servers residing at MITA whose staff is also responsible for regular system maintenance and for ensuring that daily, weekly and monthly backups are taken.

NAO is informed that MITA processes all incidents, application updates, changes in the database schema through the Marval Service Management (MSM) system and therefore all changes are logged and recorded. Reports issued through the MSM system, recording all incidents and enhancements released and all support calls serviced by MITA during 2008 and 2009, were supplied to NAO.

In 2009, a training programme which included hands-on session on the SABS was delivered to the eighteen District Managers, the five Acting District Managers and a number of District Officers. NAO is also informed that this same training programme is currently being delivered to all front office staff working at the various District Offices so as to enhance their knowledge and skills relating to helping and giving effective guidance to the public in matters of Social Security. NAO acknowledges the efforts being made by DSS to ensure its employees are fully conversant with this system.

E-Forms Management System

Since Social Security benefits are to be issued irrespective of the citizen's physical location and since the mobility of European citizens amongst different European Union (EU) Member States has increased considerably, the EU issued Regulation No. 883/04 regarding the EU's Electronic Exchange of Social Security Information (EESSI) framework. The EESSI will enable the electronic exchange of Social Security (cash benefits) and healthcare (benefits in kind) data in a standard format between the Member States.

Following a public Request for Service, a tailor-made system built to the Department's specifications was procured. This system, namely the E-forms Management Systems, was launched in July 2009 and is used for exchanging Social Security data with both EU Member States as well as third countries.

NAO is informed that DSS is currently discussing the terms and conditions of a maintenance agreement with the supplier.

Infoshare - Social Policy Intranet

The intranet enables all the entities that previously formed part of the Ministry of Social Policy to store, search, manage and share information. The main benefits derived from this collaborative intranet, which is being used by circa 500 users, are the following:

- Ability to reduce cost of application development using SharePoint as the platform.
- Ability to utilise existing infrastructure (Windows Server, Office).
- Information is pushed to the user through Alerts depending on user role.
- Data can now be collected in a structured format using SharePoint.
- Forms are more accessible for both the Head Office and District Office users.
- Document versioning (version tracking), check-in and check-out, and controlled document access - based on user roles, such as coordinator, author, and reader, is enabled.

The intranet is currently being maintained and supported by the Information Management Unit (IMU) of the Ministry of Health, the Elderly and Community Care (MHEC).

Children's and Supplementary Allowances

The Children's and Supplementary Allowances (CASPA) system is an online application through which members of the public having an e-id can apply for Children's and Supplementary Allowances. This system has been developed by a private contractor who is also responsible for its maintenance.

This system was launched in March 2007. However, the relatively slow uptake of the e-id has most probably affected the number of people using this application. In fact, it results that the majority of applications for both Children's and Supplementary Allowances are still being done through the manual forms.

Since going live in 2007, the CASPA system handled 112 online applications; ninety of which were for Children's Allowance (accounting to 0.05% of the total number of Children's Allowance applications submitted during this

period) whilst the other twenty-two were applications for Supplementary Allowances (accounting to less than 0.02% of the total number of applications for Supplementary Allowances submitted during this period).

Findings

Information Management Unit

- Although DSS now falls under the MEEF, it is still utilising the services of the IMU of MHEC, office of which is incidentally still within the Social Security Building, rather than that of Education. According to DSS's senior officials, this is due mainly to the fact that since the IMU operates SABS to issue the payment of benefits a change in IMU is not so simple and would entail extensive staff re-training.
- There are only two persons in charge of issuing the payment of benefits. This may lead to an unsustainable workload and a high or total dependency on the present staff.
- The IMU is also in charge of the issuance of Energy Benefit Vouchers.
- Although IT inventories are kept, these are up to now only kept manually. NAO is informed that a project is currently in the pipeline to automate IT inventory management.
- The IMU issued User Guides for Manual Payments Process, dated February 2010, and for the Replacement of Cheques, dated April 2010, as well as a set of Standard Operation Procedures, dated September 2007. A library of Contracts and Maintenance & Support Agreements is also maintained by the IMU. The NAO considers these as areas of best practice.

Department of Social Security

The Director General of Social Security, who is legally responsible for issuing benefits, practically does not have any control on the issuing of benefit payments. Currently, the IMU of MHEC is issuing the Social Security benefit payments.

Social Assistance and Benefits System

- SABS was originally deployed in 1995 and is based on a Linux Operating system, Informix back-end database and Informix 4G programs utilising terminal emulation software which provides a very basic and rudimentary interface that lacks

user friendliness. Employees who are now used to working with the graphical interfaces in today's software seem to feel uncomfortable with the SABS interface and have identified the need for a more efficient and user friendly interface. In this regard, MITA is currently undergoing a technology upgrade exercise whereby SABS modules are being rewritten in .Net technology and therefore upgrading their look and feel and making them more appealing and user friendly.

- DSS stated that MITA generally offers a good level of day to day support. However, there were a number of enhancements which were long overdue. The Department does not have a target completion date for the pending enhancements. On the other hand, MITA stated that the Social Security team which used to be made up of three persons is now made up of eight persons. These additional resources have cleared the backlog of about 200 enhancements and only thirty-four enhancements, of which twelve are in User Acceptance Testing phase, are still pending.
- Over the years, the SABS has been built in a piecemeal fashion by implementing and incorporating a new module each and every time a new benefit is introduced. DSS also stated that SABS is beneficiary-oriented rather than beneficiary-oriented and thus does not provide for integration between the different types of Social Security benefits granted to a particular beneficiary. MITA however pointed out that technically it is possible to compile a list of all the benefits given to a claimant by using an existing function.
- Staff stated that on some occasions they prefer to view the manual files of pensioners rather than obtaining the data they need from SABS. They also stated that obtaining data from SABS was a lengthier process as one would need to access various menus. The Department has engaged an external consultancy firm so as to carry out a business process re-engineering exercise. NAO is informed that up to the time of compiling this report, the exercise was still ongoing.
- SABS requires uploading of various data derived from different sources (i.e. such as that of the Employment & Training Corporation (ETC), CBM, Central Database (CdB), IRD, Malta Stock Exchange (MSE), local commercial banks (CBs) and Public Registry (PR)) so as to process, calculate and issue the correct amount and type of benefits. Since there is no direct interface between these systems, the data is transferred through manual interventions by DSS staff at the Data Audit Management Processing (DAMP) section, with

manual completeness checks being done at various stages. The manual uploads of ETC, CBM, CdB, IRD, MSE, local CBs and PR data may result in issues of data integrity. Moreover, some of these upload files are received through email. The fact that the files received through email are neither password-protected nor encrypted constitutes a high risk factor. Furthermore, the SABS is highly dependant on the accuracy and the timeliness of data being uploaded. Such uploads are however dependant on the timeliness of the entity sending the data.

- Although a User Manual is available, this is not kept up to date and is not made available to all staff. Furthermore, SABS does not yet have an in-built help facility which the user may use in case of difficulty.
- MITA personnel have access to the SABS and can modify/amend data in SABS 'live' environment. MITA explained that such access is approved by the Director General and is needed so as to be able to provide first line support to incidents and help users with any difficulties relating to operating the system. MITA stated that all amendments are recorded in a database audit trail and are migrated to the 'live' environment upon sign off by the end user.
- Although MITA has compiled a document detailing the enhancements done and the SABS database schema, this document was last updated on 5 September, 2008.
- The date of death of a beneficiary is generally keyed in SABS before it is uploaded from the CdB updates. Whereas the former is updated with information provided by relatives, the latter features data as per death certificate. Hence, there is the risk that the date of death in SABS defers from the date of death in CdB.
- The SABS does not force new users to change their password at their first logon attempt. This password may be known by the Service Call Centre (SCC) and the System Administrator (SA) and is technically valid for eighty-four days if the user does not opt to change it. MITA has explained Linux account settings do not currently support the feature to force a password change at first logon attempt. Furthermore, MITA stated that although the password is known by SCC and the SA, the SCC has no access to the 'live' environment and the SA already has full rights on SABS.
- There are no audit trails that record the activity

performed by high privileged accounts at the SABS Operating System (Linux) and Database (Informix) level. SAs and Database Administrators (DBAs) can execute a number of Operating System and Database commands that can modify the database structure and thus affect data integrity. MITA stated that such risk was also identified as part of an internal International Organisation for Standards (ISO) Audit and testing is being carried out so as to enable Informix Auditing features on specific commands.

- Although MITA has procedures in place in order to ensure that vendor patches and upgrades necessary so as to correct security vulnerabilities on servers are acquired, tested and implemented regularly as per the change management procedures, these procedures do not completely address the patching mechanism with respect to Linux servers and Informix Systems. SABS operates on a Linux environment and utilises an Informix database. MITA has stated that work is in progress in the implementation of these patches. NAO is informed by MITA that a complete system has been outsourced with the objective of ensuring that all applications on the consolidated environment are kept in synch with the latest versions of Linux. Similarly, all Informix databases are being upgraded with the latest version of Informix.

Business Continuity and Disaster Recovery

- Although the IMU was involved in a number of studies in this area and a proposal for a business continuity site at St. Vincent de Paule Residence (SVPR) was issued in 2008, as yet this has not materialised.
- DSS does not have a Disaster Recovery Policy.

Recommendations

On the basis of the IT audit findings, it is recommended that:

Information Management Unit

- The necessary staff re-training should be carried out so that DSS would, as far as possible, cease its dependence on the IMU within MHEC. DSS should also be in a position to utilise the services of an IMU and a Chief Information Officer (CIO) that fall directly under MEEF.
- The process of issuing the payment of benefits

should not be dependant on the availability of just two persons and other staff need to be trained in this area, if anything, by way of contingency.

- The issuance of Energy Benefit Vouchers should fall under the responsibility of DSS rather than that of the IMU.
- Ideally, the IT inventory management should be automated as soon as possible so as to facilitate its day to day up keeping.
- The Standard Operation Procedures issued in September 2007 should be revised periodically so as to ensure they are kept up-to-date.

Department of Social Security

- Whilst acknowledging the importance that the independence between the entity that calculates the benefits and the entity that issues the payments must be ensured at all times, the issuing of benefits should ideally be carried out by staff reporting directly to the Director General of DSS who ultimately is legally responsible for issuing benefits. The practice of utilising the services of the IMU belonging to another Ministry, namely MHEC, is to be discontinued immediately as, currently, data, which should be maintained and processed by DSS, is being processed by another entity.
- In the event of rewriting the SABS Linux based system, DSS should ensure that the new version would enforce new users to change their passwords on their first logon attempt.
- DSS should be aware that currently sensitive commands/actions that may be executed by SAs and/or DBAs, and that can modify the database structure and thus affect data integrity, are not being recorded in an audit trail. Although MITA is aware of this risk and is currently carrying out testing so as to be able to enable Informix Audit features on specific commands, the DSS should follow this issue and make sure that MITA mitigates this risk as soon as possible.
- DSS should ensure that MITA's consolidated environment, on which SABS resides, is kept in synch with the latest versions of Linux. Furthermore, DSS should similarly ensure that the SABS Informix database is upgraded with the latest version of Informix.

Social Assistance and Benefits System

- In collaboration with MITA, DSS should set a target completion date for each pending enhancement and ensure that these are duly adhered to.
- An analysis exercise should be carried out so as to examine the process of viewing the benefits granted to a claimant in SABS and the process of obtaining data from SABS. DSS should ensure that staff is able to use the SABS to its full capacity and that the SABS is fulfilling the needs of the Department. Although claimant's manual files contain all the necessary data about a claimant, staff should be able to obtain all the data needed through the SABS in an easy, reliable and timely manner.
- DSS should re-examine its current business processes and re-engineer SABS in a way that, as far as possible, it can integrate with the systems being used by ETC, CBM, CdB, IRD, MSE, local CBs and PR so as to be able to automate most of the manual data uploads being currently carried out by the DAMP section. The use of such IT systems synergy would lead to more efficient and reliable work processes.
- The SABS User Manual should be updated so as to reflect the current version of the system and distributed amongst all SABS users. Any new modules added to the system should have an online help facility.
- DSS should make sure that access to the 'live' environment by MITA is restricted to the bare minimum so as to be able to provide the necessary support to the Department. The Department should ensure that every effort is undertaken to eliminate the risk that data integrity and confidentiality are compromised in any manner even in view of data protection considerations.
- DSS should ensure that the document detailing the SABS database schema is continuously updated.
- DSS should be able to issue a report from SABS showing discrepancies, if any, between the date of death (of a beneficiary) as keyed in SABS and that which is uploaded from the CdB. This report should be monitored by DSS staff so as to be able to verify which of the dates is correct (presumably that of the latter since this is based on the death certificate) and perform any amendments which may be deemed necessary.

Children’s and Supplementary Allowances

Considering the investment made to acquire CASPA, NAO feels that more effort needs to be undertaken by DSS to promote and possibly increase the use of this facility. The Department may utilise its website to promote its online services so that members of the public applying for Children’s and Supplementary allowances would know that these allowances can be applied for online.

Business Continuity and Disaster Recovery

The Department should have a business continuity and disaster recovery plan designed to reduce the impact that disruptions might inflict on the Department’s operations. The Disaster Recovery Plan should stipulate the procedures that are to be taken in the event IT facilities become inoperative due to extreme incidents. It should also document the recovery approach and the recovery time objectives. Apart from having a Disaster Recovery Plan, the Department should ensure that the Service Level Agreements it has with its suppliers cater for adequate and timely maintenance, support and business continuity. Indeed non-issuance of benefit payments could lead to disastrous social and economic consequences.

Management Comments

Management concurred with most of the findings highlighted in the report and will be implementing a number of recommendations.

In relation to the Information Management Unit (IMU), DSS has informed this Office that measures have already been taken so as to begin the process of separation between Social Policy and Health. DSS stated that a CIO has been identified to take over the responsibility of social policy and discussions are underway to separate the Health and Social Policy functions which have to date been the basis of the current IMU setup.

Furthermore, with reference to NAO’s recommendation that the issuance of Energy Benefit Vouchers should fall under the responsibility of DSS rather than that of IMU, DSS has informed this Office that, if it eventually results that this change is considered not possible, then a service level agreement with IMU would be drawn up to ensure that the standards of the service are as defined and agreed with DSS.



**Ministry of Finance, the Economy
and Investment**

Malta Enterprise Government Financial Aid 2009

Background

In 2008, a Task Force chaired by the Minister of Finance, the Economy and Investment was set up to develop tailor-made solutions for local companies encountering financial problems due to the international economic crisis. Malta Enterprise (ME) was responsible for the administration of this financial aid.

In providing this financial aid, ME made use of the tools already available in the national legislation, that were in line with European Union (EU) policies and practices. In addition, a Temporary Aid Scheme¹ was set up in accordance with Article 87(3)(b) of the European Community Treaty², which is based on Article 4.2.2 of the Commission communication entitled ‘Temporary Community framework for State aid measures to support access to finance in the current financial crisis’ (2009/C 16/01). Article 4.2.2(a) of the Temporary Framework allows the granting of *de minimis* aid that does not exceed the equivalent of a cash grant of €500,000 per undertaking. Furthermore Article 4.2.2(g) establishes that the total amount of *de minimis* aid and the aid pursuant to this measure under the Temporary Aid Scheme must not exceed €500,000 between the period 1 January 2008 to 31 December 2010.

The usual procedure applicable in these cases is that after a company submits a request for financial assistance, ME analyses its particular circumstances and then negotiates an investment plan with the company. As stated by the

ME Executive Chairman, there were other cases where it was the ME itself that approached companies in distress following feedback from either the Employment and Training Corporation (ETC) or the Department of Industrial and Employment Relations.

Following extensive discussions with the companies concerned, a Letter of Intent (LOI) specifying the aid to be given, subject to stipulated conditions, was issued following the approval of either the Minister of Finance, the Economy and Investment or the Executive Chairman of ME, the option applicable in cases of incentives provided for under the ME Act³. In other cases, the Minister’s approval is necessary. Since the financial aid consisted of incentives that were already provided for in the Malta Enterprise Act (Cap. 463) and the Business Promotion Act (Cap. 325), and the Temporary Aid Scheme notified and cleared by the European Commission, the State Aid Monitoring Board did not need to certify the implementation of these measures. The amount of assistance granted by ME to the companies is forwarded by the former on a company by company basis to the State Aid Monitoring Board on a yearly basis, which in turn submits this information to EU as part of Malta’s obligations under Regulation 794/2004⁴.

Out of twenty-seven companies that approached ME from the inception of the financial aid scheme, for the recession-related assistance, eleven companies benefited from the Government financial aid during 2009. Up to the writing of this report, an additional company is in the process of agreeing to the terms specified in its LOI. ME decided not to provide assistance to fourteen companies

¹ Scheme for undertakings facing difficulties in the current financial and economic crisis, State Aid No: N118/2009.

² Now Article 107(3)(b) of the Treaty on the Functioning of the European Union, (2008/C 115/47).

³ In a communication from the ME Executive Chairman, it was stated that “*In terms of LN68/2008 issued under the Malta Enterprise Act, the Corporation may convert tax credits into cash without seeking the Minister’s approval. However, the Corporation can also advise the Minister to convert tax credits into cash. The former practise is entered into when the incentives in question can already be provided for from the Corporation’s existing incentive budgetary allocation, whereas the latter is entered into when such approval requires the allocation of more funds by the Ministry of Finance to the ME Incentives Vote.*”

⁴ Commission Regulation (EC) No 794/2004 of 21 April 2004 implementing Council Regulation (EC) No 659/1999 laying down detailed rules for the application of Article 93 of the EC Treaty, (2004/L 140/1).

after evaluating their proposals, as it was established that they did not appear to fall within the parameters set for recession-related assistance.

In general, the disbursement of the financial assistance was not allowed before the company either invests in new equipment or provides training to its employees. Training was organised by the ETC and was carried out on the fifth day of the week for those companies that were on a four-day week. ME covered the cost of this training by basing its calculations on the national minimum wage.

Audit Scope and Methodology

The scope of this audit was to verify that the financial aid provided to the companies was in accordance with stipulated agreements and that an adequate follow-up of the conditions laid out in such agreements was executed prior to issuing payments.

Meetings were held with the responsible officials at ME to obtain information regarding procedures and systems in place with respect to the financial assistance offered by the Government to companies during the year 2009. Meeting minutes were sent back to the officials concerned for their comments.

An overview of all eleven LOI was carried out in order to outline the financial assistance to be given to each of the respective companies, together with the related conditions stipulated therein. Supporting documentation was analysed to verify that disbursements were carried out in accordance with LOI and that the compliance and follow-up of the conditions, as set out in the LOI, were being adequately implemented by ME.

For the exercise of disbursements, the National Audit Office (NAO) compiled a data analysis spreadsheet featuring for each company the relative approvals by the Minister responsible for Finance or the ME Executive Chairman, together with related details of assistance provided.

In order to verify the conditions laid down in the LOI, a second data analysis spreadsheet was compiled featuring the main clauses as laid down in the LOI for every company, accompanied with a corresponding analysis of the observance, or otherwise, of such clauses.

Control Issues

Opportunities for improvement was identified in the following areas:

Verification of workforce registered with the Employment and Training Corporation not carried out as stipulated within respective Letter of Intent

A clause in the LOI of nine companies stated that no redundancies should be declared, either for a specified period or for a period of at least one calendar year from the date of signing of the LOI. This clause also stated that the headcount of the workforce registered with ETC, as at the date of the LOI, should be considered for the purpose of this clause.

Following examination, it was found that the headcount of the workforce registered with ETC, as at the date of the LOI, could not be traced in the ME files of six out of the nine applicable companies. These represented about 67% of the nine companies that were obliged to submit such information. After further enquiry by NAO, ME obtained this information from ETC, during the conduct of the audit, as at the date of the LOI and also as at 9 June 2010. This indicates that verifications of redundancies were not being monitored as stipulated within the LOI.

No verification carried out of whether employees returned to a five-day week upon commencement of training or following the proposed investment

In the case of six companies out of nine (67%), ME did not verify the clause stating that employees should return to a five-day week either with immediate effect once the training programme has commenced or on a specified date, as detailed in the LOI.

Five out of these six companies were also obliged to put their employees on a five-day week with full wages after the proposed investment had been put in place or on a specified date. This was also not checked by ME, increasing the risk that a company benefits from financial aid without observing the obligations it had agreed to.

Verification of whether working hours were increased in accordance with stipulated conditions, not performed

No verification was carried out of whether the employees of a sub division of one company had their working hours increased on a weekly basis on commencement of ETC training and whether working hours further increased following a rise in production through the new investments and market improvements.

Monthly information in respect of order book fluctuations, hours worked and wages paid to the employees not provided to Malta Enterprise

Four companies out of eight (50%) failed to provide ME with monthly information concerning order book fluctuations, hours worked and wages paid to the employees, as requested in the respective LOI, thus prohibiting ME from verifying that related clauses were being observed.

Recommendations

Control Issues

Clauses in the LOI should be monitored regularly by ME in order to ensure that companies, which benefited from Government financial aid, are invariably observing the conditions laid down in their LOI, such that the scope of the assistance is met in full.

Information in connection with the order fluctuation, hours worked and wages paid to employees should be requested and verified regularly, otherwise ME should withhold payments due or take any other sanction deemed necessary.

Conclusions

On further enquiries, ME stated that: *“Most clauses in the Letter of Intent (LOI) are included to safeguard Malta Enterprises’s (ME) interests and it is up to ME to decide on which clauses to exercise its analysis. ME naturally focuses on the investment mentioned in the LOI and verification of this is obtained through documentary evidence and site visits. Training of employees has all been confirmed through ETC. Furthermore, it was confirmed that no redundancies have been made through ETC and company submissions, and all the companies in question have returned to the normal 5 day week.”*

As regards to the one particular company mentioned above, ME confirmed that it focused on the company rather than on its sub division.

NAO feels it pertinent to point out that no irregularities were encountered following testing of the instances mentioned below:

- Upon receipt of the formal request for payment from the companies, ME verified that all claims were in order prior to effecting payments.
- Copies of cheques forwarded to the companies were attached with the related documents.

- In many cases, on-site visits were carried out by ME personnel to verify that the investment was being implemented. Verification by ME was carried out against the related invoices and checked physically, supported with photos of the new machinery/equipment. A detailed report was prepared after the on-site visit was carried out.

All the necessary documentation requested to carry out this audit was made available by ME. On its part, NAO observed and treated information on the provisions of the Business Promotion and ME Acts.

Management Comments

Management submitted the following comments:

- The disbursement of financial assistance is contingent on a performance monitoring exercise carried out by ME’s Relationship Management Unit and overseen by its Financial Management Unit. Besides requesting regular workforce information from ETC, lists of redundancies are forwarded by ETC to ME on a weekly basis and any instances are flagged.
- The signing of the LOI is an immediate commitment to return to a five-day week. Therefore, according to Management, it stands to reason that upon completion of a training programme, the normal working week will be implemented, otherwise the approval of the Director of Industrial and Employment Relations (DIER) is sought. In fact, the shift to a four-day week requires the permission of the DIER and, in every case, the DIER seeks the approval of ME to ensure that none of the companies assisted reverts to a four-day week.
- ME concurred that the necessary follow-ups with respect to order book fluctuations, hours worked and wages paid need to be carried out. Management pointed out that the non-payment of wages is a matter which is raised by the employees, of the companies benefiting from the aid, to DIER since this is a breach of employment legislation. No information was ever communicated by DIER of any complaints on this matter. It was also reiterated that, while in certain instances formal notices of order book fluctuations were not provided, the ME Executive Chairman maintained frequent contact with the relative companies on a monthly basis, in certain cases, by means of sales and order forecast.

Treasury Division

Information Technology Audit:

Public Account Bank Reconciliation System

Executive Summary

During various Financial Audits, it was observed that the balances of Cash and Bank contained within the December Bank Reconciliation Statements were not consistent with the respective figures published in the Government of Malta Annual Financial Reports.

Following the National Audit Office's (NAO) request, the Treasury Division subsequently issued specific management comments relating to the discrepancy. The NAO Information Technology (IT) Unit was requested to assist by reviewing the Bank Reconciliation System (BRS) from an IT perspective to ascertain whether the reasons given for the discrepancies were technically valid.

It was agreed that the financial interpretation of the BRS report would continue to be investigated by the Financial and Compliance Audit Unit.

Various meetings were held with the three principal entities namely the Treasury Division, the Central Bank of Malta (CBM) and Malta Information Technology Agency (MITA). Sample transaction records were obtained from the entities concerned. User manuals and other documentation were also provided by the same entities upon request.

The findings were:

1. In response to the published Financial Audit concerns, a different version of the reconciliation statement was commissioned by Treasury, which is currently undergoing User Acceptance Testing. However, the existing report will continue to be used by Treasury staff for the monitoring of unmatched items. No timeframe was quoted by Treasury for conclusion of the User Acceptance Testing phase. It is also to be noted that NAO is in

disagreement with the statement on pages 4 and 8 of the BRS design document namely that *“Treasury is now requesting that a new additional Bank Reconciliation Statement is designed to meet more fully its business needs as requested by the National Audit Office”* on the grounds that the request was not forwarded by NAO.

2. On the basis of discussions held, observation and experience it is our opinion that validation of data within the various transaction files is being carried out in a consistent and organised manner and that the validation process meets the intended purpose.
3. Various types of errors can and do occur during the operation of the BRS. These errors would affect the BRS process if they are not adequately addressed.
 - Errors are generally resolved according to an arrangement whereby Treasury is informed and the remedial recommended action is eventually authorised. On occasion, MITA staff was found to have communicated directly with CBM without going through Treasury first. In other instances, errors are resolved over the phone.
 - Error documentation is generally limited to e-mail correspondence. There is no consistent error log being kept that could for instance potentially be used to highlight frequency of occurrence of a particular error. Up to the publishing of this Report, Treasury informed NAO that it has implemented a log book for the record of errors.
 - Steps are being taken by Treasury and CBM to address certain specific types of error.

- Any errors that may occur during the manual matching part of the reconciliation process are not being identified, logged or formally addressed. Upon further enquiry, Treasury stated that “*No errors are encountered during the manual matching part of the process.*” The introduction of new functionality (see point 6 below) should reduce the manual processing part of the reconciliation and should mitigate the risk of such errors occurring.
- More importance should be given to tracking and elimination of errors by all parties.
- Some of the issues noted are not IT-related, but are more procedural in nature. For instance, CBM changed its systems but failed to inform Treasury of this. There were also occasions where entities failed to include voucher numbers.

There is still room for improvement in the area of error reduction.

4. In general, development and application controls are in place. However, it was observed that segregation of duties at MITA is not fully implemented where the BRS is concerned. Individuals within the development team (MITA Project Management Office) (PMO) were found to have “write” access to certain fields within the system database.
 5. Software known as Automatic File Validation Agent (AFVA) that was developed six years ago and would permit automated tri-party checking of transaction files and notification by e-mail of any resulting issues has never been used as it has not been implemented at Treasury. Treasury was aware that such a system existed but was not up-to-date regarding the current status of the same system. A nominal fee was paid by Treasury for this system as part of a larger programme requested by Treasury.
 6. A planned system enhancement (one-to-many transaction matching) is currently in development. If implemented, this will reduce the amount of manual reconciliation required.
- A specific improvement (Duplicate Record “fix”) suggested by CBM should be reviewed by MITA and if necessary implemented. This will help to eliminate certain types of errors.
 - The automated AFVA functionality should be re-considered by the three entities involved for possible implementation.

Introduction

Background

During various Financial Audits, NAO had observed inconsistencies between the balances of Cash and Bank figures shown within the December Bank Reconciliation Statements and the equivalent figures published in the Government of Malta Annual Financial Reports.

The Treasury Division subsequently issued the following Management comments relating to the discrepancy:

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

[Source: Report of the Auditor General Public Accounts 2007]

NAO IT Unit was requested to assist by reviewing the BRS from an IT perspective to ascertain whether the reasons given for the discrepancies were technically valid.

Following a preliminary analysis of the situation, the IT Unit extended the remit to include also the (input) transaction data validation process, namely:

On the basis of the audit work carried out, the following conclusions and recommendations can be drawn.

- The reasons behind the difference between the balances as reported in the Bank Reconciliation Statement and the corresponding figures as reported in the Government Financial Report are still not clear.
- Once fully tested and approved for use, the “new” BRS report should more adequately meet the set financial reporting needs.
- The BRS is being regularly upgraded and enhanced, but there does not appear to be any entity that is strongly championing and coordinating the process of developing the system and that of addressing errors.

- Error-handling and documentation; and
- General and Application controls.

It was agreed that the actual discrepancy shown within the BRS report would continue to be investigated by the Financial and Compliance Audit Unit.

Bank Reconciliation System Overview

The BRS is owned by the Treasury Division within the Ministry of Finance, the Economy and Investment (MFEI). It is operated by the staff of the Cash Office within the Government Accounting Operations Department of the same Division. MITA staff from within PMO provide system administration and support services through back-office functionality (for example creation of users, backups, etc.) and also directly by validating transaction data. PMO is also responsible for the Project Management of development of new functionality and system enhancements. A unit within the Systems Management Department of MITA is responsible for System and Database Management, while the Network Operations Centre provides supporting services.

The BRS provides the Treasury Division with a semi-automated electronic system to assist the Division in conducting Bank Reconciliation on the Public Account. Essentially the system is used to reconcile the Departmental Accounting System (DAS) Cash Book transactions and those of other entities [Refer to list of entities under section ‘The Bank Reconciliation System’ – ‘The Reconciliation Process’] with their counterpart transactions as processed through the Public Account held at CBM.

Background work relating to the reconciliation process is carried out on an ongoing basis throughout the year, and interim reports can be produced at any time. However, formal reconciliation reports are being produced at the end of each month. Furthermore, the monthly reconciliation is typically carried out on a two month arrear basis. Thus, for instance, the formal reconciliation for August would typically not be carried out before November of the same year.

The reconciliation process involves both an automated and a manual phase. This is due to the fact that certain transactions cannot be automatically matched by the system and in such cases human intervention is required. The automatic reconciliation phase always precedes the manual phase.

The main output of the BRS consists of a one-page report in the form of a reconciliation statement, although a number of log files are also produced. The monthly statements together with all source files and log files are saved in a folder called “Spooler” which is located on a central server.

Audit Scope and Objectives

The main objectives of this IT Audit were to:

- review the BRS from an IT perspective to ascertain whether the reasons given within the Management

comments for the recurring difference between the balances of Cash and Bank figures of the December Bank Reconciliation Statement and those of the published Financial Report were technically valid; and

- assess whether General and Application controls were in place and applied, specifically in the areas of change management, segregation of duties, transmission of data files, validation of input data, error handling and documentation.

Methodology

In order to attain the above objectives a number of meetings were held with various officials at the Treasury Division, MITA and CBM. Detailed meeting notes were kept in each case. Sample transaction files, bank statement printouts, error lists and e-mail correspondence were also accessed during the course of the audit. Reference was also made to the CoBit 4.1 set of best practices located at the ISACA website.

Controls

CoBit 4.1 specifies two types of controls, namely General and Application.

General controls are controls embedded in IT processes and services, whilst controls embedded in business process applications are commonly referred to as Application controls.

Controls that were considered during this Audit are:

General controls: Change Management

Application controls: Completeness, Accuracy, Validity, Authorisation and Segregation of duties

For Application controls, CoBit 4.1 lists the following six recommended objectives:

AC1: Source data Preparation and Authorisation

“Ensure that source documents are prepared by authorized and qualified personnel following established procedures, taking into account adequate segregation of duties regarding the origination and approval of these documents. Errors and omissions can be minimized through good input form design. Errors and irregularities must be detected so they can be reported and corrected.”

AC2: Source data Collection and Entry

“Establish that data input is performed in a timely manner by authorized and qualified staff. Correction

and resubmission of data that were erroneously input are performed without compromising original transaction authorisation levels. Where appropriate for reconstruction, original source documents should be retained for the appropriate amount of time.”

AC3: Accuracy, Completeness and Authenticity checks

“Ensure that transactions are accurate, complete and valid. Validate and edit, or send back for correction, input data as close to the point of origination as possible.”

AC4: Processing Integrity and Validity

“Maintain the integrity and validity of data throughout the processing cycle. Detection of erroneous transactions does not disrupt the processing of valid transactions.”

AC5: Output review, Reconciliation and Error handling

“Establish procedures and associated responsibilities to ensure that output is handled in an authorized manner, delivered to the appropriate recipient, and protected during transmission; that verification, detection and correctness of the accuracy of output occurs; and that information provided in the output is used.”

AC6: Transaction Authentication and Integrity

“Before passing transaction data between internal applications and business/operational functions (in or outside the enterprise), check it for proper addressing, authenticity of origin and integrity of content. Maintain authenticity and integrity during transmission or transport.”

The Bank Reconciliation System

Technical Details and Upgrade History

The BRS application is a multi-user system developed in Visual Basic 6 using SQL Server as an underlying database. The system was developed by Information Technology Services Ltd., a local IT company being a sub-contractor of MITA, and went “live” in 2002. System upgrades are carried out by the same company upon request. MITA was responsible for project management of the development and is responsible also for any subsequent upgrades carried out by Information Technology Services Ltd.

The BRS keeps an audit trail but this is not done for all functions. For instance, there is no record kept of any user who logs in to browse the system. Significant events, such

as reversal of a transaction, would however be logged. In such a case, a log file containing the user name and reversal details is created and stored within the “Spooler” folder.

Two BRS databases exist and these provide a “live” and a “test” environment respectively.

The last major system upgrade took place in 2008, as a result of the introduction of the Euro. Apart from some minor fixes, the upgrade included data schema changes as well as the creation of a separate database to cater for the new Euro currency. At this time, the Lm values dating back to the launch of the system were converted into their Euro equivalents and stored in the new database. However, the original data relating to the period when the Lm was the official currency was retained [AC2: Source Data Collection and Entry].

The same BRS front-end¹ is used for both the Lm and Euro databases.

The Reconciliation Process

There are five sources of data that are used by BRS, namely:

- The Central Bank of Malta (Cashed cheques and deposits made) - Malta
- The Treasury (Cash Book) - Malta
- Malta Stock Exchange (Dividends and Interest payments) - Malta
- Pensions (Pension cheques) - Gozo
- Salaries (Salary cheques) - Gozo

The BRS reconciliation process consists of eight stages, as follows:

1. Export and Import of the Departmental Accounting System Cash Book

MITA staff use the DAS export routine to export the Cash Book transaction file to a folder on the DAS server. The filename is of the format “DASCB032002” where this represents the Cash Book export for the month of March 2002. Software utilising normal File Transfer Protocol (FTP) is then used to transfer the file to the corresponding folder on the BRS server.

From here, the file is validated and then “imported” into

¹ The BRS application consists of a front-end and a database. The front-end connects to the database and processes and displays information. The same front-end may be used in conjunction with different databases.

the BRS application by the Cash Office staff. The import process creates a copy of the Cash Book for that month within the BRS. The source file is automatically deleted so as to eliminate any possibility of importing the same file twice. Various tracking reports, including error reports, are produced and stored in the “Spooler” folder during this process.

The remaining stages are all carried out by the Cash Office staff within the Treasury Division.

2. Validation and Import of Central Bank of Malta Data

The “Imports Screen” within the BRS is used to validate and import the CBM transaction file. This filename is of the format “TR00151300402.DTA”, where the prefix “TR” is followed by a sequential 5 digit number which is automatically generated by CBM. The last part of the filename is a representation of the date, in this case 30 April 2002. Various tracking and/or error reports are again produced and stored in the “Spooler” folder during this stage.

Following import of the master CBM transaction file, the various CBM cached² Cheque transaction files are validated and imported into the BRS.

During validation, the control totals in these files are matched against those within the corresponding control records in the main CBM transaction file.

3. Validation and Import of Cheques Data from Other Entities

This stage involves two steps.

The first step consists of inputting of the “schedules” that correspond to the Cheques to be imported in the following step.

These Schedules are provided by the entities concerned and are used as a cross-check to verify the existence of the cheques within the Cash Book import of the individual transaction files. This first step can be automatically or manually carried out.

The second step is the actual import of the Cheque data pertaining to the various entities (Salaries, Pensions, Lands, Stock Exchange) from the Transaction files received from the same entities.

4. Cancellation of Cheques

At this point, it is necessary to manually identify and mark any cheques which have been requested to be cancelled. These would be flagged within the imported Cash Book data as “Cancelled/Reconciled” together with the date when this was done. The BRS would then ignore these cheques during the reconciliation process.

5. Automated Reconciliation Process

After all the imports and cheque reconciliations for a particular month have been successfully carried out, the Automated Reconciliation Process can begin. The matching (reconciliation) process between CBM and Cash Book is carried out on the basis of the following criteria:

Table 1 – Matching criteria

For Cheque Transactions:	
CBM	Cash Book
Transaction type = “CHQ”	Transaction type = “01”
Outstanding Amount > zero	Outstanding Amount < zero
CBM Outstanding Amount + Cash Book Outstanding Amount = zero	
CBM Cheque Number = Cash Book Cheque Number	
For Non-Cheque Transactions:	
CBM	Cash Book
Transaction type <> “CHQ”	Transaction type <> “01”
CBM Outstanding Amount + Cash Book Outstanding Amount = zero	
CBM Text from character 5 to 14 = Cash Book reference	

All transactions in the CBM and Cash Book in the BRS which meet the above criteria are automatically flagged as reconciled. Various output files are created and stored in the “Spooler” at this stage. These files can be viewed on screen or printed on demand.

6. Manual Matching Process

When the automatic reconciliation process has been completed, there will still be a number of transactions which have remained unreconciled for various reasons. The manual matching process allows the user to match any transaction or part thereof. This is done using a split screen which displays Cash Book against CBM transactions.

² Cached means temporarily stored.

7. Interim Reporting

At this point, an Interim BRS can be produced. Users may continue to carry out manual matching and can generate interim statements any number of times as required.

8. Final Reconciliation Process

After all possible matching has been completed, the final BRS report can be produced. This can only be done once for a particular month and, once executed, the month is closed off.

Following this step, various maintenance routines can be run to purge transaction data.

Entity responsibilities

The Treasury Division

The Treasury Division owns and operates the BRS and defines the requirements for development. Changes relating to the BRS can accordingly only be implemented with its prior authorisation. The Treasury Division also authorises remedial action whenever an error is encountered during system operation. Treasury also monitors the Public Account at CBM on a daily basis to ensure funds are available.

As the system owner, Treasury carries out the User Acceptance testing of any system enhancements in conjunction with MITA. All enhancements are formally signed off by the officers responsible for the reconciliation, following consultations with Senior Management within the Treasury Division.

The Central Bank of Malta

CBM has its own IT system called Flexcube. Transaction files are output from this system, encrypted and communicated to MITA using software based on a secure protocol called “Secure FTP”. This ensures data confidentiality during transmission. The data within these transaction files is later inputted into the BRS. A printed statement is also sent to the Treasury Division.

Malta Information Technology Agency

MITA “DAS” Team is responsible for carrying out the first phase of BRS transaction file validation. During the reconciliation process, this team also provides support to the Treasury Cash Office staff, particularly when errors are encountered.

The same MITA team is responsible for Requirements Analysis relating to the BRS as well as the necessary System testing. User Acceptance Testing is carried out jointly by MITA and Treasury staff.

All changes such as application updates, changes in the database schema, and/or running of SQL scripts (to add or remove users, create new database fields etc.) are processed through the Marvel system used at MITA.

Minor changes are considered as “tasks” and are processed using a formal Electronic Request for Service (ERFS) form which is raised by the Application project team. For both minor and major changes, and where relevant, a quotation needs to be obtained from the supplier. In all cases a change needs to be approved by Treasury prior to the work being carried out.

The BRS and associated data are hosted on servers at MITA. MITA staff are responsible for regular system maintenance and for ensuring that regular backups are taken.

Other Entities

Other entities that communicate with the Treasury Division include: The Stock Exchange, the Pensions and Social Services Department and the Salaries and Wages Department. These all submit their encrypted transaction files on a regular basis using the “Secure FTP” protocol to ensure confidentiality of data. These entities are not involved in any other way in the operation of the BRS.

The original software development work relating to the BRS was outsourced to Information Technology Services Ltd. and any required system upgrades are also carried out by the same company.

Transaction File Validation

Each of the above entities generates transaction files, which are duly communicated to MITA for validation prior to being inputted into the BRS.

Upon receipt by MITA, these files are first decrypted and subsequently validated in one or more of the ways shown below.

- The total value amount of the transactions and the actual number of records in a file are matched against control totals stored in the last record of the same file, which is reserved specifically for this purpose.
- A number of control records containing total cash amounts and actual number of transactions are matched against the corresponding individual transactions stored in subordinate files.

Table 2 – Transaction file types

Source entity	Transaction file type	Files/Month	Typical filename
CBM	Master Transaction file	Normally one daily	TR00001011009
CBM	Various files representing inflow (eg. receipts) and outflow (eg. cheques) of funds for different combinations of entities and transaction type, for instance “DAS” + “BOV” for BOV transactions relating to DAS	Multiple	DASBOV0110091
Pensions Department	PC (Pensions)	Usually One	PC01082009
Salaries and Wages Department	TSW (Treasury Salaries and Wages)	Usually One	TS01082009
Stock Exchange	DI (Dividends and Interest)	A few	DI01082009
Treasury Division	DAS (Cash Book Export)	One	DASCB082009

Table 3 – Transaction file validation

Ref	Source	Typical filename	Validation Process
#1	CBM	TR00001011009	1. The “TR” file contains ONE or MORE “SWX” records which serve as a control that all files of type shown at #2 are present and that the total transaction amount within the particular “SWX” record agrees with the total content of the individual files (eg. the file at #2). 2. The “TR” file has a pre-calculated total of credit and debit amounts as well as the total number of debit and credit records stored within the last record.
#2	CBM	DASBOV0110091	Used validation of the totals in #1 and also contains an internal record for self-validation purposes.
#3	Pensions Department	PC01082009	Contains control totals in the last record.
#4	Salaries and Wages Department	TS01082009	Contains control totals in the last record.
#5	Stock Exchange	DI01082009	Contains control totals in the last record.
#6	Treasury Division	DASCB082009	Contains control totals in the last two records.

A list of the various transaction file types can be seen at Table 2 and the type of validation used in each case can be seen at Table 3.

Files of reference type #1 to #5 in Table 3 are validated twice, first by MITA staff and then by Treasury staff. Inbuilt BRS application functionality is used to carry out validation in both cases, however MITA staff utilise a “test” platform for this.

There is a specific purpose behind the dual validation, namely to ensure that any errors are identified as early as possible, rather than after some months at the point when Treasury would be running the reconciliation process. An error identified at such a late stage would clearly be more difficult to rectify.

System Errors

MITA have stated that, in the majority of cases, errors were directly attributable to the transaction files coming from CBM.

Errors within files coming from the Stock Exchange or other entities were reported to be a relatively rare occurrence.

At one point, MITA indicated that during User Acceptance Testing, it was found necessary to examine transaction data coming from DAS for possible errors. At a later stage, it was however reported by same that no errors were found in this data.

MITA have consistently focused their efforts to tackle errors on the automated part of the reconciliation process.

There is a possibility that errors may also be occurring within the manual reconciliation process. However, in a subsequent communication from Treasury, it was stated that no errors were occurring during the manual matching process. [AC3: Accuracy, Completeness and Authenticity checks]

Most errors are flagged during the validation process. Others are flagged at input stage. Once identified, errors are referred to Treasury for the necessary authorisation for remedial action.

A list of the ten most recent errors encountered during the year 2009 was obtained from MITA. The files and all correspondence pertaining to these errors were requested and duly submitted by MITA and Treasury.

The errors, together with a brief description, are listed in Table 4 below.

An explanation of the various different types of errors that have been identified and the remedial action that is taken in each case can be seen in Table 5.

Specific Issues

Insufficient Funds in Public Account

CBM keeps a main account known as the Public Account. This contains all types of revenue (both cash and cheque

transactions). There are four Sweep accounts which are considered to form part of the Public Account, namely one each for DAS, TSW, PC and DI. These accounts cannot contain any transaction with a future date and they are zeroed at the end of each day.

For instance, when salaries are issued, the appropriate amounts are entered in the relevant Sweep account (TSW) on the following day. At the end of the day, the debit balance in the Sweep Account is then cancelled out by means of a fund transfer from the Public Account.

A problem was reported to arise whenever there were insufficient funds within the Public Account to “zero” the Sweep Accounts. In such cases, the transfer would only partially be made and a manual account adjustment would need to be made on the following day. As a direct result of this, the transaction file sent on the day would contain errors. [AC3: Accuracy, Completeness and Authenticity checks]

The practice in the past was that CBM staff would draw the attention to Treasury when this problem was encountered. However, the procedure being followed at the time of this audit is that the daily balance on the Sweep Accounts is being proactively and closely monitored on a daily basis by Treasury staff in order to pre-empt such errors from occurring.

Table 4 – The ten most recent Bank Reconciliation System errors encountered during 2009

Date	TR Header Record	Cashed Cheques	Description	File Ref
	€	€		
07-Jan-2009	1,530,807.18 74,531.48 3,312,096.79 3,126.33	1,527,183.73 32,347.75 2,330,081.62 2,299.50	Missing Files	TR00001070109
21-May-2009	6,757.55	2,055.27	Missing File	TR00001210509
29-May-2009	N/A	N/A	Cannot insert duplicate key	TR00001290509
09-Jun-2009	7,278.94	5,637.76	Compensating with data for 10-Jun-2009	TR00001090609
10-Jun-2009	9,708.43	11,349.61	Compensating with data for 09-Jun-2009	TR00001100609
03-Jul-2009	4,698.30	1,193.03	Compensating with data for 06-Jul-2009	TR00001030709
06-Jul-2009	1,230.98	4,736.25	Compensating with data for 03-Jul-2009	TR00001060709
01-Sep-2009	849,307.94	380,597.45	Missing File	TR00001010909
02-Sep-2009	2,780,326.78	2,241,149.48	Missing File	TR00001020909
30-Sep-2009	N/A	N/A	Cannot insert duplicate key	TR00001130909

Table 5 – Bank Reconciliation System error-handling procedures

#	Type of error	Detailed description	Error-handling procedure
1	Missing Files	Files are omitted during compilation or communication to MITA.	A request is made by the Treasury for the relevant file to be re-sent.
2	Duplicate Key	The same key appears in different records; the transaction is automatically rejected by BRS. Occurs when the combination of “Transaction code” + “Interest Amount” + “Identifier for Credit/Debit” is the same for two records.	CBM has proposed a solution for this which involves the use of a unique system generated number to ensure each record is unique.
3	Duplicate Record	Typically the same “cheque” might appear twice in two different transaction files.	This type of error is not identified during validation but is only caught by BRS when data is being imported. Once authorised, remedial action typically involves (1) Reversing any “reversal” that CBM may have made once the error was noted, (2) deleting the duplicate “cheque transaction” (3) adjusting the corresponding “SWX” control record.
4	Exhausted Public Account	The Balance in the Public Account held at CBM reaches zero; cheques cannot be cleared until the account is topped up; transactions are re-submitted on the following day; printed statement and file data do not match.	MITA reports incident to Treasury, which in turn reports to CBM. Funds are transferred to remedy the shortfall. Regular monitoring of the balance in the Public Account by Treasury staff has practically eliminated this error.
5	Backdated Cheques	When these are issued (upon agreement between the Treasury and CBM), the corresponding data is not generated by the CBM process, resulting in mismatches. Specifically the total amount shown in “SWX” does not tally with the total amount calculated from the individual cheques.	MITA reports the incident to Treasury which in turn authorises MITA to manually adjust “SWX” totals.
6	Future Dated Entries	For DI transactions, relevant interest was being passed through the Sweep Account, but future dated transactions were resulting in a BRS error.	On 27 August 2009 CBM introduced a special internal account to eliminate this error.

Non-unique Records

Another issue concerns Bank Interest which is debited or credited at the end of each month and which normally amounts to a few cents. When this is debited or credited, a record is created that holds the amount, together with a code to indicate whether this is credit or debit. Given that the amounts involved are small, on occasion two or more apparently identical records may result, leading to an error during import of the records into the BRS. CBM has addressed this by proposing the use of a unique system generated sequence number to ensure no duplication occurs. The proposed solution, which was submitted to MITA by CBM for consideration around September of 2009, is still being evaluated and has not been implemented to date. [AC3: Accuracy, Completeness and Authenticity checks]

Two Types of Central Bank of Malta Statement

In response to a query relating to reported mismatches between the printed statement balance and that produced by the BRS, CBM representative pointed out that there are actually two types of statements which are produced by their system, namely “booking dated” and “value dated”³. Therefore, it is possible that a reported matching error may be due to the wrong statement having been considered at the time of matching. Since the actual reconciliation takes place much later than the “value date”, typically this is a few days while the reconciliation is two months later, in practice the “value date” would have passed and therefore which statement is used would have no effect.

³ The “booking dated” statement can include future entries (such as those of the following day), whilst the “value dated” statement could result in a negative balance.

Omitted Files

Another source of errors was traced to the procedure whereby commercial banks daily present CBM with physical cheques and a record of the same on floppies. Errors may occur during the copying of the contents of the floppies to the server. Following settlement of amounts due, the files are again transferred to floppy disk and are then copied from the floppies onto an isolated PC. This copying process creates another possibility for error, through omission of files. The files are then encrypted and communicated to MITA using Secure FTP. Instances have been reported where files were overlooked during this process. [AC2: Source Data Collection and Entry]

Lack of Action by Central Bank of Malta

MITA staff stated that CBM was not taking appropriate action when errors were pointed out. Although the situation had improved since introduction of the upgraded system in 2008, the IT Unit was informed that a number of issues were nonetheless encountered during the first six months of the same year. This lack of support from CBM side was reported to be causing various problems and was leading to further accumulation of errors within the system.

Use of Automatic File Validation Agent

MITA staff reported that software known as AFVA had been developed six years ago but had since been lying idle at MITA. Treasury paid a nominal fee for its development. AFVA was described as being able of carrying out automated validation and notifying the appropriate party through e-mail in the event of any error. As a result, the appropriate remedial action could be undertaken in less time than is currently the case. MITA staff stated that it was still feasible at this stage to revisit the AFVA software with a view to implementation.

Weak Segregation of Duties

During the various meetings held with MITA, it was noted that five individuals within the “DAS” team at MITA had been assigned “write” access rights to the BRS “live” database. This was later verified by reference to a list of database users that was provided by MITA database section.

The availability of “write” access rights implies that data can be changed directly within the various tables. This would normally be achieved through the use of the built-in SQL Enterprise Manager tool. Such changes are not liable to tracking and subsequently would not be logged by the application.

In this respect, any patching of data within the database should be carried out by the relevant section within MITA and only in extreme cases. Any such modifications should be duly authorised by Treasury and appropriately logged. [AC3: Accuracy, Completeness and Authenticity checks] This is considered a weakness in the controls relating to segregation of duties.

Access by Third Parties

It has been observed that a number of individuals outside of the “DAS” team also have “write” access to the BRS database. Specifically, these include:

- eleven Treasury employees;
- one Junior Accountant at MFEI;
- one employee at the Public Registry Department;
- one employee at the Foreign Affairs; and
- twelve employees listed as Database owners within the Systems Management Department at MITA.

System and Other Documentation

A user manual for the BRS was drawn up in 2002 by MITA (then known as Malta Information Technology and Training Services) but this has never been updated since then. In this respect, MITA has stated that changes made since the system was introduced were not major enough to warrant an update.

A copy of the database schema as documented by the supplier Information Technology Services Ltd. is in hand. However, this document does not bear any date.

A BRS checklist is utilised by the Cash Office staff at the Treasury Division during the reconciliation process (see Appendix “A”).

A “Requirements and Design” document is created by the Project Management Office whenever system enhancements are required in line with Prince 2-based standards in use at MITA.

Requests for changes are entered into the MITA Change Authorisation Tracking and Management System, (MARVAL). This system keeps a track record of changes and also provides the facility of on-line change authorisation.

The BRS produces a variety of reports to assist users to identify and investigate transactions from both the Cash Book and CBM. The reports, in the form of computer files, are saved in a special folder called a Print Spooler or more commonly, simply “Spooler”. The files are automatically assigned a Spool Name and Number. From here they can be viewed or printed at will.

Planned Enhancements

The BRS last underwent a major update at the time of the introduction of the Euro in January 2008.

Significant new functionality has recently been developed. This consists of:

- An automated multiple reconciliation module

Prior to development of this module, the automated part of the bank reconciliation process lacked the facility of matching one Cash Book transaction with multiple Bank transactions or *vice-versa*. This matching could only be done manually. The new module, which has yet to undergo User Acceptance Testing, will extend this matching facility to the automated process.

- A new (additional) Bank Reconciliation Statement (see Appendix “B”)

The new reconciliation report was commissioned by the Treasury Division and is currently at User Acceptance Testing stage. The new report is to be used in parallel with the original reconciliation report, which will continue to be utilised for internal control purposes.

With the current setup, running the reconciliation process for any given month on a certain day would yield a different reconciliation statement to that produced if the process were to be run on a later date. The upgraded system should however yield the same reconciliation statement in both cases. [AC5: Output review, Reconciliation and Error Handling]

A solution to the problem of duplicate records has been proposed by CBM. This involves the use of a system generated unique serial field inserted within the record, thus also rendering each record unique. MITA have however yet to provide CBM with feedback on this proposed solution.

Conclusions and Recommendations

Conclusions

NAO quantified the differences as shown in Table 6 below.

The reasons behind the difference between the balances as reported in the Bank Reconciliation Statement and the corresponding figures as reported in the Government Financial Report are still not clear. This is obviously a matter of considerable concern to NAO.

The Bank Reconciliation Statement currently being produced by the BRS takes into consideration only unreconciled transactions. Although this report is suitable for control purposes a new report is being developed to address the financial reporting requirements.

The system is in the process of being updated. A new Bank Reconciliation Statement has been developed by MITA and is undergoing User Acceptance Testing. Other new functionality is also being introduced.

The IT Audit also looked at two key risk areas, namely validation of data including handling of identified errors and segregation of duties.

Following various meetings with the different entities involved and a review of the submitted materials it was

Table 6 – Differences within Cash Book and Central Bank Balances

Year	Cash Book Balance as at 31 December			Central Bank Balance as at 31 December		
	As Per Financial Report	As Per BRS	Difference	As Per Financial Report	As Per BRS	Difference
	Lm	Lm	Lm	Lm	Lm	Lm
2002	13,514,701	945,920,909	(932,406,208)	14,158,033	113,759,301	(99,601,268)
2003	44,476,461	2,140,418,398	(2,095,941,937)	21,795,578	1,909,485,245	(1,887,689,667)
2004	44,676,981	1,898,345,756	(1,853,668,775)	44,821,688	1,524,401,644	(1,479,579,956)
2005	58,819,294	959,517,114	(900,697,820)	54,785,578	972,223,534	(917,437,956)
2006	62,059,418	70,145,618	(8,086,200)	51,152,310	99,094,814	(47,942,504)
2007	71,111,325	101,816,686	(30,705,361)	67,491,678	107,210,237	(39,718,559)
	€	€	€	€	€	€
2008	96,216,411	160,912,522	(64,696,111)	80,512,061	121,035,774	(40,523,713)

ascertained that the validation process was being diligently carried out by all parties. Furthermore, whenever errors were encountered within a transaction file, in most cases the steps to resolve the particular error were being appropriately authorised, however documentation of errors could be improved. In this regard, Treasury stated that it has now implemented a log book to record these errors. Although errors do affect the fine detail, they are generally taken in hand.

Many of the errors at transaction level were reported to be coming from CBM side. The IT Unit understands that steps are being taken to pro-actively reduce such errors.

Errors that may be occurring at the manual reconciliation stage are not being identified or logged. However, in a final communication, Treasury stated that errors do not occur during the manual reconciliation (matching) process.

Overall, there is still room for improvement in the area of error handling.

Some of the safeguards introduced have also brought in new dependencies, such as the requirement to daily and manually monitor the balance within the Public Account held at CBM.

Segregation of duties is not being fully enforced—specifically “write” access to the database field contents was granted to various individuals who have a development role rather than an operational role, or are handling both roles.

Recommendations

On the basis of the IT Audit findings, it is recommended that:

- the “new” version of the Bank Reconciliation Statement should be reviewed from an accounting perspective to ensure that the financial process requirements are met;
- timescales should be quoted for the testing and implementation of any enhancements, and thereafter strictly adhered to;
- more importance should be given to adherence to formal authorisation procedures for error handling, communication should be carried out through the proper channels and a proper error log should be maintained by Treasury;
- technical amendments which have been suggested by CBM and which are intended to eliminate a particular type of error should be reviewed without delay by MITA and if necessary implemented;

- the possibility of errors occurring at manual reconciliation stage needs to be monitored;
- Treasury should directly champion and drive all BRS-related initiatives to eliminate or otherwise address errors as well as enhancements intended to improve the workings of the system;
- the automated AFVA functionality should be actively re-considered by the three entities involved; and
- segregation of duties at MITA should be more rigidly enforced as per development/operation best practices.

Management Comments

The following comments were submitted by Treasury:

Quantified Differences relating to the Period 2002 – 2008

Treasury confirmed that despite the various Management comments submitted to NAO throughout recent years, the proper understanding of the nature of the discrepancies still remains an issue. In fact, with reference to a meeting held between Treasury and MITA on 17 April 2009, it was primarily stated that *“the statement produced failed to fulfill the requirements that were expected from an accounting point of view. Of paramount importance was the preparation of a Bank Reconciliation Statement that correctly reported the opening and closing bank and cash book balances that actually featured in DAS and CBM and succeeded to reconcile the transactions that would have been processed during the respective time period, generally one month”*. Treasury stated that on 5 May 2009, MITA was requested to provide a work plan on how these requirements were going to be addressed.

In view of the foregoing, Treasury confirmed NAO’s finding that the present Bank Reconciliation Statement fails to fulfill the requirements expected from an accounting point of view, which explains Treasury’s request to MITA to address this concern. Treasury further reiterated that the present Bank Reconciliation Statement is used as a performance management tool for the monitoring of unmatched items by Treasury’s Senior Management.

Treasury also pointed out the fact that the success and the achievement of the deliverables are dependant on the timing of MITA delivery of service. Whilst confirming that no deliverable dates were set and agreed when the Project Change Request Forms were signed, Treasury maintained

that the importance of having such deliverables available without any delay, has always been stressed with MITA. Treasury stated that it is presently awaiting the following deliverables from MITA:

- a Standard Bank Reconciliation Statement;
- the One-to-Many Transaction Matching; and
- the Duplicate Record “fix” (this latter enhancement was recommended by CBM).

As regard the User Acceptance Testing of the amended version of the Reconciliation Statement, Treasury stated that no sign off has yet been made by officers responsible for the reconciliation, as Treasury’s Senior Management requested that the testing would be performed using a more populated database for testing purposes. Treasury also confirmed that the statement appearing on pages 4 and 8 of the BRS design document was an oversight and that in fact it was Treasury’s Senior Management that had actually submitted a request for a new additional Bank Reconciliation Statement and not NAO.

Manual matching part of the Reconciliation Process

Treasury made reference to two different phases of the reconciliation. It was again confirmed by Treasury that no errors are encountered in the manual matching stage, as these would have already been captured in previous stages of the reconciliation process. Thus, this explains the reason behind why none are being identified, logged or formally addressed. Mistakes that may be made by Treasury officers when performing the manual reconciliation, such as selecting wrong transactions, will be mitigated with the introduction of the “one-to-many transaction matching”.

Recommendations

It was confirmed that following this audit, Treasury immediately started making use of a logbook to record any errors arising from the system, to serve as the source for an analysis of the occurrence of the different types of errors.

With regards to AFVA, Treasury commented that such software falls under the direct responsibility of an IT Systems Administrator, forming part of the Treasury Restructuring Plan. This software may be implemented once this position is filled.

The following comments were submitted by Malta Information Technology Agency:

Data Validation and Data Error Handling

MITA provided further explanations of the consequences of data rejections through the validation process, on the basis

that BRS data represents an export of source data created from other systems, namely DAS, Pensions, Salaries, Stock Exchange and CBM, and is not created through the application itself. As such, the data validation controls are implemented in such a way that any data corruption or omission is immediately recognised by the application as soon as the external entity transmits the data.

The data errors that are mentioned throughout the report are those relating to invalid data imports which result in two major consequences:

- *The rejected data is not processed by the application until a correct version of the data is re-submitted by the entity concerned, for instance, CBM.*
MITA stated that the issue was resolved earlier this year after matters were escalated to the highest authorities in the Ministry responsible for Finance and CBM.
- *Treasury has always processed the BRS in the knowledge that CBM data was incomplete and incorrect in several instances and was thus impossible to reconcile.*
No bank reconciliation process could be successful until CBM electronic data files submitted over time tally with what CBM official statements declare. Over the years, MITA has fully engaged its technical resources to assist Treasury to determine CBM data omissions and data file corruptions.

System Errors and Change Management

MITA confirmed that it has implemented system data validations and system controls within the application as reported. The use of “Change Management” and “Call Calling” systems using the MARVAL system, enables business clusters and supporting departments to record change requests and user calls whenever errors are identified on their systems.

However, MITA insists that the classification of system errors highlighted in the report represent CBM external data file validation errors which the application recognises and expects to encounter from time to time. Such files do not represent system errors as a result of a bug in the application. On the other hand, the application has been implemented to manage and report on these types of data errors since its inception in 2002. It provides direction to Treasury to take appropriate action, either with CBM or other entities, to rectify and re-submit the required data. In this regard, MITA confirmed that it has a full record of all communications with Treasury and CBM, including a full log of all calls. MITA further stated that it provides recommendations to Treasury on the appropriate action to take whenever new data errors emerge.

Non-Unique Records

With regards to CBM’s proposed amendments concerning non-unique records, MITA stated that it has been assessing this issue with Treasury, and will be planning for its enhancement once certain clarifications have been obtained from CBM.

Implementation of Automatic File Validation Agent

MITA confirmed that the implementation of AVFA has long been overdue, however insists that this requires the ongoing cooperation of all stakeholders besides MITA, namely, Treasury, CBM, Stock Exchange and the Ministry for Gozo.

Segregation of Duties

With reference to the relative section of the report concerning the need for improved segregation of duties, MITA reiterated that the support functions it provides on the system are always carried out through the BRS application with the prior authorisation of Treasury, a record of which is retained by MITA.

Access by Third Parties

Regarding the number of users outside the “DAS” team with “write” access to the BRS database, MITA commented that the BRS server does not only host the BRS application, but another two, of which the Accrual Accounting Financial Reporting System (AAFRS) and Treasury Intranet. The number of users quoted in the report refers to all the systems and not just to the BRS, indicating that access rights are required for the performance of their duties. With respect to the two employees from the Public Registry and Foreign Affairs, MITA stated, that although at the time of the audit these officers had “write” access to the BRS database, both users had no valid operating system credentials. It was further confirmed that these database accounts have now been terminated.

Discrepancies between the Treasury Financial Report and the Bank Reconciliation Statement

MITA pointed out that since discrepancies existed throughout the years between the CBM official statement

and its electronic version as submitted to BRS, Treasury had to make corrections to its financial statement to reflect the true CBM balance. Following CBM’s readiness to cooperate in re-submitting correct data files earlier this year, MITA has dedicated more resources to assist Treasury to identify the electronic CBM data discrepancies. Several reports were submitted to Treasury in this regard.

NAO highlights the fact that, the discrepancies commented upon by MITA, do not explain the differences mentioned in the report in the “Conclusions” section between the balances as reported in the Bank Reconciliation Statement and the corresponding figures in the Government Financial Report. In their reply, Treasury confirmed the existence of differences between the balances of the CBM as per CBM bank statement against CBM electronic files.

MITA and Treasury are now working on the reconciliation of the other elements of the BRS. Improved procedures have for some time also been put in place by both parties to ensure that instead of waiting for monthly CBM official statements to verify closing balances, daily electronic CBM balances are verified on a daily basis with CBM Official Daily Statements.

Other considerations

MITA mentioned the existence of other data inconsistencies which do not generate immediate data error, but have been creating data mismatch in the BRS reconciliation process for quite some time. The reference field in the CBM transaction is inconsistently exported in the electronic data file, resulting in the omission of reference data which eventually creates a mismatch during the reconciliation stage. This eventually requires Treasury’s manual reconciliation process to take over. MITA stated that it has always informed Treasury of the outcome and that CBM have been repeatedly informed by Treasury to rectify their data. MITA shall continue supporting Treasury in order to secure a long term solution for all stakeholders.

Appendices

Appendix A – Bank Reconciliation Monthly Procedure

BANK RECONCILIATION MONTHLY PROCEDURE

Checklist for the month of _____

	Procedures	Tick
1	Ensure regularly that Stocks, Salaries, Pensions Sections provide a copy of the Schedules for your approval and that the Ascii datafiles are made available.	
2	Backup of BRS Reconciliation Files on BRS server.	
3	Export of DAS Consolidated Cash Book for the month to Import Area. (DASCBmmyyyy)	
4	Transfer of DAS Consolidated Cash Book from Unix to BRS server.	
5	Ascertain that all the files to be used in BRS for the month are copied in the import Area on the BRS server DASBR-LK:- a) All CBM Transaction and Cashed Cheques files (for each working day of the month) b) Pensions c) Stock Exchange d) Schedules e) DAS Cash Book	
6	Import of DAS Consolidated Cash Book for the month (DASCBmmyyyy)	
7	Import of Schedules file for Salaries (SALddmmyyyy)	
8	Import of Salaries file for the month (TSddmmyyyy)	
9	Manual entry of Schedule for Pensions	
10	Import of Pensions files for the month (PCnmmmyyyy)	
11	Manual entry of Schedules for Stock Exchange	
12	Import of Stock Exchange files for the month (DInmmmyyyy)	
13	Make sure that no Ascii file for imported Cheques type has remained in Import Area on BRS server	
14	From DAS produce report listing down all Cancelled Cheques for month	
15	Manual input of details of Cancelled Cheques	
16	Import of CBM Transaction files for each working day of the month (Tmnnnnmmyy.dat)	
17	Import of CBM Cashed Cheques files for each working day of the month (e.g. PC_BOV220102.dat)	
18	Make sure that no CBM files have remained in the Import Area on BRS server	
19	Execution of Automated Reconciliation Process (First Cut)	
20	Printing of Output Files from Auto Process:- CAPARTR – Partly Recon CB transaction CAUNREC – Unreconciled CB transactions CBPARTR - Partly Recon CBM transactions CBUNREC – Unreconciled CBM transactions CASTALE – Stale Cheques CB transactions CACANCL – Canc. Chqs CB transactions INTRECN – Bank Reconciliation Statement (Auto)	
21	Manual Matching Process This process is ongoing. Produce Interim Reports (shown in item 22) until satisfied with Reconciliation Statement and therefore there is no scope of any further matching process.	
22	Final Reconciliation Reporting Print files as per item 17 This procedure closes off the month	
23	Purging of Cash Book datafiles for 6 months before	
24	Purging of Central Bank datafiles for 6 months before	
25	Purging of BRS History file for 6 months before	

Appendix B – New Bank Reconciliation Statement

New Bank Reconciliation Statement

As at End November 2009

Date: 19/10/2010

Time: 11:41:43

Page: 1

User: pulog001

	<u>EUR</u>	<u>EUR</u>
BALANCE AS PER CBM STATEMENT		17,189,264.17
Cash Book Unreconciled Items:		
LESS		
Cheques	342,926,042.59	
Debit Advices	394,250,971.16	
Schedules	2,598,794.75	
Adjustments on Deposits and Direct Credits	10,581,294.20	750,357,102.70
ADD		
Deposits	505,198,749.70	
Direct Credits	263,574,810.15	
Adjustments on Debit Advices	2,577,397.69	771,350,957.54
Central Bank of Malta Unreconciled Items:		
LESS		
Deposits, Direct Credits and Adjustments (Cr)	764,665,747.90	764,665,747.90
ADD		
Cheques Pending	1,642,257.25	
Other CBM Payments and Adjustments (Dr)	522,868,297.57	524,510,554.82
		-201,972,074.07
BALANCE AS PER CASH BOOK		60,365,218.26
Discrepancy		-262,337,292.33

Inland Revenue Division

Arrears of Revenue for the year 2008 and Analysis of Exemption Order Scheme: Reduction in Additional Tax and Interest

Executive Summary

This report includes results from a Compliance Audit carried out regarding the Inland Revenue Division's Arrears of Revenue Return for the year 2008, with the principal aim of ascertaining the correctness of figures and breakdowns with respect to income tax, as submitted by the Division. This was carried out by means of sample testing of tax cancellations of the Division, together with verifying that the required approvals for write-offs were obtained as stipulated by Article 80 of the General Financial Regulations, 1966.

An Exemption Order Scheme was launched by the Minister of Finance, the Economy and Investment on 4 September 2009, with the aim of offering a reduction of tax due, and/or accumulated additional tax and interest (including penalties) to those taxpayers owing tax balances, who agreed to submit pending Tax Returns, withdraw any objections and eventually settle balances due. Reductions vary according to whether tax due falls within the Pre '99 or Self-Assessment Inland Revenue Division systems i.e. up to Year of Assessment 1998 or thereafter respectively.

An analysis of the implementation process and taxpayer participation of the Exemption Order Scheme was carried out, following an examination of data which was submitted by the Inland Revenue Division.

The following were the main findings:

- Write-off approvals covering €2,473,732 for the Pre '99 Inland Revenue Division system for the year

2008 as reported in the Arrears of Revenue Return were not provided for review, resulting in non-compliance with General Financial Regulations.

- The Inland Revenue Division originally stated that a difference of €3,246,715, relating to the Pre '99 Inland Revenue Division system, between the gross closing balance as per the 2008 Arrears of Revenue Return and supporting documentation, may be due to different reporting methodologies being applied during the compilation of both the Annual Return of Arrears and the 'Report by Category – Pre '99 report.' However, IRD subsequently confirmed that supporting documentation originally sent to NAO excluded balances pertaining to uncategorised taxpayers.
- The analysis that was carried out by the Inland Revenue Division during the initial stages of the Exemption Order Scheme was limited, due to time constraints, to identifying those individual taxpayers who had pre-year of assessment 1999 balances and who were 'inactive' or deceased, and companies which had been struck off. Statute-barred amounts were not excluded before sending Notification Letters/Agreements in the initial stages of the Exemption Order Scheme.
- Out of a total of 61,353 agreements sent to taxpayers, as at 23 April 2010,¹ 50.96% of these (31,268) submitted the requested down payment amounting in total to €40,667,514.

¹ Cut-off date established by National Audit Office.

Background

Arrears of Revenue Return 2008

In terms of Article 49 (1) of the General Financial Regulations 1966, all Heads of Department are required to submit an annual Arrears of Revenue Return (ARR), in duplicate to the Accountant General, for transmission to the Auditor General. Treasury Circular No. 2/2009 further states that the Return is to reach Treasury by 1 April 2009.

On the Inland Revenue Division's (IRD) request, two initial meetings were held with National Audit Office (NAO) representatives on 17 September and 16 October 2009. The scope of these meetings was to inform this Office of IRD's intention to re-classify taxpayers into different categories, since the classification in use had become outdated, and portray the collection efforts of the Division. Subsequently, detailed breakdowns of the ARR were forwarded to this Office on 18 November 2009.

Due to the complexity of this information, NAO deemed it necessary to perform a detailed compliance audit on breakdowns of the reported figures forwarded by IRD. In the Report of the Auditor General – Annual Audit Report for the year 2008, NAO committed itself to perform an audit on breakdowns of reported figures forwarded by IRD and to report its observations separately during 2010.

Figures as forwarded to this Office by IRD in their ARR were published in the Report of the Auditor General – Annual Audit Report 2008, in which Tax Written-Off and Cancelled Tax (Not Due²) were classified separately standing at €2,473,732 and €303,307,681 respectively.

Exemption Order Scheme

The Exemption Order Scheme (EOS) was launched by the Minister of Finance, the Economy and Investment on 4 September 2009, as reported in Press Release 1464. According to IRD officials, the Government's main objectives of this initiative were to encourage taxpayers to submit pending Tax Returns, adjust declared income and eventually settle balances due. This Scheme was expected to compensate for the loss in tax revenue brought about by the economic downturn, as well as to reduce the Arrears of Revenue balances. According to IRD, such a Scheme was

also meant to “alleviate taxpayers’ plight as a result of the difficult economic situation, help clean the Division’s core data in respect of taxpayers after sixty years of income tax in Malta, and also crystalise estimations”.

This Scheme targeted all taxpayers (individuals or companies) who owed tax up to the Year of Assessment 1998 (referred to hereunder as the ‘Pre ‘99 IRD System’), as well as those who owed balances for the Years of Assessment 1999 to 2008 (‘Self-Assessment System’ (SAS)). In respect of the Pre ‘99, taxpayers could benefit by paying 75% of the tax balance due. Since the data collected under the Pre ‘99 cannot be readily analysed through the use of automated means, to determine pure tax and penalties/interest, it was decided to offer a reduction of 25% to make up for the extra tax in penalties and interest inherent in Pre ‘99 balances. In case of the SAS, taxpayers had to pay all tax due in order to be eligible to benefit from a reduction of 90% on additional/omission tax and interest.

In order to benefit from this Scheme, taxpayers had to:

- submit all pending Returns regarding SAS by 16 November 2009 – this date was extended initially to 16 December 2009, followed by a final extension to 22 January 2010;
- pay the final tax due³ in one lump sum;
- sign and return the Agreement⁴ with all payments to IRD by 15 January 2010 – subsequently extended to 22 February 2010; and
- withdraw, if any, all pending objections against assessments issued by IRD.

The IRD issued Agreements indicating balances of tax due to all those taxpayers⁵ who had an outstanding balance and Notification Letters (NL) stating provisional balances to those who failed to submit one or more Returns. Due to time constraints, a full analysis of the population of taxpayers for this Scheme, was not performed by IRD before sending the NL or agreements to taxpayers. This led to a situation of Agreements sent to heirs of deceased taxpayers and claims for amounts statute-barred.

Taxpayers who submitted Tax Returns for all relevant Years of Assessment were sent an Agreement at commencement of the Scheme. Agreements sent included a fifteen day period by which taxpayers had to settle the indicated amount due. Hence, taxpayers receiving such notices on or after 15 February 2010, could still benefit from the

² These consist of revised tax balances following revisions of assessments, as a result of finalised objections and the submission of Tax Returns, which also reverse the estimated taxes.

³ This is the tax balance due either through declared income or income assessed following the submission of the Returns. Declared income is established by way of a declaration, tax return or adjustment form up to Year of Assessment 2008.

⁴ The agreement was sent to all taxpayers allowing them to benefit from the Scheme as long as taxpayers submitted all Tax Returns up to Year of Assessment 2008. This covered all Years of Assessment, both under the old and self-assessment system. A taxpayer could opt to settle a balance pertaining to the self-assessment system, while leaving the balance under the old system pending. However, a taxpayer could not opt to settle in part tax balances due relating to the Self-Assessment System.

⁵ Excluding certain categories (vide final Key Issue).

Scheme even though such payment was to be made beyond the deadline.

Audit Scope and Methodology

The scope of this audit was to:

- perform a Compliance Audit on the ARR for the year 2008, with the aim of:
 - ascertaining the correctness of breakdowns submitted by IRD in relation to the ARR; and
 - verifying tax cancellations of the Division as against amounts written-off for the year and that the required approvals for write-off were obtained according to Article 80 of the General Financial Regulations, 1966; and
- examine the implementation process of the EOS, with the aim of:
 - assessing the management of the Scheme by analysing IRD's selection of those taxpayers whom were sent a NL or Agreement with a tax balance to settle; and
 - identifying the amount of tax collected from the Scheme compared to Agreements sent to taxpayers.

An introductory meeting was held with IRD officials to discuss the objectives of the exercise and outline the audit requirements for testing purposes. The minutes of this meeting were eventually confirmed by IRD.

An initial exercise was carried out to reconcile amounts reported in ARR 2008 with supporting documentation submitted by IRD. This consisted of a total gross closing balance of €742,638,917 made up of €251,690,556 of the Pre '99 and €490,948,361 of the SAS.

A list of all the 'Past Arrears (Debtors) Written-off' relating to the Pre '99 as reported in the ARR, amounting to €2,473,732 was obtained from IRD. NAO considered it appropriate to test the whole population of these write-offs by requesting IRD to forward hard copies of all approvals obtained authorising the write-off of these tax balances.

Two lists representing 'Cancelled Tax' (Not Due) relating to the Pre '99 and SAS as reported in the ARR 2008, totalling €6,796,489 and €296,511,192 respectively, were also obtained from IRD. The data contained in such lists was duly sorted to facilitate the analysis process.

Four samples were randomly selected from the respective lists to test tax cancellations reported during 2008. These were sampled using a Confidence Level of 90% with a Confidence Interval of 10%. The chosen sample consisted of:

- fifty-three taxpayers from the Pre '99 and sixty-seven taxpayers from the SAS with amounts

higher than €5,823.43 (Lm2,500); and

- sixty-two taxpayers from the Pre '99 and sixty-eight taxpayers from the SAS with amounts higher than €1,164.70 (Lm500) but lower than €5,823.43 (Lm2,500).

No samples were selected for amounts cancelled lower than €1,164.70 (Lm500) as it was deemed appropriate to focus testing on the above two higher categories.

In order to test samples from the Pre '99, the relevant files of the chosen taxpayers (115 in total) had to be referred to determine that the correct procedure was followed prior to cancelling a tax balance and reporting it as 'Not Due' in the ARR. The Accounts Receivable and IT1 systems were also accessed, on a read-only basis, to complement the testing. Since the introduction of the Self-Assessment System, the manual filing system was phased out and substituted by a new electronic database. Therefore, the sample of the SAS, consisting of 135 taxpayers, was tested against the IRD Return Capture System.

A final meeting was held with IRD officials to discuss the concluding results of the EOS. Minutes of meeting were referred back to the officials concerned for their comments.

IRD provided NAO with a list of all agreements totalling €168,845,490 issued to those taxpayers who qualified for the Scheme (i.e. submitted all tax returns), including all payments received at IRD amounting to €40,667,514. This included information as at 23 April 2010. Those agreements that were issued following audits carried out by IRD or the Tax Compliance Unit (TCU), including those following a dropped objection due to IRD/TCU audits and withdrawals of Court Cases, were also indicated.

Data submitted by IRD was used to analyse taxpayers' participation in the EOS.

Limitation on Scope of Audit

Up to the writing of this report, fifteen out of a total of 115 IRD taxpayer files relating to the Pre '99, representing 13.04% of the selected sample of 'Cancelled Tax' reported under the Pre '99 during 2008, were not made available for testing. Cancelled amounts of these fifteen files aggregately amounted to €313,839, constituting 4.6% of the total cancelled amount. Consequently, NAO was unable to verify details contained in these files, thus creating a limitation on the original scope of the audit.

Notwithstanding the limitation on the original scope of the audit, no irregularities were encountered during the testing of files forwarded for review relating to tax cancellations of the Pre '99. The same applies for all cancellations tested of the SAS.

Key Issues

Write-off approvals for the year 2008 not provided for review

Despite several requests, IRD did not provide NAO with hard copies of write-off approvals for the year 2008, amounting to €2,473,732. This is indicative of IRD's non-compliance with Article 80 of the General Financial Regulations, which outlines the writing-off procedures of losses of public moneys. Non-adherence to these regulations increases the risk of unauthorised transactions being executed.

IRD commented that following a Court decision in 2007, an exercise was initiated by the previous Commissioner of IRD with the independent assistance of MITA to write-off a number of balances which were overtly uncollectible. The exercise identified those cases which satisfied a number of criteria.

The figure of €2,473,732 refers to 6,475 cases. Out of these, 6,142 were below €1,200 (95%) while 333 were above €1,200 (5%). These corresponded to a value of €1,911,473 and €562,259 respectively, representing 77% and 23% of the total amount written off during 2008.

Difference between the Arrears of Revenue Return and supporting documentation

A discrepancy of €3,246,715 arose between the gross closing balance of the Pre '99 as per the ARR 2008 (totaling €251,690,556) as against the supporting breakdowns as listed in 'Report by Category – Pre-1999 report as at 31/12/2008' amounting to €248,443,841, which was provided by IRD on 18 November 2009.

Various requests for an explanation of this variation were put forward to IRD. In March 2010, IRD initially concluded that this difference may be due to different reporting methodologies being applied during the compilation of both the ARR and the 'Report by Category – Pre '99 report' and that such discrepancy will be rectified by means of new reports to be compiled in the future.

In a communication from IRD dated 19 August 2010, IRD confirmed, during the review of its reporting mechanisms, that breakdowns originally provided to NAO on 18 November 2009 had been understated by an amount of €3,276,837 pertaining to uncategoryed taxpayers. IRD further confirmed that the 2008 gross closing balance of the Pre '99 (€251,690,556) was correct. It is to be noted that

immaterial differences amounting to €30,122 and (€674), regarding the 2009 gross opening and closing balances against respective breakdowns, still prevail.

The lack of timely reconciliation of supporting documentation against figures reported in the Statement of Arrears of Revenue may lead to inaccurate balances of arrears being reported.

Exemption Order Scheme: No analysis carried out to exclude statute-barred Taxpayers prior to sending of Notification Letters/Agreements

In the introductory meeting with NAO on 1 December 2009, IRD confirmed that an exercise analysing the population of taxpayers for this Scheme could not be performed before sending NL or Agreements to taxpayers, due to time constraints imposed for the launching of the Scheme. In a subsequent communication from IRD dated 19 August 2010, IRD stated that before issuing any NL or Agreements, it was decided that specific categories of persons were not to be served with a scheme agreement if certain conditions were satisfied.⁶ These mainly consisted of deceased and dormant taxpayers relating to Pre '99 and struck-off companies. Other taxpayers with a very low outstanding balance, such as €20, were also ignored for the purpose of the Scheme. No departmental action was taken to exclude sending of NL or Agreements covering statute-barred amounts from the initial exercise. IRD failed to quantify these NL/Agreements when requested by NAO.

Nevertheless, according to IRD, there were around 1,200 taxpayers who, in reply to the Scheme, claimed that the outstanding balances had become prescribed. Of these, around 700 claims were found to be correct, and will be informed in writing by IRD in due course. The remaining 500 were either partially correct or completely incorrect. These taxpayers will also be receiving a letter from IRD stating their current position as seen by IRD.

This factor has contributed to an increased workload on IRD personnel through the issue of inappropriate NL which had to be analysed within the short time span available. As a result, the final assessment of the success of the Scheme could have been unnecessarily prolonged.

Analysis of Taxpayers' Participation in the Exemption Order Scheme

Following the submission of missing Tax Returns as requested by IRD by means of the initial NL sent to taxpayers, a total of 61,353 Agreements, representing

⁶ Due to their confidential nature, these parameters are not being published.

a total tax payable of €288,988,012 (inclusive of all additional tax and interest (including penalties) were sent to taxpayers. This total is inclusive of those Agreements sent to all taxpayers with an outstanding balance. Three different types of Agreements were issued, which could include balances due in respect of the Pre '99 only, the SAS only, or a combined balance related to both systems.

Agreements portrayed a total balance outstanding for all years up to Year of Assessment 1998, while separate annual outstanding balances were portrayed for the Years of Assessment 1999 to 2008. Taxpayers were given a breakdown of total tax due, additional tax and interest (including penalties), together with the total down payment requested after the computation of the reduction. *Table 1 shows the Total Tax Payable, including Additional Tax and Interest (including penalties), as per Agreements issued by IRD before reductions and excluding Estimations.*

The total down payment requested from the aggregate 61,353 Agreements, amounted to €168,845,490, following a total reduction of €120,142,522, representing 41.57% of the total amount due of €288,988,012 as per Agreements sent. 31,268 out of the 61,353 taxpayers, representing 50.96% of taxpayers who received an Agreement, accepted to participate in the Scheme by effecting payment to IRD totalling €40,667,514. This amount represents 24.09% of net down payments requested through all Agreements sent. *Table 2 relates.*

During the EOS, various IRD sections worked in close coordination with each other, including the TCU, the Computer Section (supported by MITA Project Team), the Call Centre, the Customer Care Section, the Tax Audits Section and Objections Section. *Table 3 portrays further detail regarding tax payments received as a result of this co-ordination.*

All payments received from the Scheme were initially allocated to a Below-the-Line account, followed by an evaluation of balances to post the necessary reductions and close off the accounts of those taxpayers' who benefited from the Scheme. As at 28 April 2010, this evaluation process was still ongoing. At a separate level, IRD also commenced analysing the balances of those taxpayers that did not opt for the Scheme.

Recommendations

Key Issues

Write-off approvals for the year 2008 not provided for review

Remedial action should be taken by the Division to ensure that all amounts written-off during 2008 are covered by

adequate authority. IRD must ensure that all necessary action is taken to ensure full compliance with standing regulations.

Difference between the Arrears of Revenue Return and supporting documentation

The Division should ensure that figures reported in the ARR are appropriately supported by detailed breakdowns, totals of which should tally. This will reduce the risk of inaccurate reporting in the ARR.

Exemption Order Scheme: No analysis carried out to exclude statute-barred Taxpayers prior to sending of Notification Letters/Agreements

The IRD's taxpayer database should be analysed on a regular basis to ensure that timely action is taken on amounts due prior to being categorised as statute-barred and amounts due by deceased taxpayers from heirs. The Division would thereby be better prepared to execute Government's policy relating to revenue collection.

Management Comments

Comments submitted by IRD were further discussed during an exit meeting held at NAO on 6 August 2010. During this meeting, IRD agreed to forward further explanations and documentation to substantiate comments made. These were submitted on 19 August 2010.

Limitation on Scope of Audit

Management commented that the cancelled amounts of the fifteen IRD taxpayer files that were not made available for testing have been verified against the Accounts Receivable System. According to Management all revisions were due to finalised objections registered in the Objections database. NAO cannot accept this explanation on the basis that its findings can only be based on hard evidence collected during audit testing and not on verifications carried out by the auditee.

Write-off approvals for the year 2008 not provided for review

Whilst confirming that the hard copies of write-off approvals could not be traced, IRD stated that the decision to write-off these amounts was taken by the previous Commissioner of Inland Revenue after a detailed analysis. Management also replied that a request has now been made to the Ministry's Permanent Secretary to obtain a written approval for the retrospective write-off of the quoted amount.

Moreover, IRD has now introduced the following procedure to ensure full adherence to standing regulations:

- a) All requests for Write-offs are to be forwarded to the Commissioner of Inland Revenue for authorisation.
- b) The Commissioner will determine whether further approvals are necessary from the Ministry depending on the monetary values to be written off.
- c) Write-off transactions may only be effected by a limited number of officers as identified by the Commissioner, and confirmed by the IRD Internal Audit Officer before being posted into the System.
- d) The Commissioner's written approval is to be archived in the Virtual File for future reference purposes.

Difference between the Arrears of Revenue Return and supporting documentation

With reference to the difference of €3.2 million, IRD stated in its comments that *"it appears that the difference has been resolved as no unreconciled difference emerged in the immediately subsequent (2009) Arrears Return"*. Breakdowns of the gross closing balance of the Pre '99 as per 2009 ARR submitted to NAO on 19 August 2010, revealed that such difference was in fact resolved, albeit

for minor discrepancies of €30,122 and (€674) in the gross opening and closing balances respectively.

Exemption Order Scheme: No analysis carried out to exclude statute-barred Taxpayers prior to sending of Notification Letters/Agreements

Management corroborated its comment that a number of analysis were carried out by IRD before sending NL/Agreements, except for whether a balance had become prescribed since the exercise regarding statute-barred amounts is still underway. The Division is presently in the process of taking cognisance of all replies and legal letters sent by taxpayers in reply to the NL/Agreements sent.

IRD also commented that according to the advice of the Attorney General, prescription is not automatic and has to be proven in Court. The fact that more than eight years elapse and no judicial action is taken does not automatically render that balance statute-barred. Additionally, balances owed by deceased taxpayers are not automatically prescribed since in these cases the heirs become liable for payment.

The Division stated that the fact that, only 2% tax remains uncollected in respect of the self-assessment years, indicates that the Final Settlement System, combined with the issue of judicial letters in the past, have brought about the desired change.

Table 1 – Total Tax Payable, including Additional Tax and Interest (including Penalties), as per Agreements issued by the Inland Revenue Division before reductions and excluding Estimations

System	Tax Payable including Additional Tax and Interest (before reductions and excluding Estimations) (€)
Old (Pre '99)	116,761,072
Self-Assessment (SAS)	172,226,940
Total	288,988,012

Source: IRD

Table 2 – Total Agreements sent and Down Payments received by the Inland Revenue Division

Number of Agreements	Number of Agreements returned	%	Total Down Payments requested (€)	Down Payments received (€)	%
61,353	31,268	50.96	168,845,490	40,667,514	24.09

Source: IRD

Table 3 – Agreements issued and Tax collected by Scenario

Scenario	Number of Agreements	Down Payments received (€)	% of total Down Payments received by IRD (€40,667,514)
Tax Audit	40	667,711	1.64
Tax Audit Objection	19	291,364	0.72
Tax Compliance Unit Audit	25	2,352,515	5.78
Tax Compliance Unit Objection	10	412,717	1.01
Withdrawal of Court Case	9	248,024	0.61

Source: IRD

VAT Division Arrears of Revenue 2009

Background

Upon review of the Value Added Tax (VAT) Division's 2008 Arrears of Revenue Return (ARR), the Report of the Auditor General – Public Accounts 2008 reported adjustments that were carried out, followed by the submission of a revised 2008 ARR together with supporting breakdowns of all figures reported therein.

Following receipt of the 2009 ARR, the VAT Division was requested by the National Audit Office (NAO) to forward supporting breakdowns of reported figures. On close examination of these breakdowns, NAO decided to examine the amounts reported under 'Past Arrears Written-Off' and 'Amounts Not Due and/or Adjustments' as reported in the 2009 ARR.

Hence, an introductory meeting was held with VAT Division officials to obtain an overview of the arrears data submitted, together with an understanding of criteria determining indirect tax written off or cancelled by the Division.

It was stated that the Commissioner of VAT can cancel¹ amounts including audit assessments due and issue a revised assessment, by means of:

- Article 31(3) of the VAT Act – when a Tax Return for a tax period is furnished after an estimate has been made by the VAT Division;
- Articles 35 and 36 of the VAT Act – when it is found that the assessment was raised incorrectly, unless the matter has already been decided by the Board of Appeal or the Court of Appeal;
- Article 42 of the VAT Act – when an objection is

raised by the taxpayer and is accepted by the VAT Division; and

- the decisions of the Board of Appeal and the Court of Appeal.

Any other amounts due to the VAT Division which do not fall under the above criteria and which include interest, have to be written off after seeking and obtaining approval from the Ministry of Finance, the Economy and Investment (MFEI) as regulated by Article 80 of the General Financial Regulations, 1966. Copies of four such approvals obtained during 2009, collectively amounting to €35,908.45, were forwarded to NAO.

The VAT Division also confirmed that amounts written off, as declared in the 2009 ARR, consist of VAT assessments cancelled following decisions by the Board of Appeal or the Law Courts, besides MFEI covering approvals of written-off interest and penalties.

Audit Scope and Methodology

The scope of this audit was to verify whether the amounts written off and amounts not due were properly analysed under the respective columns in the ARR and that adequate authority for amounts written off was obtained.

- ***Amounts Not Due: Estimated Assessments Cancelled in 2009 pertaining to VAT 99, VAT 95 and Customs and Excise Tax***

In order to meet the objectives of this audit, data analysis spreadsheets were compiled featuring a sample of eighty VAT numbers with cancelled assessments amounting to

¹ Amounts cancelled under Article 31(3), 35, 36 and 42 of the VAT Act are categorised as 'Not Due'. Amounts cancelled following Board of Appeal or Court of Appeal decisions are categorised as 'Write-Offs'.

€175,912. These were selected from breakdowns submitted by the VAT Division, based on a 90% Confidence Level and 15% Confidence Interval for each of the above categories as declared in the 2009 ARR.

The ‘Account Enquiry’, generated from the VAT Accounting System for every VAT number chosen for testing, was utilised to confirm that Estimated Assessments raised (Transaction Type 07) were actually cancelled (Transaction Type 06) during 2009.

The actual VAT Return, where applicable, was referred to in order to check that details such as the tax period, the date of submission and the tax amount due were correctly posted in the VAT *ad hoc* system.

Taxpayers who had a pending request for de-registration, did not submit the VAT Return. In such cases, the VAT Division issued an Auditor’s Tax Return (Transaction Type 17) indicating ‘Nil’ values for the final Returns. This procedure followed Internal Memo instructions issued on 20 November 1997 stating that “.....when a taxpayer objecting to additional tax for ‘late’ submission of tax returns meets all three of the following conditions:

- no input VAT had been claimed
- all tax returns submitted by that registered person were NIL returns and therefore no economic activity had been conducted
- the registered person has a pending request for de-registration

the ADDITIONAL TAX in question is to be waived”.

- ***Amounts Written Off: Audit Assessments cancelled in 2009 pertaining to VAT 99, VAT 95 and Eco-Contribution***

A sample of thirty-two VAT numbers with amounts totaling €101,857, were randomly chosen from the VAT Division’s data pertaining to declared amounts written off as per 2009 ARR. This selection was based on a 90% Confidence Level and 15% Confidence Interval for each of the above categories. According to the breakdowns submitted by VAT, no Customs and Excise Tax (CET) Audit Assessments were cancelled during 2009. For the purpose of this exercise, departmental files were scrutinised to trace the amounts written off.

A data spreadsheet was compiled to analyse the audit assessments written off. Particular attention was given to amounts written off through departmental decisions and those which were written off following decisions of the Board of Appeal, Law Courts and MFEI approvals. It was observed that, in the majority of cases, the amounts to be written off were not specified in the Board of Appeal’s written decisions. In fact, Board of Appeal decisions,

in some cases covering several VAT periods, concluded that assessments had to be reduced or adjusted, without referring to the final amount to be written off.

Compliance Issue

Adjusted amounts erroneously classified under ‘Past Arrears Written-Off’ in the 2009 Arrears of Revenue Return

Out of thirty-two write-offs examined, it resulted that twelve cases, representing 37.5% of the total categories examined and amounting to €35,249, were incorrectly classified under ‘Past Arrears Written-Off’ in the ARR. From further enquires, it resulted that these amounts were inter-departmental adjustments often following risk analysis and investigation reports. In fact, none of these cases was decided upon by the Board of Appeal, Law Courts or covered by MFEI write-off approvals.

Recommendation

Compliance Issue

All inter-departmental adjustments to audit assessments, that do not arise following decisions by the Board of Appeal, Law Courts or MFEI approvals, should be reported under ‘Amounts Not Due and/or Adjustments’ in the ARR.

Conclusion

NAO feels it pertinent to point out that no irregularities were encountered following testing that:

- the estimated assessments examined pertaining to VAT 99, VAT 95 and CET were appropriately cancelled during 2009;
- such estimated assessments were properly analysed under Column (c) ‘Amounts Not Due and/or Adjustments’ in the 2009 ARR;
- all adjustments to audit assessments affected through decisions by the Board of Appeal, Law Courts and MFEI write-off approvals were correctly analysed under Column (b) ‘Past Arrears Written-Off’ in the 2009 ARR; and
- the details on the actual VAT Return submitted by the taxpayers were correctly posted in the VAT computer system.

All the necessary documentation requested to carry out this audit was made available by the VAT Division whose top management and officials were co-operative at all times during the conduct of the audit.

Management Comments

Management concurred with NAO's finding that the amounts reported are to be classified in the appropriate column in the ARR. However, it was pointed out that the Division obtains data to be compiled in the Return through the electronic system, such that a manual intervention is required to examine all files to distinguish between such cases of adjustments and written off amounts. Management stated that it will be seeking the possibility of identifying such cases through electronic means.

Programmes and Initiatives

Food Subsidies

Background

The Commerce Division (CD) is responsible, amongst other duties, for the administration of state aid relating to Food Subsidies. During 2009, there existed two main types of food Government subsidies which were administered by CD, mainly being on:

- levies on importation of sugar to be used for local consumption, either in its raw state or as part of another product which is subsequently transported within the European Union (EU), and the importation of sugar intended for consumption as part of a finished product in a country other than Malta; and
- costs of flour transportation from Malta to Gozo.

Subsidy on Importation of Sugar

As a result of EU accession, local importers were faced with a scenario where they either had to buy from:

- (i) other EU Member States at a non-discounted EU price (three or four times the price that was offered to them prior accession) or,
- (ii) non-EU countries at the world market price incurring high duties.

To mitigate against this situation, the Maltese Government negotiated a derogation in the Accession Treaty which under Annex XI heading 7 – Agriculture, stipulates *inter alia*, that “*Malta may grant special temporary State aid to support the purchase of imported agricultural products which before accession benefited from export refunds or which were imported from third countries without duties.*”

Since 2004, following approval by the Maltese Cabinet, a state aid scheme has been in operation in respect of sugar imported into Malta. The scheme was divided into three

main groups, being sugar consumed:

- in its imported state or as part of a processed product in Malta (Group A);
- as part of a processed product in an EU Member State other than Malta (Group B); and
- as part of a processed product in a non-EU country (Group C).

On 25 September 2008, the European Commission (EC) via Commission Regulation (EC) No. 947/2008 decreed that export refund should not be granted for sugar. It is to be noted that sugar originating from non-EU countries for which customs duty is charged in line with the Accession Treaty, the Sugar Subsidy Scheme (SSS) is to be continued and the subsidy is to be given until such time that all duties are removed or until 31 December 2010, whichever is the earliest. The subsidy, as proposed, shall be equated to the duty charged if at any time it exceeds it. Hence, the SSS is currently being phased out by Government, utilising reduced monthly rates until 31 December 2010. For this reason, actual payments issued as per Departmental Accounting System (DAS) records during 2009 totaled €431,726, as against Estimates from Programmes and Initiatives Item 5331, which amounted to €2,900,000 for the same period.

The state aid on sugar is issued in the form of a refund. In 2009, for Groups A and B, the refund was calculated on the basis of 36% of a reduced subsidy rate which was in force at the time of the importation contract date with the foreign supplier. The subsidy rate was pegged to the last EU Export Refund Rate which was published in September 2008 (€169.50) and is currently being phased out by reducing it by an equal amount (€6.05) each month for twenty-eight months until it reaches ‘Nil’ in January 2011.

For Group C, the refund was calculated on the basis of 36% of the subsidy rate – fixed at a maximum of US\$82

per tonne. The subsidy rate is calculated as the difference between the premium payable on Cost and Freight (C&F) terms and the premium (both inclusive of freight charges) upon Malta's accession in the EU, with the latter amounting to a fixed amount of US\$53 per tonne. The exchange rate applied by CD in the calculation of state aid amount is the Central Bank of Malta middle exchange rate applicable on the date when sugar is released from Customs.

Beneficiaries for this subsidy may apply to CD at the beginning of each year, following a request for call for applications issued by the Division. The Sugar State Aid Committee may subsequently approve a quota of sugar in respect of which subsidy will be granted for that particular year.

Subsidy on Costs of Flour Transportation

Given the evolution of the transport sector, in particular the restructuring of many transport activities following their liberalisation, this sector has been included in the scope of the *De Minimis* Regulation through Commission Regulation (EC) No. 1998/2006. In view of the provision laid down in this Commission Regulation issued on 15 December 2006, the Government of Malta accepts applications for state aid in respect of transport of flour between Malta and Gozo.

Commission Regulation (EC) No. 1998/2006 allows an enterprise to receive a total amount of up to €200,000 of *De Minimis* aid over a period of three fiscal years. This maximum threshold is inclusive of all state aid under this scheme and any other state aid measure granted under the *De Minimis* rule. Indeed, any *De Minimis* aid received in excess of the established threshold will have to be recuperated, with interest, from the enterprise receiving it.

The scheme for the costs of flour transportation from Malta to Gozo is based on the invoices or certificates of the costs incurred in the transportation. Potential beneficiaries may apply through the Trade Services Department.

Audit Scope and Methodology

The scope of this audit was to ascertain whether sound internal control systems are in place, ensuring that subsidies were correctly paid, in accordance with specified rates and EU legislation. The compliance aspects of payments was also verified.

An introductory meeting was held with CD officials, with the aim of obtaining an understanding of the Division's procedures for collection, processing and payment of Government food subsidies and to gain an insight of the relative Regulations. Issues raised during this meeting

were documented and confirmed by the officers concerned. Further informal meetings were subsequently held with CD officials, in order to be able to compile a systems overview of the operations of CD, prior to the commencement of the actual substantive audit testing.

A walk-through test was then carried out to verify the controls outlined in the systems overview. During this test, a total of three randomly selected subsidy payments were examined. These consisted of one subsidy for importation of sugar under both Groups A and B, a subsidy for importation of sugar under Group C and a subsidy for transportation of flour from Malta to Gozo.

A sample was randomly selected from all food subsidies paid during 2009. Sample size was calculated using a Confidence Level of 90% with a Confidence Interval of 10%. The chosen sample consisted of:

- forty-three payments for the SSS, which represent 53.75% of the total population of state aid payments related to sugar; and
- three payments for the Flour Subsidy Scheme (FLSS), which represent 100% of the total population of the food subsidy payments related to flour.

In order to test the selected subsidy payments, the relevant departmental files of the chosen applicants together with the respective Payment Vouchers, including the related supporting documentation, had to be verified to determine that the correct procedure was followed prior to payment of subsidy.

Control Issues

Opportunities for improvement was identified in the following areas:

Acknowledgement of receipt of Application for Sugar Subsidy Scheme not performed

It was noted that on all forty-five applications for SSS tested, there was no acknowledgement of receipt by the Division. Hence, the National Audit Office (NAO) was not in a position to verify that applications for SSS were submitted within the stipulated deadline by the applicants.

Soft copies of Sugar Subsidy Payment Calculations not kept

Soft copies of Sugar Subsidy Payment (SSP) calculations are not being maintained by the Division. In two cases, representing 4.44% of total SSP calculations tested (forty-five¹ calculations), where the original hard copy of the

¹ This amount consists of the sample of forty-three payments, as well as the two examined during the walk-through test.

calculation was not available, NAO could not verify the balances of unutilised quotas brought forward from the previous calculation. This constitutes a lack of audit trail as CD is not in a position to reprint the calculations made in cases where the hard copies are not adequately filed.

Inconsistency in Flour Grain types eligible for Government Subsidy

NAO noted fourteen cases, representing 6.09% of total Refund Forms (RF) tested (230 forms), where state aid payments were made for claims on flour grain types other than Wheat Flour bags. These types of flour grain were excluded from payment of Government subsidy in all other cases examined. An email sent to CD to confirm which types of flour grain are eligible for state aid remained unresolved, even though CD referred the matter to the Office of the Prime Minister.

Source of Flour Subsidy Rate and calculation of Bank Guarantee on Flour Subsidy not available

- ***Subsidy Rate per bag of flour***

When requested to provide documentation supporting the rate of €0.47 (Lm0.20) which is granted per bag of flour transported from Malta to Gozo, CD could not trace its source and commented that the rate has been carried forward year after year. This raises doubt that the correct subsidy amount is being paid in line with regulations issued by Government at the initial stage of the FLSS.

- ***Calculation of Bank Guarantee on Flour Subsidy***

CD officials are not aware of how the bank guarantee on flour subsidy is to be calculated. Although CD requires each applicant to extend its bank guarantee upon expiry, the origin of such bank guarantee could not be explained, leading to a situation where CD cannot ensure that appropriate bank guarantees are being raised. As a result, NAO could not verify that bank guarantee amounts were appropriate.

Balance brought forward of Unutilised Quota in Subsidy calculation for State Aid on Sugar not reconciled

In three out of a total of forty-five cases examined, representing 6.67% of claims' calculations examined, the brought forward balance of the unutilised quota in the calculation could not be confirmed. These incorrect balances were either due to typing errors or missing information, which subsequently may lead to a payment

for a claim for state aid which was not justified, since the quota allocated to that particular applicant for that year may have been already exceeded.

Compliance Issues

Forms and supporting documents not submitted by applicants for State Aid on Sugar

- ***Annex I Form***

Annex I Form is to be attached to the Letter from Sugar State Aid Committee (LSSAC), which is sent to applicants following their application to benefit under the SSS. This form mainly includes information, which is approved by Customs, consisting of the amount and date of sugar tonnes released from Customs and the Purchase Contract date. Six out of a total of forty-five cases, representing 13.33% of claims for state aid on sugar examined, did not include a completed copy of the Annex I Form.

- ***Annex III Form***

The LSSAC specifies that a copy of the Annex III Form, relative to each claim made, needs to be sent to Customs in order for the subsidy payment to be processed. This form mainly provides evidence of the amount of tonnes physically examined by Customs in order to permit the applicant to claim state aid. Twenty-three out of a total of forty-five cases, representing 51.11% of claims examined, did not include a completed copy of the Annex III Form.

- ***Intrastat Form/Single Administrative Document***

Four out of the forty-five cases examined, representing 8.89% of claims for sugar subsidy, did not include an Intrastat Form, to be certified by Customs in case of imports from EU Member States, as requested in the LSSAC. For sugar imported from outside Europe, a Single Administrative Document (SAD) is required instead of the Intrastat Form.

- ***Purchase Contract***

In nine out of forty-five claims for state aid on sugar examined (representing 20% of the sample), NAO was unable to trace a copy of the related Purchase Contract in the applicant's file held at CD, thus hindering the verification process of whether the appropriate EU Export Refund Rate was used in the calculation of state aid payments. This contract is requested in the LSSAC since the applicable EU Export Refund Rate used in the subsidy calculation is based on the Purchase Contract date.

Forms and supporting documents submitted by applicants for State Aid on Sugar not approved by Customs

- **Annex I Form**

Sixteen out of a total of thirty-nine cases², representing 41.03% of Annex I Form which were submitted by applicants and examined by NAO, did not include an approval from Customs. Hence, there is no evidence that the Form has been authorised by Customs, justifying a correct claim for state aid.

- **Calculation of Subsidy attached to Annex I Form for Group C**

Nine cases examined, representing the whole population of payments for state aid on sugar under Group C, did not include an approval from Customs evidencing that the calculation of the subsidy rate was duly authorised by Customs. In three³ of these cases, the freight payable from Freight On Board (FOB) and C&F to Malta collectively amounting to US\$165.56 could not be verified.

Incorrect Rate used in the calculation of Subsidy for State Aid on Sugar

- **EU Export Refund Rate**

In four cases, representing 8.89% of calculations of claims examined, an incorrect EU Export Refund Rate was used in the calculation. Consequently, this led to an overpayment of sugar subsidy amounting to a total of €284.02.

- **Yearly Reduced Rate**

During testing, it was noted that an incorrect Yearly Reduced Rate was used in the calculation of one claim for sugar subsidy relating to sugar imported during 2008. CD erroneously calculated the subsidy using the year 2009 rate at 36%, instead of the 2008 rate of 54%, leading to a payment of €6,309.50 and resulting in an underpayment of €3,154.74.

Calculation of State Aid on Sugar not authorised

Prior to affecting payment, each calculation of state aid is adequately authorised by the Assistant Director. In one case examined, authorisation for a payment amounting to €4,266.68 justifying the correctness of state aid paid was lacking.

State Aid Declaration (De Minimis) Form for State Aid on Flour Transportation not submitted or incomplete

- **Declaration Form not submitted**

Whilst testing the three payments for state aid on flour transportation, it was found that in one instance the Declaration Form (DF) to be submitted by the applicant to benefit from the FLSS, was missing from the applicant's file. Therefore, for this applicant, NAO could not verify that the details required in this DF were duly completed.

- **Incomplete Declaration Form**

In another case, out of the three examined, the DF submitted by the applicant under the FLSS was not appropriately completed, thus increasing the risk of CD paying state aid to applicants that exceeds the maximum threshold of *De Minimis* aid. In the circumstances, NAO was not in a position to verify that the threshold of €200,000 over any period of three fiscal years was not exceeded.

Incompleteness of Refund Forms for State Aid on Flour Transportation

- **Refund Forms not completed**

During the walk-through testing of the FLSS, NAO noted that Section B of the RF is not being completed by the company providing transport of flour from Malta to Gozo.

Seventy-seven out of a total of 230 RF examined, representing 33.48%, did not include the receiver's signature in Section C of the form. Hence, in these cases, it could not be established whether these flour bags were actually transported to Gozo.

Moreover, three RF, representing 1.3% of total forms tested, were not appropriately completed. Hence, NAO was not in a position to verify that the number of flour bags as declared in Section A of the form corresponded with the respective number of flour bags in Section C of the same form and in the attached invoice.

- **Number of flour bags as per Invoice from Flour Mill and bags as per Refund Form not tallying**

Whilst examining invoices from flour mills, it was found that the number of flour bags in two invoices did not agree

² These consist of forty-five cases less six instances where Annex I Form was not attached as per first Compliance Issue finding.

³ These represented the only calculations of state aid on sugar under Group C which included FOB and C&F charges.

with the number declared in the related RF. In both cases, the amount of flour bags as per invoice was less than the number of bags included in Sections A and C of the RF. If it is assumed that the number of flour bags as listed in the invoices was correct, the state aid paid, which was based on the amount of flour bags stated in the RF, would have been overstated by €20.50.

- ***No Ferry tickets attached***

Three suppliers failed to attach the ferry tickets to all 230 RF tested, as requested in the same form. Thus, it could not be established whether the flour bags were actually transported to Gozo, particularly in those cases where the forms lacked a receiver's signature.

- ***Invoice from Flour Mill not attached***

In nine cases, representing 3.91% of 230 RF tested, no invoice was attached. As a result, reconciliation could not be carried out between the details listed in the RF and the invoice from the flour mill. These missing invoices represent 905 flour bags, totaling €421.62 in state aid paid.

Recommendations

Control Issues

Acknowledgement of receipt of Application for Sugar Subsidy Scheme not performed

The Division must ensure that all applications received are acknowledged by way of a rubber-stamp, including date and signature of the officer receiving the application, to invariably ensure compliance with the deadline set.

Soft copies of Sugar Subsidy Payment Calculations not kept

CD should ensure that the officer-in-charge retains a soft copy of each calculation prepared. A back up of all data should also be kept by the Division.

Inconsistency in Flour Grain types eligible for Government Subsidy

CD should ensure that a proper follow-up of details included in the RF and related invoices is carried out and documented, ensuring that subsidies are issued only in respect of transportation of eligible flour grain types.

Source of Flour Subsidy Rate and calculation of Bank Guarantee on Flour Subsidy not available

It is recommended that the Division identifies all documentation related to the source for the subsidy rate and the calculation of the bank guarantee related to the FLSS. Such documentation should be kept in a permanent file for any future reference.

Balance brought forward of Unutilised Quota in Subsidy calculation for State Aid on Sugar not reconciled

CD should ensure that each subsidy calculation is properly reviewed and appropriately filed, so as to minimise the possibility of any mistakes in the balance of unutilised quotas brought forward in the calculation.

Compliance Issues

Forms and supporting documents not submitted by applicants for State Aid on Sugar

CD should ensure that applicants who fail to comply with the requirements, as set in the LSSAC, are to be evaluated further as to whether they are to lose the bank guarantee and the possibility of consideration of any future claims for state aid. The Division should eventually carry out thorough checks of all documentation submitted by applicants.

Forms and supporting documents submitted by applicants for State Aid on Sugar not approved by Customs

It is imperative that Annex I Form and calculations of the sugar subsidy attached to it for Group C are appropriately approved by Customs. This may only be achieved by means of appropriate checking of all forms and supporting documentation. Furthermore, CD should request and keep a copy in file of all evidence concerning FOB and C&F charges.

Incorrect Rate used in the calculation of Subsidy for State Aid on Sugar

The Division must take every possible measure to ensure that all calculations are accurately checked before being authorised for payment.

Calculation of State Aid on Sugar not authorised

No payment is to be made unless it is appropriately authorised after being thoroughly checked by the officer-in-charge.

State Aid Declaration (*De Minimis*) Form for State Aid on Flour Transportation not submitted or incomplete

The Division should ensure that every applicant submits a properly completed DF. Such Form must be reviewed and filed appropriately by CD in order to minimise the possibility of inappropriate subsidy payments.

Incompleteness of Refund Forms for State Aid on Flour Transportation

It must be ensured that all RF are duly completed, checked and appropriately filed.

Management Comments

Management submitted the following comments to findings on flour transportation:

- The Division confirmed that no clear line of demarcation could be traced in the departmental files ascertaining the eligibility of different flour

grain types, emphasising that such clarification is extremely important to ensure that correct refunds are given against the right type of flour.

- With regards to those instances where incompleteness of RF was identified, Management will be insisting with flour transportation applicants to submit monthly submissions of these forms in order to facilitate the checking process. CD also stated that the Director Trade Services is to conduct an exercise of all RF submitted since 2007 to identify any possible overpayments that could have been made to flour transportation applicants over the last three years. Management further commented that, in future, relative invoices will be checked by two different officers to ensure that the number of flour bags transported tallies with the number of bags to be subsidised as per RF.
- Missing invoices identified in the Report will be duly requested from the respective flour mill.

No reply was forwarded to NAO findings concerning the sources of the subsidy rate per bag of flour, the calculation of the bank guarantee on flour subsidy and the missing ferry tickets.

It is also pertinent to point out that, notwithstanding an extension of sixteen days to reply to this Report, no comments were submitted with regards to all findings concerning the sugar subsidy.

Consumer and Competition Division

Expenditure

Background

The main function of the Consumer and Competition Division (CCD) within the Ministry of Finance, the Economy and Investment (MFEI) is that of ensuring fair competition in the market, whilst safeguarding consumer rights. Four Directorates operate within the Division, being responsible for competition, consumer affairs, operations within the market and price enforcement.

The CCD incorporates within it the Office for Fair Competition and the Department of Consumer Affairs. These operate in terms of the Competition Act (Cap. 379) and the Consumers' Affairs Act (Cap. 378). It also operates the European Consumer Centre of Malta which is part of the European Consumer Centres network with offices throughout all European Union Member States, in addition to Iceland and Norway.

During 2009, the CCD was also responsible for administering the Subsidy to Bakers scheme. As from 1 January 2009, bakers using Light Heating Oil (LHO) for operating their business became eligible to receive a subsidy¹ equivalent to the subsidy provided by Government for Liquefied Petroleum Gas, in line with Commission Regulation (EC) No. 1998/2006. This measure was taken to maintain a level playing field between bakeries using LHO and those using gas.

Audit Scope and Methodology

The objectives of the audit were to evaluate the present internal controls 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 (N/L), for the period January to October 2009, were analysed on the basis of materiality of amounts and nature of expense. A random sample of eighty-six Payment Vouchers (PVs) was chosen, with a Confidence Level of 95% and a Confidence Interval of 9.81%.

The PV selected, representing 24.75% of the total amount of PV issued during the period under review, were tested against relevant Rules and Regulations, Period Contracts, related Circulars and individual Agreements and Departmental files. Payments were also traced to Local Purchase Orders (LPO), invoices and fiscal receipts. Checking was carried out to ensure that payments were properly allocated to the related expense Account (A/C) in DAS, were duly authorised and correctly computed.

The PV relating to visits sampled were checked to verify whether the subsistence allowance entitlement was in accordance with the duty rates issued by MFEI as per MFEI Circular No. 6/2009. Consideration was also given to the programme/agenda provided by the organising bodies, air ticket quotations and the statement of expenditure.

An exercise was also carried out on private telephone bills presented by officers for reimbursements, in order to ensure that bills from service providers were itemised and non-work related international calls were not reimbursed, as specified in Letter Circular MF No. 167/89/2.

¹ As per agreement reached between MFEI and the bakers' representatives.

Furthermore, testing focused on whether mobile and international calls were made from departmental barred telephone fixed lines, including freephones. Another exercise was carried out to examine that the established maximum expenditure of €815 per annum was not exceeded by officers who are entitled to the use of a mobile phone and reimbursements of calls thereof as stipulated in MF Circular No. 4/2002.

The monthly fuel consumption of the four fully-expensed cars in use at CCD was examined to ensure that the maximum non-cumulative fuel consumption was in compliance with MFC Circular No. 5/98. Testing on telephone facilities and fuel consumption involved the examination of an additional twenty-eight PVs.

The log books of two general use cars and three impressed vehicles were analysed to verify whether the log books were maintained according to the relevant provisions of the Public Service Management Code (PSMC).

The main inventory database was also analysed to ensure that it is in conformity with MF Circular No. 14/99. Inventory items from the sample chosen were checked physically and against their respective Room Inventory Lists.

During the period under review, 268 Multi-Payment transactions were generated from DAS, the majority of which were issued to bakers. A case study comprising twenty-three Multi-Payments (8.58%) were tested. Eight of these relating to bakers were examined against the related agreements, the subsidy rates and the number of bags per week each baker was entitled to.

Control Issues

Opportunities for improvement were identified in the following areas:

Unauthorised Extension of Contract

A Letter of Acceptance for the lease of three cars was issued for a period of ten months commencing 25 April 2007. Clause 4.1 of the contract stated that: *“The lease is for a period of one (1) year starting from the date of award of contract. The Consumer and Competition Division may at its discretion extend the contract for a period not exceeding three (3) months.”* The CCD terminated the contract towards the end of November 2008. Notwithstanding this, the Division continued to lease these cars even during December 2008, with the risk that in the eventuality of default by the supplier, terms and conditions underlying the provision of service would not be legally provided for.

Missing Details in the Contract

A contract for cleaning services, signed on 11 July 2007, stated that: *“This Contract shall be valid for the Contract Period as specified in Appendix A.”* However, the contract period was not stipulated in Appendix A. Since then, it has been renewed every year, currently reading up to 10 July 2010.

Missing Signatures of Authorised Officers certifying Receipt of Goods

Signatures of authorised officers certifying that items were received in good order and condition were missing either on the LPO or on the invoice of ten PVs, representing 11.63% of the eighty-six PVs selected for testing. This might lead to payments being effected for items not received or for damaged items.

Incorrect Computation/Charge on Invoices

Out of eighty-six transactions examined, seven invoices (8.14%) relating to two suppliers, were either incorrectly computed or the rates charged were not as specified in the contract. From further enquiry it resulted that the hourly rate for services quoted in the Contract was quoted as *exclusive of VAT*, whereas in the submitted Tender it was quoted *inclusive of VAT*. Subsequently, the contractor overcharged the CCD with the rate exclusive of VAT during 2007, while the proper rate as per tender document was applied during 2008 and 2009. Upon enquiry by NAO, an exercise was carried out by CCD on all the invoices paid to the service provider from August 2007 to August 2009, which was followed by adequate remedial action.

Mobile Calls made from Barred Fixed Telephone Lines

It resulted that mobile calls were made from supposedly barred fixed departmental telephone lines, including freephones, with the consequence of unauthorised use being made and subsequent extra costs being borne by the Division.

Compliance Issues

Local Purchase Orders dated after Invoice

Thirty-two LPO, representing 37.21% of the sample, were issued after the date of the invoice. Non-adherence may result in not having enough funds to pay for the actual expense.

Expenditure not Analysed under the Appropriate Account

Although the majority of transactions were correctly analysed under the appropriate Item, it was noted that nineteen (22.09%) were not posted under the appropriate A/C in the N/L. This will inevitably distort the comparative amounts of budgeted and actual expenditure as reported in the Financial Report of the Government of Malta.

Mobile Telephone Costs Incorrectly Reimbursed

During testing of mobile telephone bills of entitled officers, it resulted that two amounts representing ‘International Usage’ and ‘Usage Whilst Abroad’, were erroneously reimbursed to an officer. Mobile bills pertaining to another officer included ‘Outgoing Calls, GPRS and SMS while Roaming’ and ‘Incoming Calls while Roaming’ were also reimbursed from public funds. Since these bills were not itemised, it could not be verified whether these calls were work-related.

Log Books Improperly Maintained

The following shortcomings were noted during the testing of log books of three impressed vehicles:

- All log books in use are not maintained as specified in Appendix 8.I of the PSMC that is:
 - issues of Petrol are not recorded;
 - the duration of the journey is not recorded; and
 - the officer (other than the driver) making the journey is signing once for all the journeys made during the day or not signing at all.
- The mileage recorded at the end of the day does not reconcile with the mileage at the beginning of the following day, as the employee using the car makes personal use of it after working hours. Fuel consumed for personal journeys is therefore being borne out of public funds.
- The details of journeys and the purpose of journeys were illegible.

Following an examination of Log Books of two general use vehicles, it was noted that:

- issues of petrol were not recorded properly. No indication of the amount or value of petrol issued to a vehicle was given during the months of January, April and October 2009. For another vehicle, only the amount issued in Euro was recorded;

- the mileage noted on the log book of one vehicle was erroneously recorded for the period between 6 October and 9 October 2009, notwithstanding the fact that the vehicle was in between used for official trips;
- details and purpose of journeys were not always legible; and
- one log book was presented in loose sheets.

Both general use and impressed vehicles’ log books are not being certified at the end of each month as established in Section 8.2.5.1 of the PSMC.

Incomplete Inventory Database

The Inventory Database is properly maintained as per MF Circular No. 14/99. However, it was noted that the Serial/ Part number and the respective PV numbers of the assets purchased as part of the selected sample were not recorded in the Database.

Multi-Payments issued to an Arbiter attending Consumer Claims Tribunal

Two Multi-Payments out of the twenty-three selected for testing were issued to a VAT Registered Arbiter for attending Consumer Claims Tribunal sittings during the months of January, August and September 2009. The letter of appointment fails to specifically indicate whether the rate per sitting is exclusive or inclusive of VAT. These payments were neither generated through the PV System nor covered by a fiscal receipt.

Overpayment for Reimbursement of Expenses

A Multi-Payment amounting to €1,179 was issued in favour of an officer in the Pharmacist Grade for Continued Pharmacy Education. This payment exceeded the limit of *Lm500*² established in the Addendum to the Classification and Grading Agreement of the Pharmacist Class, as amended on 9 January 2003.

Recommendations

Control Issues

Unauthorised Extension of Contract

All services provided under tenders, contracts and agreements should be renewed immediately upon expiration, if such services are still required.

² Equivalent to €1,164.69.

Missing Details in the Contract

Before a contract/agreement is signed, it should be scrutinised so that all the necessary information and details are recorded, and the terms and conditions are the same as stipulated in the awarded tender document.

Missing Signatures of Authorised Officers certifying Receipt of Goods

The LPO or the supplier's invoice should always be duly filled in and signed by the officer receiving the goods.

Incorrect Computation/Charge on 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. More attention should be given when a contract/agreement is raised, ensuring that the rates quoted in the contracts/agreements agree with those quoted in the tenders/quotations.

Mobile Calls made from Barred Fixed Telephone Lines

To exercise better control over telephone expenditure, CCD is to check that those telephone lines that should be barred are in reality barred, thereby excluding the possibility of being used for unauthorised calls. A list of barred fixed lines should be forwarded to the respective telephone service providers and regularly checked.

Compliance Issues

Local Purchase Orders dated after Invoice

Whenever possible, the LPO should be prepared upon placing an order for goods or services required. This will ensure that proper authorisation for the purchase is obtained.

Expenditure not Analysed under the Appropriate Account

Expenditure is to be allocated to the proper account in order to ensure that the Division's accounts are fairly presented.

Mobile Telephone Costs Incorrectly Reimbursed

The CCD is to request the officer to refund the erroneously reimbursed mobile costs in compliance with MF Circular No. 4/2002. Roaming charges that are not made on official

business, should not be reimbursed, and should thereby be refunded by the officer.

Log Books Improperly Maintained

- Log books should be maintained as indicated in Appendix 8.I of Section 8.2.4.1 of the PSMC.
- Cost of fuel for kilometres covered after office hours should be refunded by the employee concerned.
- Log books should be certified in the form of Appendix 8.II of the PSMC at the end of each month as stipulated in Section 8.2.5.1 of PSMC.
- For audit trail purposes, the Fuel Requisition Note number should be recorded in the log books under column 'Issues for Petrol', besides the amount and value of petrol.
- Log books kept in loose sheets should be pre-numbered for control purposes.
- Details and purpose of journey should be written clearly.

Incomplete Inventory Database

The Serial/Part and the PV numbers of all purchased inventory items should ideally be recorded in the Inventory Database for better identification purposes.

Multi-Payments issued to an Arbiter attending Consumer Claims Tribunal

At the end of each calendar year, the CCD should submit to the Arbiter a declaration showing the total amount paid, a copy of which is to be forwarded to the Inland Revenue Division. Additionally, payments due to the Arbiter are to be generated through the PV system.

Overpayment for Reimbursement of Expenses

CCD is to recover the overpayment. Prior to issuing a payment, the submitted receipts/invoices should be checked to ensure that the sum as specified in the agreement is not exceeded.

Conclusion

This Office feels it pertinent to point out that no irregularities were encountered following testing on PV relating to official Travel, Multi-Payments covering Subsidies to Bakers and fuel consumption of fully-expensed vehicles.

Management Comments

Management concurred with most of the findings highlighted in the report and took action to implement the recommendations.

Additionally, CCD commented that:

- prior to the expiration of the contract for leased cars, an enquiry was made to the Financial Management Monitoring Unit on 20 November 2007 about the possibility of hiring three vehicles in view of the closing date of approval of contract term, or be allocated sufficient funds to purchase a vehicle.

Despite several reminders, the reply was only received on 15 October 2008, leading to the transfer of four vehicles to the Division during December 2008 and January 2009;

- telephone lines will be barred, except for the freephone number; and
- it was not possible to issue LPO prior to the receipt of the invoice, due to existing standing orders with certain service providers. NAO does not concur with this reply on the basis that the majority of cases reported did not consist of standing order payments.

Fully-Expensed Cars within the Public Service for the year 2008

Background

Government officials who are entitled to a Fully-Expensed Car (FEC), are listed in MFC Circular No. 5/98. Other officials, such as Consultants and Designate Officers, could also be entitled to a FEC as stipulated by their service agreement contract. The purchase and use of these FEC is regulated by several Ministerial Circulars. *A list of these Circulars is found in Table 1.*

These Circulars regulate mainly the Retail Price (RP) of the car, the fuel allowance and Engine Capacity (ENC) limits, according to the status of the respective officer's grade. Circulars were also issued to regulate the purchasing procedure in relation to cars purchased by retiring officers. The Fringe Benefits (FB) emanating from the use of FEC are also regulated by Subsidiary Legislation 123.55 - Fringe Benefits Rules.

Audit Scope and Methodology

The scope of the assignment includes all the FEC, across the Public Service, that were in use during 2008. The objectives of this assignment were to obtain a general overview of the extent of compliance with existing rules and regulations governing FEC. The main objectives focused on the robustness of controls in ensuring that:

- the regulations governing the management of FEC are being observed;
- controls are in place with respect to the purchase of FEC by retiring Government employees; and

- FB arising thereof are correctly calculated as per FB Rules, as explained by the Fringe Benefit Tax Guide issued by the Inland Revenue Division (IRD).

The output of this study is aimed to assist both top management across all Ministries/Departments (M/D) and the Financial Policy and Management Division within the Ministry of Finance, the Economy and Investment (MFEI) to strengthen the existing internal controls where necessary, in order to improve the management and control of the FEC fleet.

To meet the scope of the assignment, a Questionnaire was submitted to Directors (Corporate Services) of all Ministries for onward transmission to their respective Departments (Respondents¹). The Questionnaire was based on Directives and provisions contained in the relative Circulars regulating FEC.

The structure of the Questionnaire was as follows:

1. General Information on FEC in use within the M/D.
2. Purchase and Disposal of FEC during the year 2008.
3. Purchase of FEC by retiring officers during the year 2008.
4. Tax on FB on the use of FEC.
5. Leasing of FEC.

Apart from analysing replies submitted, information forwarded by respondents was verified against data in the Fleet Management System (FMS) in use by M/D, where deemed necessary.

Out of these thirty-five respondents, covering the nine Ministries and their respective Departments, twenty-four filled-in questionnaires (68.6%) were submitted within the

¹ Respondents refer to the thirty-five M/D that submitted the completed Questionnaire.

stipulated deadline, this being 17 June 2009. The remaining eleven (31.4%) were submitted after the requested deadline, with one Ministry submitting the questionnaire fifty-four days late. *For an analysis of the circulated Questionnaires and Replies refer to Table 2.*

Introduction

Profile of Officers entitled to a Fully-Expensed Car

According to respondents, during 2008 there were 205 officers entitled to a FEC. These consist of the Principal Permanent Secretary, ten Permanent Secretaries, thirty-two Directors General, 126 Directors, fourteen Designate Officers, two retired officers still offering service to Government and twenty other Officers and Consultants.² *A percentage breakdown of these officers is illustrated in Chart 1.1.*

Description of the Fully-Expensed Cars Fleet

The 205 FEC fleet is made up of 143 cars equipped with a petrol engine, twenty-six with a diesel engine and six cars that run also on biodiesel. The engine fuel type was not stated for the remaining thirty cars, representing 14.6% of the fleet. *The composition of the cars' engine type in percentage points is portrayed in Chart 1.2.*

The ENC of these cars ranges from 796cc to 2000cc. One FEC had an ENC of less than 800cc, while ninety-two had an ENC ranging from 1201cc to 1400cc. Within this same range, the ENC of seventy-two FEC was between 1350cc and 1400cc. The second largest number of cars falls in the range of 1401cc to 1600cc, with sixty-three cars. The ENC was not stated for nineteen cars out of 205 FEC (9.3%). *Chart 1.3 relates.*

General Controls on Fully-Expensed Cars

MFC Circular No. 5/98 was issued by the then Ministry of Finance and Commerce to regulate the procurement and use of FEC. This Circular provides clear specification limits, such as the maximum RP and the maximum ENC for each car, depending on the officer's designation as follows:

<i>Category</i>	<i>Max Retail Price</i>	<i>Max Engine Capacity (cc)</i>
Permanent Secretary OPM	€29,117	1800
Permanent Secretaries	€23,294	1800
Director General	€19,800	1600
Director	€16,306	1600

The Circular stipulates that the “*above prices are notional being inclusive of all taxes/duties*” and “*shall include the cost of any accessories whether standard or optional.*” The Circular also provides that proper accounting records must be kept to clearly distinguish between maintenance costs and repair costs.

Officers entitled to a FEC are also subject to a stipulated maximum fuel consumption of either 175 or 150 litres per month according to the relative officer's designation. The allowance is on a non-cumulative basis, such that fuel litres not used up in a particular month cannot be carried forward to the following month.

Missing Information on the Purchase Price, Retail Price and Engine Capacity of Fully-Expensed Cars

Nineteen out of the thirty-five respondents (54.3%) failed to provide essential information on FEC regarding the Purchase Price (PP), RP and ENC. This corresponds to fifty-eight cars out of 205 (28.3%) lacking information on the RP. The PP of thirty-four cars (16.6% of FEC fleet) was also not provided. Respondents also failed to submit the ENC of nineteen cars out of 205, representing 9.3%.

Consequently, it was not possible to ascertain whether the relative cars were purchased and/or leased in accordance with MFC Circular No. 5/98. This lack of information may weaken the internal control system and jeopardise management's control over this type of expenditure. As a consequence, this might give rise to purchasing limits being exceeded. *Table 3 shows the number of cars that lacked this information, categorised by Ministry.*

Maximum Retail Price and/or Engine Capacity of Fully-Expensed Cars exceeding Limit

From information forwarded by respondents, the RP of ten FEC exceeded the allowed limit as per MFC Circular No. 5/98. This represented 6.8% out of 147 cars, the RP of which was given by respondents. The excess amount ranged from €53 to €15,793 with three cars exceeding the limit by an amount not exceeding €1,000 and another three

² Replies submitted did not indicate whether these Consultants are providing services on a full or part-time basis.

cars by an amount between €1,001 to €5,000. The limit was exceeded by an amount between €5,001 and €10,000 in three other cases, while one car exceeded the limit by over €10,000.

In seven cases (3.8% of 186 FEC with ENC provided), the ENC of FEC exceeded that allowed, in breach of MFC Circular No. 5/98.

From a total of nine Ministries, seven had one or more FEC that exceeded the RP limit, while four had one or more cars that exceeded the ENC limit. This situation could lead to excessive increases in capital and recurrent expenditure, the latter due to higher motor running costs. *Table 4 portrays the stated shortfalls by Ministry.*

Allowable Fuel Limits exceeded

The fuel allowance limit as stipulated in MFC Circular No. 5/98 was exceeded in twenty cases, representing 9.8% out of 205 FEC. Of these, eleven FEC exceeded the fuel limit once during the year under review, while the remaining nine FEC exceeded the limit on more than one occasion.

It resulted that internal approval to exceed the allowable fuel limit was only sought and obtained in four instances out of these twenty FEC identified. Non-compliance with the relative Circular may lead to an eventual unauthorised increase in fuel consumption expenditure over that allowed. *The number of FEC by Ministry, that exceeded the fuel limit in 2008, together with the number of times such limit was exceeded, is shown in Table 5, including those Ministries that obtained approval for exceeding the fuel limits.*

Repairs and Maintenance Accounting Records improperly maintained

According to respondents, during 2008 a total of €101,428 was incurred on repairs and maintenance costs.

Twenty-five (71.4%) respondents replied that separate records are adequately kept. Eight respondents (22.9%) stated that no distinction is made between repairs and maintenance in their records, while one respondent did not provide any comments. Another respondent replied that separate records are not always kept.

From those who responded in the affirmative in relation to distinct record keeping, only six replied that this is done through the FMS. Ten respondents answered that a manual register is being kept.

Four out of the eight respondents who stated that repairs and maintenance costs are not recorded separately commented that the Departmental Accounting System (DAS) does not

include separate accounts that distinguish between repairs and maintenance costs. However, details of the relevant costs are noted on the respective Payment Vouchers.

Improper accounting records would distort the monitoring process of the cars' performance, which might impinge negatively on the cars' cost effectiveness. This shortfall could impair management's decision on the best time to replace the car.

Purchase of Fully-Expensed Cars by Retiring Officers

Retiring officers entitled to a FEC have the option to purchase the car on their retirement. The PP is set according to MFC Circular No. 15/97. Six respondents declared that a total of eight cars were sold to retiring officers during 2008.

Insufficient Information provided on Fully-Expensed Cars sold to Retiring Officers

Respondents failed to disclose the RP and PP of seven cars out of a total of eight FEC purchased by retiring officers. As a result, the calculation of the selling price paid by the retiring officers could not be verified by the National Audit Office (NAO). Only one respondent did not provide information regarding whether Ministerial approval was sought for the sale of the FEC, including the selling price of the car in question. The lack of an adequate audit trail may give rise to an erroneous selling price calculation by MFEI which thereafter cannot be double checked by the M/D concerned on behalf of the retiring officer.

While the majority of respondents claimed that they informed the Malta Transport Authority (ADT) and Customs Division regarding amounts due to them, they could not state whether such amounts were in fact settled by the retiring officer, which may in turn lead to payment delays by these officers.

Taxable Fringe Benefits

For tax purposes, FEC are considered as payments in kind, such that the beneficiary is taxed for this benefit. Tax on FB should be withheld at source in accordance with the provisions of the Final Settlement System Rules.

Taxable FB are regulated by Subsidiary Legislation 123.55: Fringe Benefits Rules issued on 1 January 2001. A Fringe Benefits Tax Guide was subsequently issued to assist providers of FB to value the benefits given to employees, associated holders or office holders. MF Circular No. 10/2000 - "Taxation of Fringe Benefits Receivable by Public Officers", clearly states that: "...as a general rule,

public officers who are provided with a car at Government expense and who make use of this car outside normal working hours, will be subject to the payment of income tax on this fringe benefit.”

A Ministry of Finance directive to the Public Service, MF Circular No. 3/2006 was subsequently issued to strengthen Government’s compliance with the FB regime.

Taxable Fringe Benefits Control Shortfalls

The following shortfalls emerged from information provided by respondents:

- Even though the majority of respondents replied that all officers entitled to a FEC are being taxed as per FB rules, twenty respondents (57.1%) did not provide sufficient information enabling NAO to verify whether such rules were being adhered to. Consequently the FB of seventy-six FEC out of the total cars liable for FB tax (37.3%) could not be verified due to undisclosed or conflicting information. Two respondents confirmed that FB tax was not always being deducted in accordance with FB rules and will be taking the necessary corrective action regarding four FEC.
- The taxable FB based on the “Car Value” of sixteen FEC was erroneously calculated on the PP instead of on the RP as specified by the FB rules. This represents 12.5% of 128 FEC backed-up by FB information from respondents.
- In another four cases, the “Car Value” as declared by three respondents was less than the PP of these four FEC, leading to a lower FB calculation.
- The taxable FB of twenty-three FEC representing 18% of those FEC that could be verified by this Office (totaling 128) was incorrectly calculated by ten respondents. While nineteen officers had their taxable FB erroneously calculated in their favour, the taxable FB of the remaining four FEC was inflated.

The above shortcomings increase the risk of M/D and the officers enjoying the use of a FEC, to be in breach of taxable FB Regulations. *The above shortfalls are shown in Table 6, classified by Ministry.*

Leased Cars

Officers entitled to a FEC may be benefiting of a leased car depending on the M/D’s option to lease the car instead of purchasing it. The same conditions applicable to purchased FEC apply. Car leasing is regulated by FMMU/Veh/C2/05

and MF Circular No. 4/2005. The latter states that: *“It is also necessary that appropriate justification is provided in determining the type of acquisition being proposed (e.g. differentiating between outright purchase and lease), clearly indicating the financial and other benefits to Government resulting from the recommended option.”*

As for purchased FEC, appropriate Ministerial approval must be sought before M/D obtain the use of any car through leasing.

Lack of Approval for the Leasing of Cars

From a total of seventeen leased FEC, only four were covered with the relative approval of the Financial Policy Development and Analysis (FPDA) or from the former Financial Management Monitoring Unit (FMMU). Respondents failed to provide the FMMU or FPDA approval reference number for the remaining thirteen cars, although three respondents (with eight leased FEC) provided reasons why such approval was not sought. This practice may hamper Government’s initiative to control this type of expenditure. *Table 7 shows the number of FEC leased by Ministry, together with those Ministries who failed to provide NAO with the relative FMMU/FPDA approval.*

Recommendations

Missing Information on the Purchase Price, Retail Price and Engine Capacity of Fully-Expensed Cars

Adequate control systems should be implemented to ensure that the RP, PP, ENC, engine fuel type and designation of officer, for all newly purchased FEC, are properly recorded. This measure would reduce the risks associated with non-compliance to existing Regulations.

Maximum Retail Price and/or Engine Capacity of Fully-Expensed Cars exceeding Limit

Proper measures should be put in place to control the purchasing process of FEC. The officer-in-charge has to ensure that the necessary documents are provided, before approving the purchase of a new car. The documents should consist of a price quote *“inclusive of all taxes”*, while clearly indicating the price quote *“exclusive of all taxes”*, together with other car specifications indicating the ENC and engine fuel type. This should prevent the financial and ENC limits from being exceeded.

Allowable Fuel Limits exceeded

M/D must ensure that the fuel allowance as stipulated in MFC Circular No. 5/98 is not exceeded, unless specifically covered by appropriate approval.

Repairs and Maintenance Accounting Records improperly maintained

All M/D should strive to comply with MFC Circular No. 5/98 by implementing the necessary controls so that maintenance and repair costs are separately accounted for. M/D must ensure it clearly distinguishes between repairs and maintenance costs when inputting data into both DAS and FMS.

Insufficient Information provided on Fully-Expensed Cars sold to Retiring Officers

Proper controls are to be implemented to ensure that records on the RP and PP of FEC are adequately maintained, leading to a correct calculation of the selling price of FEC cars being sold to retiring officers.

In order to reduce the risk of any payment delays of Registration Tax and/or duty due to ADT and Customs Division, it is recommended that these amounts are collected by the M/D selling the car and subsequently forward such dues to the respective entities.

Taxable Fringe Benefits Control Shortfalls

Each M/D should implement the necessary controls to maintain proper record keeping with details of all FEC and the officers entitled thereto. The records should clearly state the RP, ENC and year of purchase of each FEC. Through proper record keeping, M/D would be in a better position to correctly compute the taxable FB of all FEC according to the FB Regulations.

Where missing or conflicting information exists, the M/D should strive to retrieve the most reliable data in order to base the taxable FB on correct information.

Lack of Approval for the Leasing of Cars

Officers-in-charge within every M/D must ensure that adequate authorisation from FPDA is sought prior to entering into lease agreements of FEC. Every M/D should seek the appropriate approval of FPDA for those FEC that are presently on lease before renewing the lease contract.

Management Comments

Prior to receiving the management comments, an exit

meeting was carried out between NAO officials and Finance Ministry officials to discuss the main findings of the report. Numerous courses of action were proposed by Management, such as:

- requesting M/D to furnish a scanned copy of the purchasing invoice of all newly purchased FEC;
- updating FMS to provide improved back-end reports and carrying out random verifications;
- adoption of a sanctioning policy, whereby failure by any M/D to correct a weakness may instigate the withholding of fuel entitlement;
- verifying that the transfer of ownership from M/D to retiring officers who purchased their FEC was done appropriately;
- querying M/D to obtain proper justifications before renting and/or leasing of FEC; and
- FPDA committed itself to investigate whether a person entitled to and benefiting from the use of a FEC is using a leased or hired car simultaneously.

In its comments, Management accepted the findings outlined by NAO and is committed to address the shortcomings mentioned in the report. The Ministry has already taken corrective action on a number of issues and will attend to other weaknesses in the near future.

According to Management, the FMS was still being implemented across a number of M/D during 2008. It is expected that the implementation of FMS would address many of the shortcomings contained in the report. In fact, the implementation programme proceeded according to plan, with plans to introduce FMS to the remaining M/D by 2011. The Ministry provided NAO with a list of all M/D who had implemented the use of FMS by the end of the year under review.

In addition, Management also forwarded the following comments in respect of specific findings.

Missing Information on the Purchase Price, Retail Price and Engine Capacity - Maximum Retail Price and/or Engine Capacity exceeding Limit

The possibility exists for FMS to be enhanced to deny fuel to those vehicles that lack essential information. Management is considering to commence analysing the details of all newly approved vehicles by making the necessary verifications to ascertain the correctness of details inserted in the FMS. The Ministry will be exercising

more control on RP, PP and ENC when approving a new vehicle. Following Management's request, NAO provided the Ministry with a list of those FEC which lacked the above information for any Ministerial follow-up action.

Allowable Fuel Limits exceeded

Management stated that FMS does not allow limits to be exceeded, although in exceptional instances, a case may be made to MFEI to specifically authorise a further amount of fuel.

Repairs and Maintenance Accounting Records improperly maintained

The Ministry will be considering making the inputting of maintenance costs, including Service and Vehicle Roadworthiness Test on each vehicle, to be mandatory. Lack of compliance could lead to fuel issues being withheld. On the other hand, the inputting of information regarding repairs cannot be made mandatory since a FEC might not undergo repairs in any one given year. However, verifications will start being carried out to check whether repairs and maintenance costs are being accounted for appropriately in the Expenses and Repairs section of the FMS.

Purchases of Fully-Expensed Cars by Retiring Officers

During 2009, the Ministry issued MFEI Circular No. 8/2009 which addressed some issues that were prevalent in 2008. With the introduction of the new system, no amounts

will fall due to Customs anymore, while the retiring officer has to settle the residual Registration Tax directly with ADT. Management may, in the future, input these details in the FMS after calculations are made to determine the depreciated cost of the vehicle. The risk, associated with an erroneous price calculation for the retiring officer, has been minimised since the new system takes into consideration the PP only and not the RP. The retiring officer is then requested to pay the calculated amount to the related M/D and to make the necessary arrangements with ADT to settle the residual Registration Tax. Calculations for depreciation are carried out by applying the reducing balance method on the PP of FEC.

Taxable Fringe Benefits Control Shortfalls

The Ministry will explore the possibility of issuing a new Circular highlighting the deficiencies outlined in this report with the aim of having more accurate calculations. Accounting Officers could also be provided further training by IRD regarding the correct procedures.

Lack of Approval for the Leasing of Cars

Recent developments in FMS are intended to maintain stricter controls on the leasing and long-term hiring of vehicles. Leasing and hiring agreements are being studied more thoroughly, and will be monitored through FMS. Lack of approval for these vehicles will trigger a mechanism whereby no fuel may be procured through the system. There exists a possibility that FMS is further modified to allow the Ministry to exercise greater control over the approval of a leased or long-term hired vehicle.

Chart 1.1 – Designation of Officers entitled to a Fully-Expensed Car

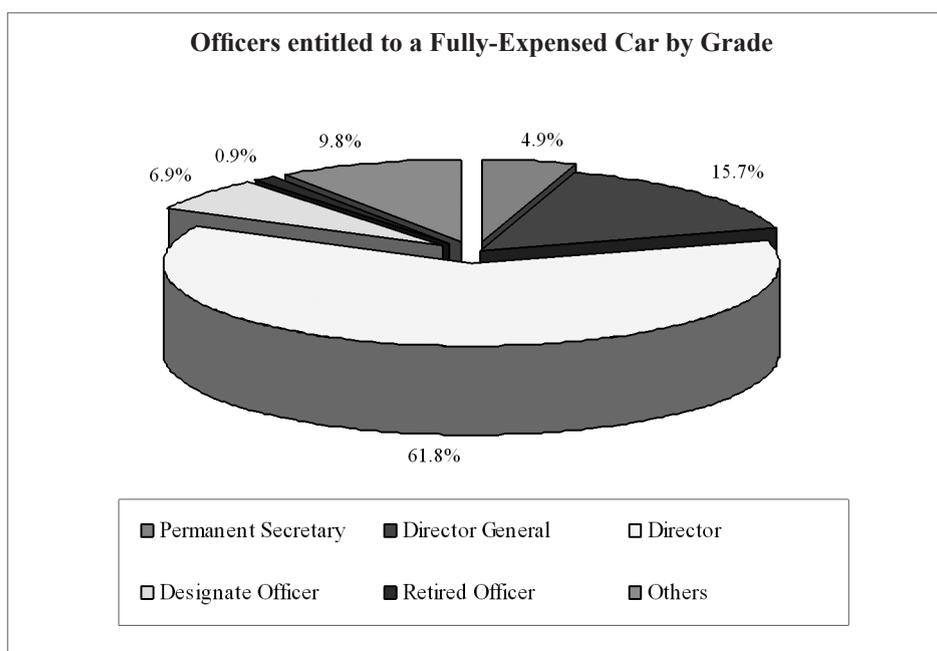


Chart 1.2 – Cars’ Fuel Engine Type

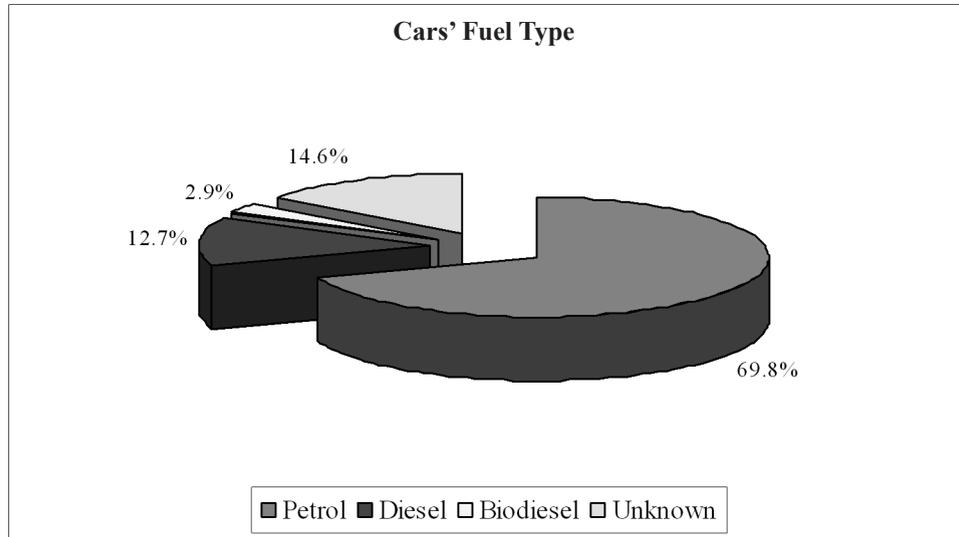


Chart 1.3 – Engine Capacity of Fully-Expensed Cars

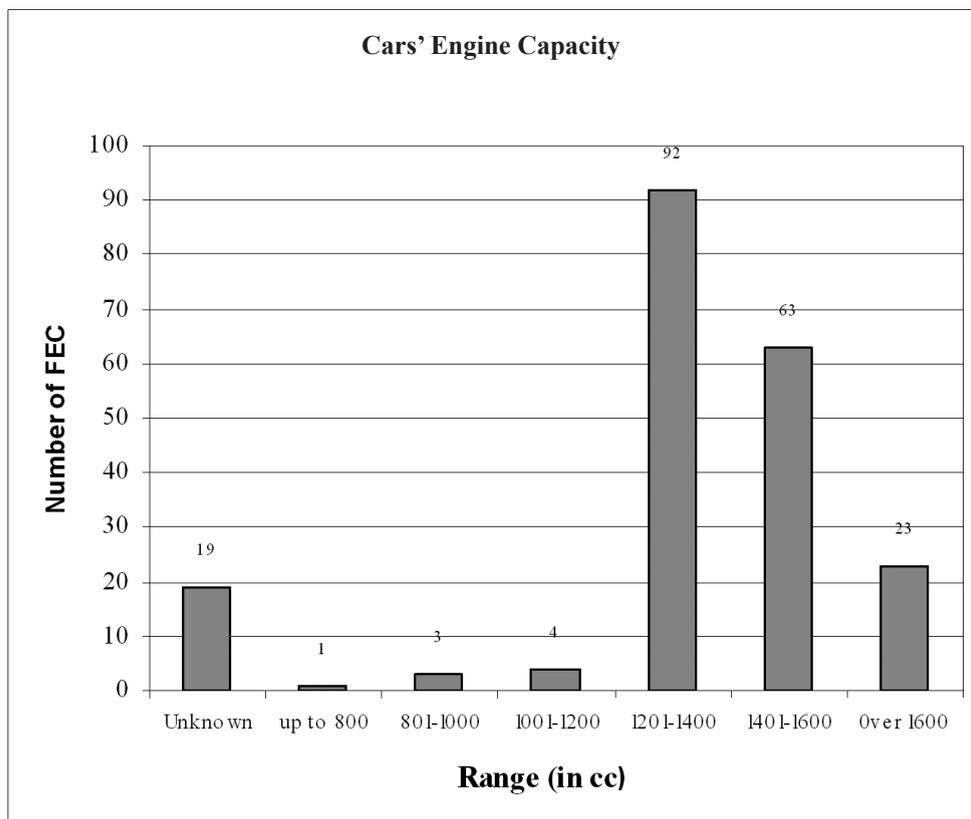


Table 1 – List of Circulars and Regulations governing Fully-Expensed Cars

Circular/Regulation Number	Date Issued	Title
MFC 15/97	19/11/1997	Retired Government Officials
MFC 5/98	18/03/1998	Purchase and Use of Official Cars
MF 346/97/3	05/09/2001	Purchase and Use of Official Cars
MF 10/2000	27/12/2000	Taxation of Fringe Benefits Receivable by Public Officers
Subsidiary Legislation 123.55*	01/01/2001	Fringe Benefits Rules
FMMU/Veh/C2/05	25/02/2005	Purchase/Leasing of Cars
MF 4/2005	19/12/2005	Purchase/Lease of Motor Vehicles
MF 3/2006	08/06/2006	Tax on Fringe Benefits on the Use of Government Cars

*A document entitled “*Fringe Benefits - A Tax Guide for the Valuation of payments in kind*”, explaining the Tax Law relating to Fringe Benefits, their valuation and related obligations.

Table 2 – Questionnaire Circulation and Replies

Ministry	Department	Reply received on	Received on Time	Received Late
Office of the Prime Minister	Electoral Office	17/06/09	✓	
	Government Printing Press	17/06/09	✓	
	Department of Information	17/06/09	✓	
	Department for Local Government	17/06/09	✓	
	Public Service Commission	17/06/09	✓	
	Corporate Services	17/06/09	✓	
Ministry of Foreign Affairs	All Departments	19/06/09		✓
Ministry for Gozo	Department of Customer Services	19/06/09		✓
	Gozo Courts & Tribunals	19/06/09		✓
	Department of Corporate Services	19/06/09		✓
	Department of Projects & Developments	19/06/09		✓
Ministry of Infrastructure, Transport & Communications	All Departments	17/06/09	✓	
Ministry for Resources & Rural Affairs	All Departments	10/08/09		✓
Ministry of Education, Culture, Youth & Sport	Permanent Secretary Office	12/06/09	✓	
	Department of Libraries	12/06/09	✓	
	Treasury Division	12/06/09	✓	
Ministry for Social Policy	Health & Elderly	22/06/09		✓
	Social Affairs	15/06/09	✓	
Ministry of Finance, the Economy & Investment	Permanent Secretary Office	15/06/09	✓	
	Treasury Division	15/06/09	✓	
	Department of Contracts	15/06/09	✓	
	Inland Revenue Division	15/06/09	✓	
	Commerce Division	15/06/09	✓	
	VAT Division	15/06/09	✓	
	Consumer & Competition Division	15/06/09	✓	
	Notary to Government	15/06/09	✓	
	Economic Policy Division	15/06/09	✓	
	Customs Division	15/06/09	✓	
	Government Property Division	15/06/09	✓	
Ministry for Justice & Home Affairs	Civil Protection	11/06/09	✓	
	Malta Security Service	11/06/09	✓	
	Corradino Correctional Facility	23/06/09		✓
	PS, DCS, Airport Security, Commissioner for Refugees	23/06/09		✓
	Courts of Justice Division	23/06/09		✓
	Detention Service	23/06/09		✓

Table 3 – Number of Cars by Ministry³, where the Retail Price, Purchase Price and Engine Capacity was not submitted

Ministry	Retail Price not submitted	Purchase Price not submitted	Engine Capacity not submitted
Office of the Prime Minister	6	1	5
Ministry of Foreign Affairs	3	2	2
Ministry for Gozo	3	-	1
Ministry for Resources & Rural Affairs	14	12	3
Ministry for Social Policy	9	7	3
Ministry of Finance, the Economy & Investment	14	4	3
Ministry for Justice & Home Affairs	9	8 ⁴	2
Total	58	34	19

Table 4 – Number of Fully-Expensed Cars where Retail Price and Engine Capacity was exceeded, by Ministry

Ministry	Number of cases where Retail Price limit was exceeded					Engine Capacity limit exceeded
	Total	<€1,000	>€1,001 till €5,000	>€5,001 till €10,000	>€10,001	
Office of the Prime Minister	3	1	1	1	-	3
Ministry of Foreign Affairs	2	1	1	-	-	-
Ministry for Gozo	1	-	-	-	1	-
Ministry for Infrastructure, Transport & Communications	1	-	1	-	-	-
Ministry for Resources & Rural Affairs	1	1	-	-	-	1
Ministry for Social Policy	1	-	-	1	-	1
Ministry for Justice & Home Affairs	1	-	-	1	-	2
Total	10	3	3	3	1	7

Table 5 – Fully-Expensed Cars exceeding Fuel Limit by Ministry

Ministry	Exceeding Fuel Limit once	Exceeding Fuel Limit more than once	Authority Approval sought
Office of the Prime Minister	1	1	2
Ministry of Foreign Affairs	2	-	-
Ministry for Gozo	-	1	1
Ministry for Resources & Rural Affairs	1	3	-
Ministry for Social Policy	1	2	-
Ministry of Finance, the Economy & Investment	4	2	1
Ministry for Justice & Home Affairs	2	-	-
Total	11	9	4

³ In this context Ministry includes also the respective Departments falling under that Ministry. The same applies for Tables 4 to 7.

⁴ One vehicle was transferred to NAO with effect from November 2008.

Table 6 – Taxable Fringe Benefit Deficiencies

Ministry	Unverifiable Taxable Fringe Benefit	Car value based on Purchase Price	Stated Car Value less than Purchase Price	Incorrect calculation of Taxable Fringe Benefit
<i>Note</i>	<i>a</i>	<i>b</i>	<i>c</i>	<i>d</i>
Office of the Prime Minister	6	-	-	2
Ministry of Foreign Affairs	3	-	-	10
Ministry for Gozo	5	2	-	-
Ministry of Infrastructure, Transport & Communications	2	3	1	2
Ministry for Resources & Rural Affairs	24	-	-	-
Ministry of Education, Culture, Youth & Sport	7	5	2	1
Ministry for Social Policy	2	3	-	2
Ministry of Finance, the Economy & Investment	17	1	-	4
Ministry for Justice & Home Affairs	10	2	1	2
Total	76	16	4	23

- a. Taxable Fringe Benefit could not be verified due to undisclosed/conflicting information in the respondent's reply to the Questionnaire.
- b. Taxable Fringe Benefit calculated on the Purchase Price instead of the Retail Price.
- c. Car Value in calculating the Taxable Fringe Benefit was quoted as less than the Purchase Price.
- d. Number of cars whose Taxable Fringe Benefit was incorrectly calculated.

Table 7 – Number of Leased Fully-Expensed Cars by Ministry, including number of cars lacking Approval details in Questionnaire

Ministry	Number of leased cars	Number of cars where Ministry failed to provide approval information
Office of the Prime Minister	4	1
Ministry of Foreign Affairs	1	1
Ministry for Gozo	1	1
Ministry for Infrastructure, Transport & Communications	1	-
Ministry for Resources & Rural Affairs	3	3
Ministry for Social Policy	6	6
Ministry for Justice & Home Affairs	1	1
Total	17	13

**Ministry for Justice and Home
Affairs**

Correctional Services Personal Emoluments

Background

The audit covered the Personal Emoluments of the Correctional Services during the year ended 31 December 2009. Budgeted and Actual Expenditure under Vote 44, in this regard, amounted to €6,043,000 and €5,868,320 respectively.

Audit Scope and Methodology

The objectives of the audit were to ensure that the overall procedures adopted for salary payments, time keeping and overtime are adequate, as well as to evaluate the internal control system.

An overview of the procedures and controls in place was obtained by means of meetings with officials from Corradino Correctional Facility (CCF). The following tests were performed:

- Ten Correctional Officers (COs) were randomly selected and, for a period of one week, identified and inquired on any differences between the hours of overtime scheduled and actual hours of overtime recorded.
- For the same sample as above, for a period of one month, identified and inquired on any differences between overtime hours recorded and actual hours as per punch clock details.
- Overtime and shift allowances of each CO (as tested above) were re-computed and compared to the Form 7 for the months of March, April, June, September and December 2009.
- COs with irregular clocking records during November 2009 were selected. Days of irregular clocking were listed, from which days of rest or leave were identified by NAO. The remaining days resulted in being the days when COs were on duty but did not clock or clocked irregularly, which days were extracted as a percentage of the total days COs were on duty. Officers with a percentage of no clocking or irregular clocking above 50% were chosen for testing for the months of October and December 2009.
- Through inquiry, NAO identified Civilian Officers with an obligation to use punch clock. For a sample of three months, the Office identified differences between actual hours worked (as per available punch clock details) to actual shift hours and overtime recorded. From these findings, NAO calculated the number of days with no clocking records, total overpayment of overtime and the total amount of hours Officers worked less than their official shift requirements.
- A Cost Benefit Analysis based on 2009 was carried out.

Key Issues

Limitations Encountered During Audit

a) Limitation of Scope

- A lack of audit trail was noted with regards to Civilian Officers' punch clock system (Sesam Ver. 7.0), as it only generates back up to 365 days from date of request. Thus, since our requests

were made on 1 and 21 April 2010, information made available of relevance to the year under review was only available from 1 April and 21 April to December 2009 respectively.

- Detail of Duties for 21 September 2009 could not be traced. NAO could not conclude whether the correct number of vice¹ hours were recorded for a CO.

b) Unofficial Records

There is lack of control over official records as it was observed that the official Vacation Leave (VL) and Sick Leave (SL) records of two Civilian Officers are kept by the Officers themselves rather than by the Salaries Section.

c) Incomplete Information

An inaccurate and incomplete List of CCF’s Civilian Officers as at 2009 was provided. The List is continuously updated and was provided as at date of audit, thus not including any changes of employment and termination of Officers during 2009 and 2010.

Current Overtime Payments against Recruitment of Additional Correctional Officers

A Cost Benefit Analysis was carried out to evaluate whether it is more cost convenient to pay overtime to the current active workforce of COs (monthly average of 177 during 2009) as compared to employing new COs. The below analyses summarise the results:

Analysis A shows the need to recruit seventy-four new COs at a cost of €1,403,794.80. Therefore resulting in total annual savings of €24,883.94 over the overtime cost incurred by CCF during 2009.

Analysis B resulted in the need to recruit seventy-five new COs who would work an annual aggregate of 148,170 hours. Thus, an additional annual 1,252.50 hours will be available over and above the overtime hours worked during 2009.

Whilst appreciating the particular circumstances prevailing within a correctional facility environment, there is the risk that CCF is not being cost efficient in maintaining the current work force of COs rather than recruiting new COs which would result in a saving of Government funds and additional hours available.

Analysis A

Overtime hours in 2009 ²	Overtime cost in 2009 ³	Average hours for each new CO ⁴	New COs needed	Average cost of each CO per annum ⁵	Average total cost of new COs	Savings
A	B	C	A/C=D	E	DxE=F	B-F
Hrs	€	Hrs		€	€	€
146,917.50	1,428,678.74	1,975.60	74	18,970.20	1,403,794.80	24,883.94

Analysis B

Overtime hours in 2009 ²	Overtime cost in 2009 ³	Average cost of each CO per annum ⁵	New employees employed at same cost	Average hours for each new CO ⁴	Average total hours of new COs	Surplus Hours
A	B	C	B/C=D	E	DxE=F	F-A
Hrs	€	€		Hrs	Hrs	Hrs
146,917.50	1,428,678.74	18,970.20	75	1,975.60	148,170,00	1,252.50

¹ Vices are leave hours which would not have been planned ahead by COs, but booked on the same day in view of urgent personal matters.

² Overtime hours summed up from monthly overtime Reports for 2009, provided by CCF Detail Office.

³ Overtime cost summed up from monthly Pay Slip Report for 2009, forwarded by CCF Salaries Section.

⁴ Average CO hours per annum have been based on a number of assumptions.

⁵ Average CO cost per annum have been based on a number of assumptions.

Additionally, the current situation is not beneficial to the current COs' wellbeing as the majority of COs work for long hours day after day, in various occasions with no rest days in between.

Lack of Segregation of Duties

Whereas basic salaries of officers are calculated and paid automatically by Treasury, the calculation of overtime and allowances is administered solely by one Executive Officer at CCF, being the 'key person' on this process. No double checking or authorisation of this Officer's work prior to the transfer of details to Treasury for eventual payment is made. Furthermore, in the eventuality that the Officer was to be absent from work for a period of time, there is no other officer with adequate competence to work on such a key process.

Shortcomings of Current Procedures

It has been noted that current procedures in place at CCF for:

- planning the daily shifts (duty, rest, overtime and leave) of COs in the Detail of Duties;
- planning and recording VL and SL in the leave book;
- recording of vices (leave) availed of by the COs in spreadsheets;
- inputting the hours of overtime worked in a Report which is used by the Salaries Section for payment; and
- checking overtime hours worked as per punch clock reports to overtime hours planned

are all based on manual inputting and calculations, with no link between the above mentioned inter-dependent sources. This increases considerably the risk of human error since there is no double checking by a second officer.

Current Deduction of Leave Not Officially Regulated

When COs working on a day-in day-out shift, book VL or report as sick on their duty day, the following rest day is also booked as VL or SL by the Detail Office. In view of the shortage of staff at CCF, COs must work overtime on most of their rest days, in which circumstances the VL or SL booked for the rest day is not cancelled by the Detail Office but is instead still deducted from the leave balances⁶ whilst COs are paid for the overtime hours worked. NAO was notified that this practice is done to reduce VL balances to be carried forward to the following year, since rarely

is VL approved to COs in view of the overtime necessity generated by the shortage of staff. There is the risk that COs' leave is not being deducted coherently, as a day-in day-out duty shift amounts to fourteen hours whereby two days of leave make up sixteen hours.

Control Issues

Opportunities for improvement were identified in the following areas:

Limitations and Deficiencies Noted Regarding the Use of Punch Clock

a) Lack of Control over Clocking

Clocking at CCF is done through a punch clock, situated near the Control Room. Each officer is identified through a key with a personal clocking code. It has been observed that COs do not always clock in and out at commencement and termination of their shifts, and at times COs do not clock in or out at all.

There are five different shifts worked by COs at CCF. This means that COs walk in and out of CCF at different instances during the day, thus making it more difficult for the officers in the Control Room to keep track of those COs who do not respect their shift hours.

b) Allowed Flexibility in Time In and Time Out

Through testing of clocking hours, it was noted that several times COs work less than the full hours of their assigned shift. NAO was informed that COs are allowed to clock in six minutes late after commencement and clock out six minutes earlier before termination of their shift, as well as another fifteen to twenty minutes earlier at termination of shift. NAO was informed that the latter practice has been adopted by CCF since many years back.

c) Unavailability of Punch Clock at Sections outside Corradino Correctional Facility

COs who are located at Sections outside CCF do not clock in or out since there is no punch clock at these locations.

⁶ COs are annually entitled to forty-six days of Vacation Leave, thirty days of full pay Sick Leave and another thirty days Sick Leave on half pay.

d) **Same Clocking Code Assigned to Two Officers**

A Civilian Officer employed at CCF on 11 May 2009, was assigned the same clocking code as an Assistant Senior Correctional Officer (ASCO) who retired on 18 August 2009. Whereas no issues were noted within COs' clocking records, Civilian Officers clocking records for 2009 showed clocking details for:

- the ASCO for the period before 11 May 2009 (shown under the Civilian Officer's name);
- both Officers for the period 11 May to 18 August 2009 (both records shown under Civilian Officer's name, with the Civilian Officer's being marked as damaged); and
- the Civilian Officer from 18 August onwards (rightly shown under his name).

The current system is not adequately controlled and personalised as COs can easily clock in for other fellow Officers. There is also the risk associated with assigning the same clocking code to different COs.

Inconsistencies in Overtime Hours Paid to Correctional Officers

a) **Punch Clock Details Available**

Instances were noted when COs were paid for more overtime hours than scheduled and actually worked, based on overtime Reports recording more hours than actual punch clock details. Through inquiry, it was concluded that these instances may arise as a result of:

- human error;
- adjustments to the Detail of Duties⁷, erroneously not taken into consideration;
- vices not recorded in view of lack of communication between the Control Room and the Detail Office;
- COs working their break to terminate shift earlier; and
- COs working thirty-two minutes less (six late at commencement and six at end of shift, plus a maximum of twenty earlier termination) in view of the 'Allowed Flexibility in Time In and Time Out'.

Two instances were noted when Officers worked overtime on their rest days, which hours were erroneously not recorded.

b) **Punch Clock Details Unavailable**

Instances were noted when COs were paid for more or less hours than scheduled. However, our test was limited as the Overtime Report could not always be corroborated to the actual hours as clocking details were irregular or 'Nil'.

NAO was informed that since October 2009 available punch clock details are being checked in order to verify the actual overtime hours to be paid. Daily hours worked by COs have to be added up manually since the Report does not automatically add up the hours. It has to be reiterated that the control can only be exercised on available punch clock records, and thus it cannot be enforced on all COs employed at CCF.

Lack of Control over Civilian Officers' Working Hours and Overtime

For the months of April, July and November 2009, the working hours of Civilian Officers were tested based on the punch clock records provided.

a) **Officers on Flexible Hours and Not Entitled to Overtime**

For each month tested, it resulted that Civilian Officers working on flexible hours ended up with a negative balance of hours, implying that less hours were worked than the official shift requires.

b) **Officers Entitled to Overtime**

From testing on the three Civilian Officers entitled to work overtime, the following resulted:

- Officers ended up with a negative balance of hours at the end of the month, implying that less hours were worked than their official shift requires.
- Officers claimed to have worked more overtime hours than actually worked, thus resulting in an overpayment.

⁷ The Detail of Duties (daily) includes details of all COs, the sections assigned to, their shifts (duty, overtime or rest) and the number of hours scheduled.

- One Officer was noted to have worked less hours than the official shift and also claimed overtime during the same days, resulting in overpayment.

c) Overtime Authorisation

Reports of extra hours worked are prepared by the Civilian Officers themselves, approved by the Head of Section and forwarded to the Salaries Section for payment. It is not clear whether a request for extra hours is authorised by the Head of Section prior to the hours being worked, which may lead to Officers working more extra hours than really required.

From available clocking records and authorised overtime reports provided to NAO during the audit, it was further observed that extra hours worked claimed by Officers are not verified to the actual clocking, when available, prior to approval and payment.

Transferred Correctional Officers Still on Corradino Correctional Facility's Pay List

Two officers were transferred from CCF to the Education Division and the Social Housing Department way back in the 90's. Request for the official transfer of one of the officers was not granted at the time, and for the other officer NAO concluded, from evidence available, that a confirmation for the transfer was not forwarded by the recipient Ministry. Though CCF is refunded for the salaries of the two COs from their respective posts, CCF's pay list includes two officers who do not provide it with a direct service.

Recommendations

Key Issues

Limitations Encountered During Audit

- CCF should modify the current system so that Civilian Officers' punch clock reports can be generated with no limitation on the audit trail.
- Official records should invariably be kept at the Salaries Section.
- It must be ensured that records are not overwritten, thus securing evidence of changes to information and tracing back of data at a specific point.

Current Overtime Payments against Recruitment of Additional Correctional Officers

CCF is being recommended to take into consideration the recruitment and training of additional COs in lieu of part or full of the expenditure on overtime payments being currently incurred. Recruiting additional COs would be beneficial for the current COs' welfare as working hours can be reasonably reduced.

Lack of Segregation of Duties

It is of utmost importance that a second officer be engaged within the Salaries Section so that duties can be segregated, thus enforcing internal controls and ensuring continuation of the key process at all times.

Shortcomings of Current Procedures

The sources of information should be interlinked through an automated system, so any changes to COs' planned shifts are manually updated in one source and automatically reflected in the final Report on which Officers' pay is based. An automated system would also require less need of human intervention, thus reducing the need for double checking.

Current Deduction of Leave Not Officially Regulated

- It is being recommended that leave be calculated on an hourly basis rather than on a daily basis. This would facilitate management of leave ensuring a fair procedure.
- CCF should ensure that guidelines are in place to reflect current methods and practices adopted.

Control Issues

Limitations and Deficiencies Noted Regarding the Use of Punch Clock

- Corrective action should be taken against the irregular and lack of use of the punch clock, so as to ensure COs invariably make use of the punch clock during their shifts.
- CCF should consider replacing the current system by the introduction of a biometric reader, which identifies Officers by their unique human characteristics.

Inconsistencies in Overtime Hours Paid to Correctional Officers

- CCF should enforce the current control of checking and recording overtime hours.
- The current system should be enhanced so that total hours worked by COs are automatically summarised.

Lack of Control over Civilian Officers' Working Hours and Overtime

- Controls should be enforced over the use of punch clock by Civilian Officers, so as to monitor that actual hours equal the full shift hours.
- Written authorisation should be obtained for extra hours of work required, following which the actual overtime hours should be checked to actual punch clock records prior to being approved.

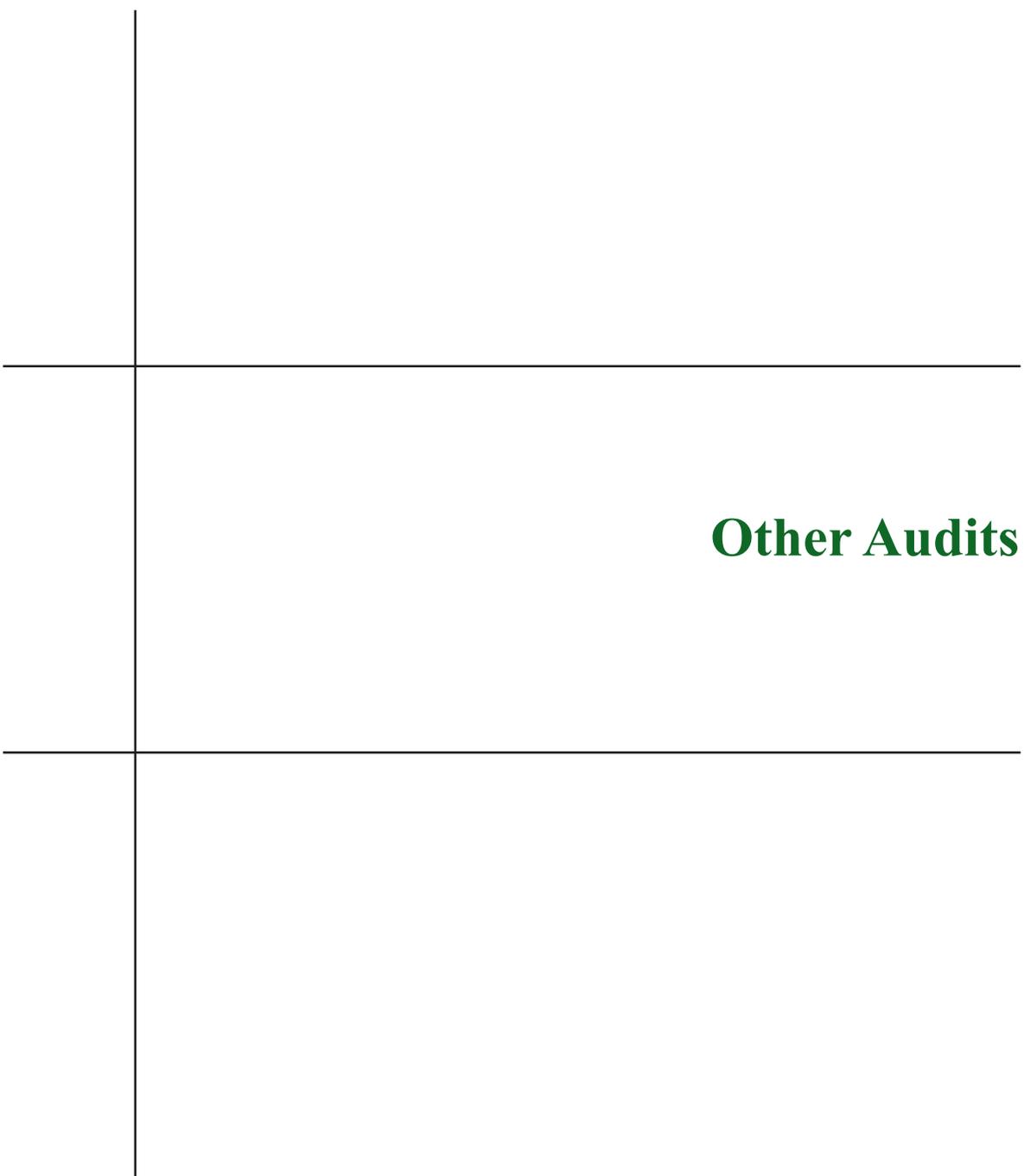
Management Comments

Management expressed their appreciation for the detailed analysis carried out. Management agreed with NAO's findings and will be taking action to implement the recommendations. The following comments were submitted:

- *"It is acknowledged that there is an element of under-staffing in all Correctional Officer grades and that this is giving rise to recourse to overtime beyond desirable levels. Management has obtained clearance for recruitment at this level following requests submitted through the capacity building regime and this should partly address this situation in the short to medium term."*, as evidenced through Circular 'PAHRO No. 4/2010 - Engagement on Assignment in the position of Correctional Managers in the Corradino Correctional Facility within the Ministry for Justice and Home Affairs' dated 1 September 2010.
- *"For the past year the post of Assistant Director (HR and Administration) has been vacant, and current CCF management has very limited competencies in these fields. In actual fact, the call for the filling of the post of Assistant Director HR, Finance & Administration was re-issued earlier this month."*, as evidenced through Circular 'MJHA/HR Circular No. 3/2010 - Filling of Vacant

Position of Assistant Director, Finance and Human Resources and Administration at the Department of Correctional Services within the Ministry for Justice and Home Affairs'. *"In the interim, CCF management is carrying out an internal exercise to establish a clear delineation of duties amongst the CCF civilian staff."*

- A more effective verification and certification system is in the process of being set up, through *"additional punching clocks and punching jobs and the identification of possible attendance verification system as well ensuring the protection and storage of data in line with the Data Protection Act"*. The possibility of introducing a CCTV camera next to the clocking apparatus is being studied. These will ensure that *"any inconsistencies be detected and modified"*.
 - Detail Officers are being instructed to regulate VL and SL practices in line with the relevant Public Service Management Code provisions.
 - An internal directive will be issued instructing all officers to clock upon entrance and exit from CCF. A further directive will be issued to Detail Officers explaining that officers are not allowed to commence later and terminate earlier their shifts. Applicable disciplinary measures will be adopted for habitual late comers or early leavers.
- Officers are expected to be on their place of duty fifteen minutes before shift commencement for a hand-over, after which departing officers are allowed to leave the premises, thereby clocking fifteen minutes prior to shift termination.
- Whilst Management acknowledges that insufficient controls and supervision may have been exercised on Civilian Officers, measures have been taken for proper attendance recording and authorisation of overtime work.
 - Steps are being taken to address the permanent transfer of the two COs.
 - *"CCF is currently undergoing a restructuring process as part of the Restorative Justice Reform. This restructuring process necessitates upgrading of present grades, thus giving more administrative and executive powers to senior management officials, the engagement of an Assistant Director (HR, Finance & Administration) and additional clerical support."*



Other Audits

Conservatorio Vincenzo Bugeja

Background

The Conservatorio Vincenzo Bugeja (CVB) was instituted by virtue of the Deed of Foundation made by the Marquis Vincenzo Bugeja on the 4 December 1880. The Trustees, who administer the Conservatorio, have been entrusted to execute the Founder's Will primarily by managing the funds and contributing to the running of the homes which provide therapeutic and education services to female adolescents between the ages of twelve and seventeen. The CVB Financial Statements are the responsibility of the Board of Trustees.

Audit Scope

At the end of our audit for financial year ending 31 December 2007, NAO raised its concern that certain issues, which had been identified in previous years, were still not being given the required attention. To this end, NAO held a meeting with the Chairman, the Treasurer, the Administrator and the Accountant on 17 December 2009. During this meeting NAO discussed with all present the issues raised in previous years and any other issues affecting the 2008 audit at hand.

NAO completed the review of the CVB Financial Statements for the year ended on 31 December 2008. This review was carried out in terms of Article XVII of the Deed of Foundation of the CVB which states that "*The Accounts of the Institute will be audited by the Government Auditor General as duly authorised by the Chief Secretary's letter of the first of June one thousand eight hundred and seventy two,.....*".

The Management Letter drawn up by NAO contained comments and recommendations to provide constructive advice to the Trustees. This was not exclusively limited

to checking the Income and Expenditure Account and the Statement of Financial Position as at 31 December 2008 and of its operations for the year then ended. The Management Letter also focused on management procedures and internal controls, accounting procedures and records.

Since the CVB is not funded from public moneys, NAO deems it appropriate not to delve into details of the specific findings. Hereunder is a list of the issues raised:

Key Issues

Fixed Assets

- Accounting for Immovable Property not in compliance with Board's Policy as per Letter of Representation.
- List of Immovable Property incorrect.
- Wrong Classification of Accounts.
- Lack of a Fixed Assets Register and Room Inventory Lists not updated.
- Transposition Error.
- Uncertainty, from a Legal Point of View, as to whether Sale of Property goes against the Founder's Will.

Financial Assets

- Investments overvalued.
- Inconsistent Reporting.

- Investment wrongly recognised and disclosed.
- Investments valued incorrectly.
- Limitation of Scope due to lack of Documentation.

Accounting System

- Accounting Errors due to an excessive use of Spreadsheets.

Control Issues

Trade and Other Receivables

- Incorrect Accounting for Court Case Deposit.
- Overstatement in ‘Trade and Other Receivables’.
- Amounts still recorded as due from Fejda and Jeanne Antide Homes.
- Incorrect accrued Rent and Ground Rent - Executors.
- Accrued Rent and Ground Rent - Istituto Femile - not in accordance with Rent Agreement.
- Accrued Revenue (Ramo) - Provisions not reversed.

Income

- Ground Rent (Istituto Femile) - not adjusted as per Agreement.

Trade and Other Payables

- Overstated Accrued Expenses - Executors.
- Overstated Rent and Ground Rent paid in advance - Executors.

Incomplete Documentation

- Supplier Invoices not traced.
- Photocopies instead of Original Invoices.

Cash and Cash Equivalents

- Unpresented Cheques, older than six months, still shown as outstanding in the Bank Reconciliation Statement.
- Deficiencies in the Interest Disposal Account.

Inadequate cut-off

- Invoices relating to 2007 accounted for during 2008.

Compliance Issues

Salaries

- Overtime payments not included in the Final Settlement System (FSS) returns.

Management Comments

Management noted and concurred with most of NAO’s findings and recommendations. A separate reply to the Management Letter was also received from the Accountant addressing accounting issues. However, this Office did not receive an adequate reply, or in some cases no reply at all, on a number of issues. The following is a summary of these issues:

Fixed Assets

- Lack of a Fixed Assets Register and Room Inventory Lists not updated.
- Sale of Property.

Trade and Other Receivables

- Accrued Rent and Ground Rent - Istituto Femile (part i).

Trade and Other Payables

- Accrued Expenses - Executors.

Follow-up on the deployment of security personnel at the site of St. Luke's Hospital

Introduction

In May 2009, the Auditor General tabled a Report in Parliament entitled *“Enquiry on Direct Orders and Outsourcing at Mater Dei Hospital: Clerical/Reception, Security, Car Park and Traffic Management Services”*. This Report, amongst other issues, highlighted concerns related to the excessive number of security personnel retained at St. Luke's Hospital (SLH) following migration of most hospital services to Mater Dei Hospital (MDH) in November 2007.

A key observation stemming from this Report was that although the SLH site still needed to be guarded against a number of security risks (such as vandalism, theft, unauthorised access or squatting), this could be achieved with less human resources and through the introduction of new work practices as well as the better use of technology. It was recommended that security operations at this site should be streamlined and rationalised within the shortest possible timeframe with staff being redeployed to other areas within the Ministry responsible for Health, the Elderly and Community Care (hereon referred to as the Ministry) where their services can be more efficiently utilised.

Scope, objectives and methodology

Against this background, as part of the 2010 work programme, the Performance Audit Section of the National Audit Office (NAO) reviewed the measures that have been taken by the Ministry, since May 2009, to address these issues.

More specifically, NAO assessed the progress made to:

- (i) minimise the number of security personnel

deployed at SLH (this number excluded the security personnel of the Rehabilitation Hospital, Karin Grech, which is now fully located on the same site and run under separate Management). Any changes to their duties, responsibilities or work practices were also evaluated;

- (ii) resolve restrictions imposed by the long-standing Union directive of October 2000. This directive imposed constraints in connection with the deployment of security personnel outside SLH premises during their regular shifts. In early 2009, the Ministry had indicated to NAO that consultations with the Union were focusing on achieving a lasting solution;
- (iii) reduce the outstanding balance of Time-Off in Lieu (TOIL) of each security official deployed at SLH; and
- (iv) utilise technology to efficiently address identified security risks. This includes progress made to repair or replace malfunctioning closed-circuit cameras, entry barriers and hand held radios.

In order to achieve these objectives, in July 2010, NAO requested written feedback and data from the Ministry. In addition, in August 2010, a fact-finding meeting was held with one of the Principal Security Officers (PSOs) at SLH and a semi-structured interview was held with key officials at the Ministry.

The following sections include an evaluation of the progress made on each of these four key issues. The Report is based on data collected as at September 2010 unless otherwise indicated.

The Security Staff Complement at St. Luke's Hospital

Duties and responsibilities of security personnel

As at September 2010, according to information provided during an interview with one of the PSOs, the security staff complement at SLH was responsible for carrying out a number of both internal and external security duties, consisting mainly of:

- controlling entry into and exit from the hospital premises' front gate and sealed areas;
- opening, closing and attending to the rear gate to give access to a nearby school during the scholastic year;
- safekeeping of keys;
- carrying out general patrols - usually general patrols are carried out once during day hours and once during night hours. Other shorter patrols are carried out intermittently in conjunction with other tasks;
- taking preventive measures to safeguard public property and address risks such as fire, theft and vandalism; and
- ensure order, control queues and enforce smoking regulation in areas still used by the general public, including the Physiotherapy Department, Child Development Assessment Unit (CDAU), the offices of 'The Pharmacy Of Your Choice' Scheme and the Yellow Card Entitlement Office.

Therefore, the responsibilities of the security complement deployed at SLH have remained largely unchanged since the May 2009 report. However the Ministry pointed out that due to the re-allocation at the SLH premises of other entities and operations since May 2009, traffic of vehicles in and out of SLH has increased rapidly and this had an impact on the work of the security personnel.

The number of security officers and guards at St. Luke's Hospital

The Ministry confirmed that as at September 2010 the security complement at SLH consisted of thirty-three individuals acting as Security Guards (SGs), two Security Officers (SOs) and four PSOs. The PSOs and SOs worked on a Day,Night,Rest,Off (DNRO) basis while the SGs were categorised into three different working arrangements. While most of them worked on a DNRO basis, others work on a Day,Off,Day,Off (DODO) basis and one SG worked on a 5-day-week basis. An SO and three SGs had moved from the SLH section and these were replaced by three SGs. The security complement at SLH therefore comprised of thirty-five instead of thirty-six staff members when compared with the total number of SLH security personnel as at January 2009.

However, despite the increased activity at the SLH site, this number is still in excess of what is considered by the Ministry as the required number to guard the SLH site with operations being overmanned by at least seven security guards. In 2009, the Ministry had indicated to NAO that in order to adequately and sufficiently monitor the SLH site, twenty-eight security personnel or seven individuals per shift (excluding the PSO) were needed. This number also covered absences due to sick leave, vacation leave, and TOIL. This set-up was reconfirmed in the follow-up meeting with one of the PSOs held in August 2010.

Smaller staff complement

In the May 2009 Report, NAO's recommendation was for the Ministry to address the issue of excess staff in the SLH security complement. Given that the number of SGs has since remained largely unchanged, NAO once again urgently recommends that the Ministry directs the necessary resources to expedite the process of reducing the SLH security complement to its optimum level, thereby minimising costs and utilising these resources to their full potential by re-allocating them to other more active sites which are in more need of security personnel.

Outstanding Union Directive

Optimal use of SLH security personnel during shift hours is also greatly impaired by a long-standing Union directive which stipulates that SLH security personnel cannot be deployed outside the SLH site during their normal working hours. This directive has been in force since October 2000, back when SLH was still the country's general hospital. The fact that this directive has remained in force, at a time when the operations at SLH have been greatly downsized and the nature of the work has changed, is a major concern.

In September 2010, the Ministry informed NAO that since the 2009 audit a number of meetings have been held with one of the trade unions to discuss various issues relating to industrial relations with the Ministry's employees, including this outstanding Union directive.

The Ministry indicated that these efforts are still ongoing and that the issue is still outstanding due to the more urgent matters involving patient safety as well as due to the sensitivity and ramifications of the Union directive. It was also explained that the negotiations and the outcome could impinge on other industrial disputes with other employees within the health sector. Nevertheless, the Ministry reassured NAO that the issue will again be raised with the Union in the near future. The Ministry is also awaiting conclusions on the deployment of security staff within Health Centres forming part of the Department of Primary Healthcare.

Based on the above, NAO urges the Ministry to continue to engage with the relevant Unions to conclusively resolve this long-standing issue in the shortest possible timeframe.

Accumulation of Time-Off in Lieu

TOIL is given to any security personnel who exceed their forty work hours per week. This practice is used in order to fill in for other staff who would be absent from their workplace due to, for example, vacation leave and sick leave. NAO is, however, concerned about the remaining high levels of accumulated hours of TOIL by the SLH security complement which, as at August 2010, totalled approximately 2,700 hours.

When comparing August 2010 data with those obtained as at September 2008 for the previous audit, NAO noted that the total number of TOIL has been reduced by around 300 hours due to the replacement or retirement of some of the staff as well as due to the reduction of 141 hours of TOIL by 8 SGs. On the other hand, another 8 SGs had actually increased their accumulation of TOIL by 531 hours.

NAO opines that the fact that some of the security personnel have increased their accumulated TOIL rather than reduced it, is a major concern as this should not be the case especially when considering that the SLH security complement is overmanned and therefore absent staff do not necessarily need to be replaced.

The Ministry has confirmed that its general intention is to further reduce the accumulated TOIL. Therefore, NAO urgently recommends that a rigid system is put into place so that the already accumulated TOIL is availed of or paid off. Moreover, given the current level of deployment, no more hours should be accumulated by any member of staff assigned to SLH.

The use of Technological Equipment

Back when SLH was operating as the country's national hospital, investment was made in equipment intended to facilitate the guarding of the SLH grounds. This equipment included:

- barriers which are used to control the inward and outward flow of traffic;
- close circuit cameras which were used to monitor different areas of the SLH site; and
- hand held radios used to facilitate communications between the security personnel.

The state of most of this equipment has however deteriorated over the years. Most of it, namely the hand held radios and the cameras, are no longer operational due to faults and technical complications. On the other hand, the barriers, even though old, are still operational and serving their purpose.

This same situation was identified in the May 2009 Report and NAO recommended to the Ministry to see to this issue so that the reduction of excess security personnel at SLH can be carried out with greater ease. However, since the May 2009 Report, the situation deteriorated rather than improved as at that time, even though the handheld radios were already not operational, some of the close circuit cameras were running and being made use of.

The use of such technological equipment will invariably facilitate the work of the SLH security staff. This in turn will possibly further reduce the required number of security personnel per shift to adequately guard the SLH site thereby presenting the Ministry with a stronger argument during its negotiations with the respective Union on the issue of staff redeployment.

In view of this, NAO once again recommends that the Ministry strives to invest in new equipment or to carry out the necessary repairs on the existing equipment if it is deemed to be still adequate.

The Utilisation of Industrial Projects and Services Limited employees

Introduction

Industrial Projects and Services Limited (IPSL) is a public company that was set up in November 2003, with the main objective of “absorbing all those employees who are identified to be surplus manpower in their respective organisation.” IPSL falls under the remit of the Office of the Prime Minister (OPM), with Government being the sole shareholder. This public company is responsible for the productive deployment of the above-mentioned personnel in the public sector, in public-private partnerships and in the private sector. In 2009, IPSL operated on a budget of around €9 million, most of which was utilised to remunerate the deployed employees.

In view of the foregoing, the National Audit Office (NAO) carried out a study to determine whether the appropriate mechanisms are in place to ensure that the personnel absorbed by IPSL are being utilised effectively. In particular, this study sought to evaluate the extent to which IPSL:

- i. has the mechanisms in place to productively deploy its personnel within different departments and entities (such as matching of employees’ skills and experience with the requirements of a specific job);
- ii. is ensuring that its personnel are carrying out their duties effectively; and
- iii. is undertaking training programmes aimed at the further development of its employees.

The audit focused on the role of IPSL in achieving these objectives. However, any matters that arose relating to the

roles of the entities absorbing IPSL employees have been included in this report.

The undertaking of this audit entailed interviewing key personnel at IPSL, namely the organisation’s management. In addition, NAO reviewed relevant material sourced through various articles and Parliamentary Questions regarding the utilisation of IPSL personnel, as well as official documentation as issued by IPSL. Reference was also made to the records and databases as maintained by the Company.

A case-study of ten IPSL personnel was carried out to substantiate issues arising from this audit’s field work relating to the extent to which these employees are being utilised effectively within the different public entities. This exercise sought to gather and confirm information regarding the employees’ performance levels in terms of quantity and quality of work, aptitude and attitudes at the work place (such as punctuality, absenteeism and any disciplinary actions). The case study cannot be considered as representative but only as indicative. Additional information was obtained from the entities absorbing IPSL employees.

NAO also consulted with the Employment and Training Corporation (ETC) to acquire information on practices adopted regarding profiling and job matching. The Cleansing and Maintenance Department within the Ministry for Resources and Rural Affairs, and Local Councils were consulted about productivity benchmarks. Additionally, NAO obtained information from the Valletta Rehabilitation Committee regarding project management methods employed.

¹ <https://opm.gov.mt/industrial-projects-and-services?l=1>.

Background

Following the restructuring of the Malta Drydocks and Shipbuilding, 902 former employees were transferred to IPSL. Out of these, 418 opted to apply for one of the early retirement schemes. The remaining 484 preferred to remain on the books of IPSL on the grounds that Government would guarantee their employment within various public entities and departments. It was agreed that these employees would be entitled to the same basic pay earned during their employment at the Malta Drydocks and Shipbuilding.

Thereafter, the Company also engaged employees from the Malta Development Corporation, Malta External Trade Organisation (METCO), Institute for the Promotion of Small Enterprise (IPSE), the Libyan Arab-Maltese Company for Supermarkets (Limsuk), Sea Malta Co. Ltd. and recently the remaining ex-Malta Shipyards employees. Lately, IPSL also started managing and administrating public service employees who became surplus to requirements, such as in the case of personnel from Water Services Corporation (WSC) and Malta Air Traffic Services Ltd. (MATS).

As at June 2010, there were 628 employees on IPSL's books (98% were male and 2% were female employees). Most of these employees are currently deployed as support

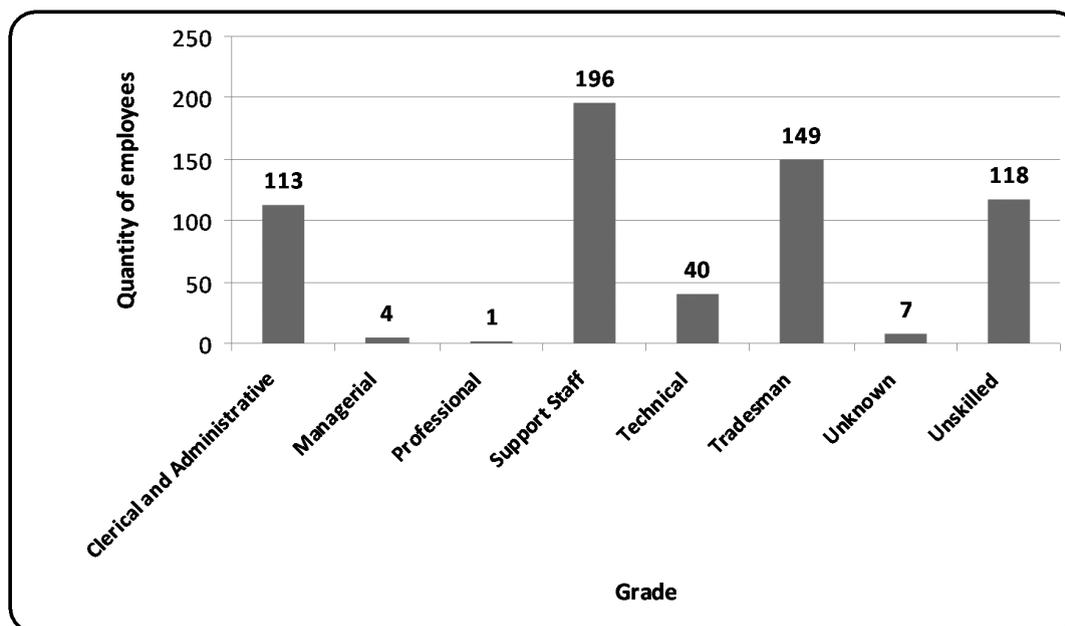
staff, tradesman, clerical and unskilled job categories. Figure 1 refers. About 45% of IPSL's personnel are over fifty years of age.

As at this date, most of IPSL's employees (65%) were deployed with Government Departments. 23% were deployed with local councils and 9% with parastatal bodies or authorities. Less than 1% of the workforce (three employees) were deployed with non profit organisations. IPSL itself directly employed six employees (less than 1%) to perform administrative tasks.²

IPSL is led by an Executive Chairperson, assisted by a Board of Directors who meet once weekly. The Executive Chairperson is also assisted by a Human Resources Manager, an Administration Manager and a Financial Controller. The Organisation is essentially responsible for the management of its employees and the related administrative tasks and duties.

In 2009, IPSL's wage bill amounted to around €9 million. Claims raised directly with the entities absorbing IPSL employees totalled €0.8million. The rest was financed by Government following IPSL's claims for the deployed employees' salaries. The foregoing underscores the practice adopted by IPSL to recoup the salaries of only a minority of the deployed personnel directly from the absorbing agency. This practice also extends to the employees deployed with the private sector (non profit organisations).

Figure 1 – Distribution of Industrial Projects and Services Limited employees as per job category



Source: Data obtained from IPSL.

² Following the study's cut-off date, IPSL recalled some of the deployed employees (up to fifteen) to undertake ad hoc tasks, such as embellishment works under the direct management of IPSL.

Industrial Projects and Services Limited lacks articulated terms of reference, policies and procedures

IPSL is not guided by documented terms of reference. The only documented reference to the Organisation's role is found in the agreement formulated for the deployment of Malta Drydocks and Shipbuilding surplus employees, dated November 2003. This creates a situation where the roles, functions and goals of the Organisation are not clearly defined. Neither is the role of entities absorbing IPSL employees articulated.

Moreover, there are also no documented references relating to how the Organisation is expected to operate. Although it is generally acknowledged that the Organisation's main objective revolves around the deployment of personnel in productive employment, the relative strategic, business and operational plans are not documented.

Furthermore, there are no documented Standards of Procedures regulating:

- the absorption, deployment and monitoring of employees on projects; and
- the communication between IPSL and the entities absorbing IPSL employees.

Despite the lack of documented policies and procedures, IPSL aims to implement the deployment process on a case by case basis. However, this state of affairs could potentially limit consistency in decision making.

The Deployment Process

The deployment process starts when the Public Administration Human Resources Office (PAHRO) at OPM notifies IPSL about the number of employees declared surplus following restructuring in government entities.

Employees are interviewed by the Executive Chairman of IPSL and an PAHRO official. The interview mainly focuses on the level of education and experience of employees, their health condition as well as previous employment conditions. IPSL deploys these employees on the basis of this interview and the availability of vacancies. IPSL stated that it strives to match employees' skills with the overall needs of the requesting entities.

Departments, entities and local councils also make various requests, through PAHRO, for IPSL staff. In the event

that IPSL staff is fully deployed, the Company invites its employees to apply for re-deployment. Short-listed applicants are then interviewed by the Executive Chairman and the HR Manager of IPSL. In some cases, IPSL opts to make a direct selection rather than issue a call of interest. IPSL contends that it resorts to such a procedure when the vacancy posted requires particular skill levels..

Deployment is constrained due to the policy to guarantee Industrial Projects and Services Limited employees their previous basic pay

In IPSL's case, the deployment function is rendered more complex since all the deployed employees are guaranteed their previous basic salaries. Such circumstances arise due to the policy that the surplus employees deployed with IPSL retain the same basic pay earned in their employment prior to restructuring. However, this provision has only been formally articulated for Malta Drydocks and Shipbuilding employees through the 2003 Agreement.

NAO sought to compare the salaries paid by IPSL with the remuneration paid by Government for the same job categories. For this purpose, the salaries of the ten IPSL employees evaluated in NAO's case study were reviewed. It is to be noted that the results and conclusions elicited from this exercise are to be considered as indicative rather than representative due to the limited sample considered.

The annual salary bill paid by IPSL for the randomly sampled employees was found to be around 18% higher than that which would have been paid by Government to its employees performing the same tasks. The figures quoted in Table 1 are based on the following conditions:

- Job positions given in column one are as defined by IPSL and confirmed by the employees' direct supervisor.
- IPSL annual salaries quoted in column two do not include any allowances payable.
- Government annual salaries cited in column three are based on the maximum pay point for the relevant salary scale paid to Public Service employees undertaking similar work, as indicated in the Financial Estimates 2010. Relevant salary scale was determined on the basis of the work undertaken on three random dates as reported by the direct supervisors of the employees concerned.

³ Out of the ten cases studied by NAO, salary information was available for nine of them.

Table 1 – Comparison of Salaries paid to Industrial Projects and Services Limited and Government employees in the same job category (2010)⁴

Job Position	IPSL Annual Salary (€)	Government Annual Salary (€)	Annual Salary Variation (€)
Clerk	14,116.18	14,033.00	83.18
Clerk	14,828.45	14,033.00	795.45
Labourer Local Council	14,116.18	10,166.00	3,950.18
Public convenience attendant	11,833.01	9,546.00	2,287.01
Caretaker at school	11,833.01	10,166.00	1,667.01
Security guard	14,116.18	12,337.00	1,779.18
Site Manager	24,463.80	19,374.00	5,089.80
Clerk	17,468.04	14,033.00	3,435.04
Carpenter	13,924.79	12,337.00	1,587.79
Totals	136,699.64	116,025.00	20,674.64

Source: IPSL data and Financial Estimates 2010.

Table 1 raises issues of economy arising out of IPSL deployment. The case study showed that in engaging IPSL employees Government incurred higher costs than those entailed in direct recruitment. NAO acknowledges that there may not be demand for the skills and trades of a significant portion of IPSL employees within the Public Sector. As a result, such employees are usually assigned work which carries a lower remuneration than that paid to them. The higher wage bill incurred by Government can be seen as the opportunity cost for guaranteeing the original basic salary to surplus employees on restructuring.

It is to be noted that since their transfer, the only salary revisions regarding IPSL employees emanated from the cost of living adjustments. Consequently, over time, the cost per IPSL employee incurred when engaging IPSL employees has become closer to that which would have been incurred if the work was carried out by Public Sector employees.

Industrial Projects and Services Limited's deployment function is potentially hindered since the employee database refers to the employees' former job title but does not include their skills

An effective deployment function necessitates that employee comprehensive information is maintained to enable optimal matching with arising vacancies. IPSL maintains a record of their employees' place of employment and job title prior to being transferred to

IPSL. Furthermore, the database includes the employees' current deployment details, personal and employment data as well as current salaries.

However, the process of matching employees' skills with existing job vacancies is potentially circumscribed since IPSL does not consistently maintain information gathered from the employees' interviews, namely information regarding the employees' transferable skills and any conditions which may have a bearing on future job deployment, including with the private sector. Furthermore, the situation is compounded since IPSL was not provided with the personal files of at least ninety-seven of its employees by their previous employer.

The situation described above weakens IPSL's position to match employees' skills with existing job vacancies since deployment decisions may not take fully into account all the information about employees' suitability. A good practice guide in this regard is the job seekers' database maintained by ETC.

Industrial Projects and Services Limited's basis of deployment is not always apparent

As mentioned in paragraph 2.1.1, the deployment process follows conventional practices such as vetting of application forms and holding interviews with employees. However, IPSL does not consistently maintain the relative records related to this process.

The assessment form which was formulated to facilitate

⁴ IPSL annual salaries do not include any allowances payable. Government annual salaries cited are based on the maximum pay point in the relative job category.

the deployment process was not available for at least ninety-seven IPSL employees. IPSL contended that these employees had to be deployed with urgency upon becoming surplus. It is also to be noted that the information contained in the assessment forms does not always sufficiently explain the basis for deployment.

IPSL also maintains a spreadsheet containing redeployment information since January 2007. This database shows that since this date there were 275 redeployments. However, in 121 cases (44%) no justification for redeployment is indicated. IPSL contended that such redeployments were in response to prevailing circumstances, primarily human resource needs within Government.

Such circumstances are considered to weaken audit trails. Furthermore, in the long run, such constraints may also hamper management continuity within the company. IPSL explained that it considers its workforce as a flexible human resource pool. Consequently, the need to document every employee movement is not felt. Additionally, the Company also contends that the existing workload does not permit the undertaking of extensive documentation since IPSL only employs five officials to manage a workforce of over 600 employees.

IPSL also pointed out that despite the lack of such records it is able to conduct deployment adequately since the Company's Management acquires the relevant employee information through daily interaction and interviews with their employees.

National Audit Office case study showed that Industrial Projects and Services Limited deployment resulted in employee performance which was deemed satisfactory by the absorbing entities

The mentioned lack of documentation hindered the NAO from evaluating, with a high degree of reliability, the extent to which IPSL employees' skills were matched with existing vacancies. NAO sought to derive an indication of matching adequacy and ensuing performance through its case studies of ten randomly selected IPSL employees.

The ten randomly selected employees can be sub-divided under the following job categories:

Table 2 – Ten randomly selected employees

Job Category	Quantity of employees
Labourers / tradesman	5
Clerical and Administration	4
Managerial	1

NAO reviewed the personal records of the selected employees. This was also supplemented with additional information from the employees' superiors at the entity providing employment. Such details sought to confirm information regarding the performance levels of employees' in terms of quantity and quality of work, as well as their attitudes at the work place. However, it is to be noted that feedback from the employees' assigned entities may be influenced by the fact that the latter are not bearing the cost of the employees' remunerations.

With regard to the employees' job knowledge, immediate supervisors generally commented that employees usually have an adequate grasp of job requirements in a way that enables them to completely master their job. Furthermore, in one of the ten cases the employer commented that the employee strives to improve his job skills.

The direct employers were also asked to comment about the quality of work of IPSL employees. The general impression is that work carried out by these employees is of a satisfactory standard. There was only one case where the direct employer reported that the IPSL employee makes frequent errors.

With reference to the quantity of work carried out by IPSL employees, the majority of employers are of the idea that the volume of work meets their expectations. Two of the employers, however, commented that the minimum job requirements are not met and that the volume of work is generally unsatisfactory.

All employers interviewed stated that they are satisfied with the attendance and punctuality of IPSL employees.

Only one employer claimed that there were instances where he had to refer to corrective action with the employee. These included verbal warnings following unsatisfactory performance.

In the ten cases reviewed, IPSL employees were deployed to jobs which corresponded to their educational background. However, NAO could not determine the extent to which the assigned jobs utilised employee skills.

Industrial Projects and Services Limited has not considered deployment within the private sector and public private partnerships

According to the agreement between Government and the representatives of the Malta Drydocks and Shipbuilding employees, IPSL can deploy the transferred employees to the public sector, public private partnerships and the private sector.

Deploying employees within the public sector and/or public private partnerships does not require the consent

of employees. However, employees’ consent is required whenever these are to be deployed in the private sector. IPSL is not currently pursuing the deployment of employees in the private sector and public-private partnerships. Furthermore, by not pursuing deployment that involves private sector, opportunities to minimise Government’s restructuring expenses may not be fully exploited. In fact only three employees were deployed within the private sector (non profit organisations).

Training and developing Industrial Projects and Services Limited employees

One of the major functions of an HR agency, such as IPSL, is to ensure the future employability of its employees through the appropriate training and development programmes. Given that over half of the employees are under fifty years of age, and in view that the retirement age for the majority is set at sixty-five years, the need for employees’ development is critical for sustainable employability. Figure 2 illustrates the age distribution of IPSL employees.

Industrial Projects and Services Limited does not have a training and development strategy for its employees

To date, IPSL has not compiled a training and development strategy for its employees. The absence of such a strategy makes it difficult for IPSL to ascertain the future employability of its employees, as well as to attain any other long-term Company objectives.

Moreover, IPSL is not keeping itself abreast of in-house training being provided to employees at the assigned entity. For instance, in the cases reviewed by NAO, employees assigned clerical and administrative duties had received on-the-job training as well as basic IT skills. Through the lack of awareness regarding employee development, IPSL is forfeiting the opportunity of optimising future redeployment.

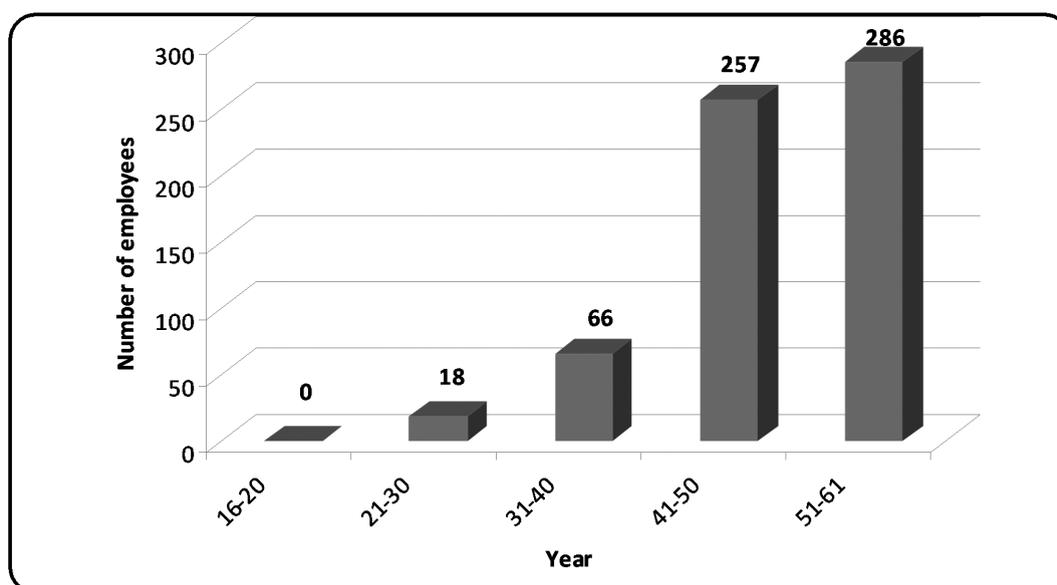
Monitoring mechanisms

On-going monitoring is necessary to ascertain employees’ productivity. In view that IPSL is financed by public funds, monitoring tools are also important for accountability purposes.

The 2003 Agreement between Government and the representatives of the Malta Drydocks and Shipbuilding employees stipulates that during deployment the absorbing entity will be responsible for the general management, including discipline (apart from cases which may lead to suspension or dismissal). However, IPSL deemed that it was necessary to undertake a complementary monitoring role of its employees’ performance. It is to be noted that, despite the Company’s initiatives, the onus for the routine monitoring of productivity vests with the agency absorbing IPSL employees

IPSL’s monitoring role has been developing for over three years, namely as a drive to improve its corporate image and the productivity of its work force. IPSL sought to monitor the performance of its employees through various tools, namely attendance sheets, on-the-job inspections and spot-

Figure 2 – Employees’ Age distribution



Source: Data obtained from IPSL (as at 15 June 2010)

checks, as well as performance appraisals. However, IPSL has not yet developed an adequate framework to ensure the long-term effectiveness of its monitoring initiatives.

The monitoring and compliance obligations of Industrial Projects and Services Limited and the assigned entities are not defined

In monitoring employee performance, both IPSL and the entity absorbing employees have a role to play. The 2003 Agreement between Government and the employees' representatives outlines, in broad terms, the monitoring responsibilities of both IPSL and the entity absorbing the employees. However, a formal contract articulating in detail the respective roles of IPSL and the assigned entities has not been drawn up.

In the absence of such a written agreement, there is no framework to bind entities to comply with IPSL monitoring requests. In fact there have been instances where entities have not complied with the request to submit job sheets and performance appraisals.

Furthermore, in the absence of such a contract, communication procedures necessary for optimal monitoring are not articulated. In fact, the audit noted a low level of communication between IPSL and the human resource official at the assigned entities. Communication is largely limited to the submission of endorsed monthly attendance sheets of employees.

The undertaking and outcomes of monitoring are largely not documented by Industrial Projects and Services Limited

Although IPSL applies various monitoring tools, the supporting documentation is largely not maintained. Lacking documentation namely regards the nature and frequency of the monitoring undertaken, the findings or any subsequent action taken.

According to IPSL, such documentation is not maintained due to limited administrative resources. However, the absence of such documentation is deemed to hamper the long-term value of monitoring. In particular, it becomes difficult to identify employees' performance patterns and to use scientific-based decisions when redeploying employees. Additionally, such lack of documentation potentially hinders management continuity in the company.

Conclusions

Current practices adopted by IPSL succeed in finding alternative employment, mainly within Government, for employees who have become surplus or redundant at their

previous work place. Consequently, IPSL has served as a tool to cushion the social and economic impact arising from restructuring exercises within Government entities.

It is acknowledged that within the Public Sector there may not be demand for the skills and trades of a significant portion of IPSL employees. However, private sector opportunities are not being fully pursued by IPSL. Consequently, the ensuing cost of restructuring remains fully borne by the Public Sector, even with regard those few cases where employees are deployed with the private sector. The cost of engaging IPSL employees in public sector entities may also not be the most economical due to the policy of guaranteeing the basic pay received in previous employment.

The entities absorbing IPSL personnel, interviewed by NAO, expressed satisfaction with regard to the general performance of these employees. However, the absorbing agencies may lack the incentive to ensure optimal productivity and the further development of the assigned IPSL employees. This situation arises because the absorbing agency's role is still not clearly and formally defined and, as a general rule, it does not pay the employees' salary costs.

In these circumstances, IPSL is also having to perform a monitoring role which could be undertaken more efficiently by the absorbing agency. However, IPSL's current monitoring mechanisms do not enable the reliable gauging of ensuing productivity and the further development of the employees concerned. The lack of documentation supporting the deployment process further constrains public accountability and weakens audit trails.

IPSL has managed to maintain a significant number of persons in gainful employment. However, IPSL is constrained in ascertaining the long-term employability of its workforce in view of the strategic and operational concerns highlighted in this audit. The lack of human resource development may also be preventing IPSL from fully exploiting the opportunities within the entire labour market.

Recommendations

In order to enhance IPSL's effectiveness, NAO proposes the following recommendations to the Company's management:

- i. Articulate formally IPSL's terms of reference, policies and procedures.
- ii. Formalise IPSL's relationship with the entities absorbing employees.

- iii. Sustain current efforts to minimise potential situations where remuneration to IPSL employees is higher than that paid by Government for corresponding work.
- iv. Maintain a more comprehensive employee database.
- v. Strengthen audit trails and accountability by consistently maintaining records relating to the deployment and productivity monitoring processes, particularly the basis for any decisions taken.
- vi. Study the possibility that the entities absorbing IPSL employees bear the relative salary costs.
- vii. Pursue deployment opportunities within the private sector and through private-public partnerships.
- viii. Implement a training and development strategy to improve the future employability of workers.
- ix. Improve the monitoring of employee productivity by assigning the absorbing entities a greater role.
- x. Redefine IPSL's monitoring of employee productivity to encompass a more strategic level.

Rehabilitation Work Scheme at Mount Carmel Hospital

An examination into the structure and operations of the Rehabilitation Work Scheme at Mount Carmel Hospital (MCH) was carried out with a view at assessing its effectiveness in attaining and achieving proposed aims.

This Office is well aware that of all persons with disabilities, those with a serious mental illness face the highest degree of stigmatization in the workplace, and the greatest barriers to employment. Many and varied employment obstacles face adults with psychiatric disabilities, such as gaps in work history, limited employment experience, lack of confidence, fear and anxiety, workplace discrimination and inflexibility, social stigma and the rigidity of existing income support and benefit programs

The declared object of the Scheme is to help hospital in and out-patients, through practical work experience, acquire or re-develop vocational and networking skills, as well as build up the self-confidence and esteem necessary for smooth re-integration within the community; to overcome social exclusion, and to possibly serve also as a pathway for eventual absorption of the persons involved in the open work market.

The concept is widely recognised, accepted and integrated within the holistic approach to psychotherapy. So the positive utility, both in short and the long-term prospective, of a well-organised Scheme of this type, for *bona fide* patients who derive benefit, is completely beyond dispute.

Observations and Findings

When however, back in 2002, MCH Management decided to launch and embrace a similar project, they failed to conceptualise, articulate and develop a sound and professional written framework within which to translate government-declared policy objectives into coherent mission statements and rules that would shape, govern and

discipline their implementation; and eventually to have such practices and procedures installed and coded in clear rules as would provide adequate assurance of transparent compliance with an audit trail in day-to-day business. Funds to the tune of around €175,000, are being allocated to, and spent annually, on this initiative.

In particular, our analysis revealed that, persons benefiting from this service, a significant percentage appear to have remained somewhere in the middle of the Scheme for quite a number of years, in some cases even six and eight years. It was also noted that some participants are being 'employed' with provider-contractors exclusively serving at MCH. As an established trend, this certainly is not indicative of patients achieving and attaining the degree of independence and social mobility which the Scheme was specifically set up to foster and promote. One must remember here that the concept of 'rehabilitation work' is by no means limited to dependent employment, but includes the development of patients' creativity and entrepreneurship as well.

Furthermore, it was found that, according to the information provided, the aggregate earnings of some current beneficiaries exceeded the National Minimum Wage which was established to mark the permitted limit they were supposed to receive by way of remuneration for services rendered to the Hospital - as a sort of capping. However, practically no kind of corrective system seems to be in place to bring actual receipts in line with that particular requirement. The bench mark which was established in 2002 by MCH, and is still prevailing to-date was that *"the amount received by the patient after considering any money received through social assistance must not exceed the national minimum wage."*

In addition, no on-going monitoring, liaison or other substantial routine counterchecks or data exchange of any sort seems to be taking place by Managers of the Scheme with interested state institutions like Employment Training

Corporation, Social Security, Value Added Tax and Inland Revenue Departments. This illustrates the lack of effective control of, and non-adherence to, the very rules which the Scheme sets itself to observe.

But there are other issues of serious concern to the National Audit Office (NAO). The total absence of definitions and parameters to serve as reference points; and a failure to put the Scheme on a sound and firm legal footing could potentially lead the Scheme to degenerate from a purely psychiatric service rendered to those in need of it into something assuming the characteristics of an Employment Agency. One should be on guard against the very real danger of the Scheme becoming an end in itself, rather than the means towards achieving the objective referred to above.

Recommendations

Rehabilitation Work: an integral part of Therapy

The type of relationship that exists between the patient and the Scheme (where therapy and work components are, or should be, inseparable) must never, in our opinion, be confused with the normal workplace relationship. While covered by, and actively participating in, the Scheme, the patient should not be treated simply as an employee but must be provided, as far as possible, with a protected, sheltered environment under the constant surveillance of occupational therapists. Employment takes place only through normal official employment channels, and under no circumstances should these people be ‘attached’ onto MCH contractors - for want of better solutions.

Failure to bear in mind and observe this fundamental distinction could undermine, if not wholly defeat, the purpose of the Scheme. For on the one hand, patients could be exploited or manipulated, while on the other, without the necessary safeguards, the Scheme could easily open up to abuse.

Need for Stricter controls, tighter oversight and surveillance and better selection criteria in admitting patients to the Scheme

If the intake of patients is not properly controlled and scrutinized, there is a potential risk of having *non-bona fide* persons feigning psychological disorders and registering as out-patients to abuse the Scheme financially - possibly even securing other unfair advantages. To ward off such possibility, the Referral Form submitted by one consulting psychiatrist on behalf of a patient - as now is the common praxis - should not, in our opinion, constitute sole and sufficient proof or evidence of an applicant’s psychological condition, unilaterally decide eligibility, or constitute authority for admission to the Scheme. Tougher criteria and controls are warranted in the selection process.

It is therefore being proposed that such recommendations be the collective function and duty of a Panel, or Board, comprising at least three expert officials, with joint representation of Hospital Management and the Mental Health Association - even if the latter only act in observer/advisory/consultative capacities. Moreover, applications to join must be corroborated with accompanying supporting documentation.

To be considered suitable entrants to the Scheme, out-patients in particular should already have an established recorded case-history of psychiatric illness and treatment at the hospital: which facts should be subject to thorough verification, vetting and cross-checking. Periodical reviews, checks and reports of the system should also be regularly conducted and compiled to compare results and outcomes of the Scheme against pre-set goals and targeted aims. This would ensure that both the degree of effectiveness of the system controls, and the progress of each individual participating patient could, at any stage, be quantitatively measured, and any resulting irregularities identified in good time.

Conclusion

The Rehabilitation Work Scheme is a laudable attempt at helping ‘disturbed’ people re-construct their lives and human relationships through work. The results of our examinations have, however, identified certain weaknesses in its structure and general administration that could defeat those very aims and expose it to serious abuse by outsiders. The key preventive measures, outlined above in this Report, are generally directed at eliminating any such possibility by further enhancing and upgrading existing levels of transparency and control:

- Putting the Scheme on a firmer legal basis by incorporating its statute and rules within the context of the present Mental Health Act (Cap.262) or any other Act that may replace it.
- Enforcing stricter administrative controls and a tighter more stringent procedure in registering and admitting new patients to participate in the Scheme, with closer and more frequent follow-ups as regards their progress.
- Recoup and ensure that the relative accumulated taxes and social security contributions due by those individuals who have earned more than the stipulated minimum wage are reimbursed by all concerned.

Response by Mount Carmel Hospital Management

MCH management, after examining NAO Report, agreed to implement the findings and observations highlighted therein.

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NAO Work and Activities Report

January 2010	Work and Activities of the National Audit Office 2009
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Internal NAO Publications

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